SYSTEM FOR COMPENSATING MEMBERS OF THE BOARD OF DIRECTORS

Non valid

The Quality Connection

LEONI

System for compensating members of the Board of Directors

LEONI AG aims to develop into a leading provider of intelligent energy and data management solutions ("Passion for intelligent energy and data solutions"). This ambitious target requires the full commitment and passion of all employees, and above all the strategic and committed leadership of the Board of Directors. Accordingly, the Board of Directors of LEONI AG has launched a comprehensive performance and strategy programme (VALUE 21). It is LEONI's intention that this programme will create the basis for healthy growth, profitability and cash generation. At the same time, LEONI wants to sharpen its focus on the future markets of digitalisation, electromobility and autonomous driving. The Supervisory Board is proposing to shareholders at the Annual General Meeting a new Compensation System for the members of the Board of Directors that is in line with these strategic objectives while complying with the new statutory requirements and recommendations of the German Corporate Governance Code. The special arrangements in Section XVI below apply for the ap-pointment of Mr Hans-Joachim Ziems as a member of the Board of Directors (CRO) for the period from 1 April 2020 to 31 March 2021.

I.
Principles of the Compensation System: contribution to the promotion of the Company's business strategy and its performance over the long term

The new Compensation System for the members of the Board of Directors ("Compensation System") of LEONI AG ("the Company") aims to contribute to the promotion of the Company's business strategy and the long-term performance of both the Company and its associated companies. This will be achieved primarily through simplification and a clear incentive structure for compensating the members of the Board of Directors. The new Compensation System, namely the increased weighting of cash flow-oriented indicators and the uniform compensation structure for all Board of Director functions, are designed to avoid misplaced external and internal incentives. In particular, it seeks to avoid situations where the Board of Directors makes decisions motivated by a desire to optimise its receipts but that do not promise a sustained business success. The short-term variable compensation (annual bonus) now relies on two clearly measurable targets (EBIT margin and free cash flow margin), the two success parameters that form a key part of the performance and strategy programme (VALUE 21). The Company's long-term performance will be promoted in particular by the fact that the medium-term compensation component will be omitted in the future. Instead, in addition to the annual bonus, the only other variable compensation component will be a long-term incentive (LTI) that is geared to a three-year assessment period. With its clear focus on a share price-based performance target (rTSR), the development of ROCE and CSR components (that is, compensation components which relate to Corporate Social Responsibility), the LTI bonus includes incentives for sustainable action by the Board of Directors. Finally, the new Compensation System features a further incentive for the Company's long-term development as the members of the Board of Directors will in future be obliged to invest half of their gross LTI payout in shares of the Company and to hold these shares for a minimum of one year (share ownership obligation).

In all this, the Compensation System takes account of the challenging tasks faced by the members of the Board of Directors to implement the Group strategy and to manage a company with global operations that offers innovative and flexible solutions in a context of global competition. The compensation of the Board of Directors should be both in line with the market and competitive in order to enable the Company to attract competent and dynamic members of the Board of Directors. The Compensation System should therefore offer the Supervisory Board the option within the framework provided to respond flexibly to the changing market and competitive setting. The incentive structure should be clear and easy to understand, for our shareholders but primarily, of course, also for the members of the Board of Directors themselves and for our employees, whose bonus systems are geared to targets that have largely been harmonised with those of the compensation paid to the Board of Directors.

This structure is designed to create readily understandable and sustainable incentives to foster committed and successful working in a dynamic business environment. The achievement or overachievement of the short and long-term performance targets should be compensated appropriately without generating considerable fluctuations in the compensation for the Board of Directors by weighting the variable compensation components too heavily. Thanks to its balanced nature, the Compensation System is scheduled to apply for a number of years, during which time it will increase the enterprise value of LEONI AG on a sustained basis.

The new Compensation System corresponds to the requirements of the German Stock Corporation Act (Aktiengesetz), which calls for a clear and readily understandable compensation system; as set out below it follows the recommendations of the German Corporate Governance Code (GCGC) as amended by the German Government Commission on 16 December 2019.

II.
Procedure for determining, implementing and reviewing the Compensation System

The Supervisory Board determines the compensation of the individual members of the Board of Directors on the basis of the Compensation System that has been approved by the shareholders at the Annual General Meeting.

At its meeting on 23 March 2020, the Supervisory Board adopted the new Compensation System after the Personnel Committee had examined the new Compensation System and the various alternative options in depth during several meetings since the beginning of the year. The Supervisory Board listened to the views of the current members of the Board of Directors in relation to the new Compensation System and their assessments, particularly regarding the steering power of the individual performance indicators for variable compensation and regarding the link between it and LEONI's business strategy. In its preparations, the Supervisory Board moreover sought advice and support from an external compensation expert (Korn Ferry), a company that is independent from the Board of Directors and the Company. Korn Ferry also examined, on behalf of the Supervisory Board, whether the new Compensation System was in line with market practice (in horizontal and vertical terms) and confirmed that this was the case. A representative of Korn Ferry participated in the meeting of the Supervisory Board at which the new Compensation System was decided on and was at hand to answer questions from all members of the Supervisory Board. Following in-depth deliberations, the Supervisory Board adopted the Compensation System.

The Annual General meeting will decide in favour of or against approval of the Compensation System presented by the Supervisory Board. Should shareholders at the Annual General Meeting not approve the Compensation System, the Supervisory Board will present a reviewed Compensation System at the next ordinary general meeting for a resolution. The Annual General Meeting of LEONI AG will decide in favour of or against approval of the Compensation System for the members of the Board of Directors presented by the Supervisory Board every four years and, within this interval, if any material changes are made to the Compensation System. On application by shareholders whose shares together total 5% of the Company's share capital or a pro rata share of EUR 500,000, the Annual General Meeting may reduce the set maximum compensation.

If the resolution adopted by the Annual General Meeting affirms the Compensation System, the Supervisory Board will implement the new Compensation System through the corresponding individual employment contracts with the individual members of the Board of Directors. The new Compensation System is scheduled to be implemented with retroactive effect as of 1 January 2020, subject to its presentation to the Annual General Meeting (see also III. below). At the end of a fiscal year, usually not long before or after the approval of the balance sheet, the Supervisory Board will, based on a proposal by the Personnel Committee, establish the target achievement in each case and determine the specific compensation for the individual members of the Board of Directors. The target achievement will be documented and will thus be readily understandable in terms of both its reasoning and amount.

The law allows the Supervisory Board to diverge temporarily from the Compensation System if this is necessary in the interests of the Company's long-term well-being and if the Compensation System specifies the procedure for the divergence and the components where divergence is permitted. In procedural terms, such divergence requires an explicit decision by the Supervisory Board to that effect, describing specifically the length of the divergence and the divergence as such, as well as the reasons (that is, why the Company's long-term well-being requires the divergence) in an appropriate manner. In factual terms, the Supervisory Board may diverge from the relative share of the individual compensation components and their requirements, it may also decide on a different fixed salary for a temporary period in individual cases if this is in the interests of the Company's long-term well-being; however, this fixed salary may not exceed the maximum compensation which has been determined by the Annual General Meeting.

In line with the recommendations of the GCGC, the Supervisory Board must have the option to take adequate account of exceptional developments. In justified cases it must be able to retain or demand the return of variable compensation. The Company will create the basis for implementing these recommendations through relevant provisions in the employment contracts, particularly through a clawback clause (see XI. below for further details).

Following a resolution by the Annual General Meeting confirming the Compensation System, the Personnel Committee will regularly review the appropriateness and structure of the Compensation System and deliberate on it in the context of the annual decision on achievement of the specific targets. If required, the Personnel Committee will suggest amendments to the Supervisory Board, which will then have to decide on them as appropriate. The Supervisory Board may enlist the support of an external compensation advisor in this respect. For any material changes to the Compensation System, the Annual General Meeting shall vote on a resolution on the approval of the Compensation System submitted by the Supervisory Board. At any rate, as mentioned earlier, the Compensation System will be presented to the Annual General Meeting for a resolution every four years.

The Supervisory Board does not at present see any conflicts of interest to which individual members of the Supervisory Board are subject in connection with the Compensation System and the compensation for the Board of Directors. In particular, the compensation for members of the Supervisory Board as set out in LEONI AG's Articles of Association is not connected in any way to the compensation for members of the Board of Directors. To avoid conflicts of interest, the Supervisory Board will furthermore take care to ensure that if an external compensation advisor is mandated, this will be performed directly via the Supervisory Board and will thus be independent of the Board of Directors and of the Company. If, contrary to expectations, a conflict of interest were to emerge in the person of a member of the Supervisory Board, this member would abstain from all deliberations and decisions on the compensation of the Board of Directors. This applies, in particular, in the event (currently not foreseeable) that a member of the Supervisory Board is temporarily appointed as stand-in for a missing or incapacitated member of the Board of Directors pursuant to Section 105 (2) of the German Stock Corporation Act.

III.
Applicability of the new Compensation System from 1 January 2020

The Supervisory Board has implemented the new Compensation System with retroactive effect as of 1 January 2020, subject to its presentation to the Annual General Meeting. To this end, new employment contracts with all members of the Board of Directors who will be in office at the time of the Annual General Meeting have been concluded in June 2020, subject to the presentation of the of the new Compensation System to the Annual General Meeting. The Supervisory Board has decided on the targets for the current fiscal year 2020 together with the new Compensation System (for details see below under the relevant variable compensation components).

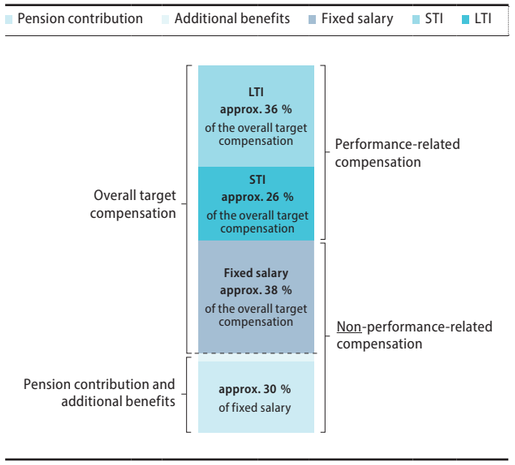
IV.
Structure of the new Compensation System Compensation components and their relative percentage share of the compensation

The Compensation System consists of non-performance-related (fixed) and performance-related (variable) compensation components.

- The non-performance-related compensation comprises a fixed salary, additional benefits (namely insurance contributions, company car) and a pension contribution.
- By contrast, the performance-related compensation is not fixed but linked to the achievement of specific targets and is thus variable. For new appointments the Supervisory Board may, however, guarantee the variable receipts of an appropriate size to new members of the Board of Directors for a limited period. The performance-related compensation includes a one-year, short-term incentive (STI) compensation and a multi-year, long-term incentive (LTI) compensation.

The chart below shows the relative percentages of the compensation components as part of the overall target compensation, which also shows the percentages of fixed and variable compensation in relation to each other:

Target structure:
future compensation scheme for members of the Board of Directors



The Supervisory Board sets an annual total target direct compensation for every member of the Board of Directors within the framework of maximum compensation provided by the Annual General Meeting; this direct compensation consists of the fixed salary and target amounts for the STI and LTI based on 100% target achievement. In the new Compensation System, the performance-related variable compensation for all members of the Board of Directors will account for around 62% of the total target direct compensation. The long-term compensation component for all members of the Board of Directors accounts for around 36% of the total target direct compensation. The short-term compensation component for all members of the Board of Directors accounts for around 26% of the total target direct compensation. By overweighting the long-term, multi-year compensation (LTI) over the short-term, one-year compensation (STI), the compensation structure is geared to the Company's sustained development and long-term growth in its enterprise value. Within the variable compensation, the target amount LIT accounts for approx. 58% and the target amount STI for approx. 42%.

This compensation structure applies uniformly to all functions on the Board of Directors. The targets will be determined in the same way for all members of the Board of Directors, in line with the principle of the collective responsibility of the Board of Directors.

The required differentiation between members of the Board of Directors, for example between the Chairman of the Board of Directors and its other members, takes place through a difference in the fixed salary, from which the further compensation components are derived in the calculation in accordance with the Compensation System.

Sample calculation of the total target direct compensation:

Fixed salary	Target amount STI	Target amount LTI (100 % target achievement)	Total target direct compensation
EUR 600,000 = approx. 38 %	EUR 410,800 = approx. 26 %	EUR 569,200 = approx. 36 %	EUR approx. 1,580,000

Please note: The relative share of the relevant compensation components in the actual receipts of a member of the Board of Directors during a fiscal year will usually be different from the shown relative share of total target direct compensation because the ratios change depending on actual target achievement.

V.
Non-performance-related fixed compensation components

The non-performance-related compensation consists of three compensation components: fixed salary, additional benefits and a pension contribution.

Compensation system

Non-performance-related compensation

- Fixed salary
- Additional benefits
- Pension contribution

- Fixed salary: The fixed salary is paid in twelve equal monthly instalments retroactively at the end of the month, after statutory deductions. If a member of the Board of Directors joins or leaves the Company during the year, the fixed salary will be paid on a *pro rata temporis* basis.
- Additional benefits: The contractually guaranteed additional benefits essentially include the usual additional benefits such as contributions to insurance policies (e.g. group accident insurance, life and invalidity insurance and contribution to retirement plans, healthcare and nursing insurance) and the provision of a company car also for private use. The maximum amount of additional benefits is determined by the Supervisory Board for the coming fiscal year. Not included in additional benefits are the reimbursement of expenses to which members of the Board of Directors are already entitled by law, and inclusion in a D&O insurance policy, where the member of the Board of Directors must bear the deductible stipulated by the German Stock Corporation Act.
- Pension contribution: The Company generally grants every member of the Board of Directors an annual amount totalling 30% of the applicable fixed salary (gross) to build up a retirement plan. In individual cases, for example during the first probation period, the Supervisory Board may dispense with the granting of a pension contribution. If a member of the Board of Directors joins or leaves the Company during the year the amount will be paid on a *pro rata temporis* basis. The member of the Board of Directors may, by way of deferred compensation, convert this amount into an entitlement to a company pension scheme in the form of a direct commitment. If the member of the Board of Directors does not avail him/herself of the opportunity of deferred compensation, the pension amount will be paid out to them together with the salary for the month of July. The Company does not (apart from contributions to a life and disability insurance, which form part of additional benefits) offer any additional old age, survivors' or disability provision and no further performance-related pension entitlements for which provisions would have to be set aside. The Compensation System does not provide for a bridging allowance or other forms of early retirement provision.

The minimum compensation as part of the new Compensation System is equivalent to the total of fixed salary, additional benefits and pension contribution.

VI.
Performance-related variable compensation components

The performance-related variable compensation includes two compensation components: a short-term, one-year compensation (short-term incentive, STI) and a long-term, multi-year compensation (long-term incentive, LTI).

Compensation system

Performance-related compensation

- **LTI (Long Term Incentive)**
  Long-term, multi-year compensation
- **STI (Short Term Incentive)**
  Short-term, one-year compensation

- Short-term, one-year variable compensation (STI): In addition to the fixed compensation components, all members of the Board of Directors are entitled to short-term, one-year performance-related compensation ("STI" or "Annual Bonus"). The size of the STI is based on the target amount ("STI Target Amount"). The STI target amount is the amount to which a member of the Board of Directors is entitled if they achieve exactly 100% of the STI annual targets. The STI target amounts to approx. 26% of the overall annual target direct compensation.

  The STI target amount for the fiscal year in question is determined for every member of the Board of Directors by the Supervisory Board in the proper exercise of its discretion in the first quarter of a fiscal year. If a member of the Board of Directors joins or leaves the Company during the year, the STI target amount will be calculated and determined on a *pro rata temporis* basis. If the STI annual targets are exceeded, the payout for the Annual Bonus may be above the STI target amount. The payout for the annual bonus has, however, been capped at 175% of the STI target amount.

  The STI is calculated for every fiscal year and depends on the achievement of targets for the two key performance indicators, i.e. (adjusted) EBIT margin and free cash flow (FCF) margin of the LEONI Group.

  - The EBIT margin is calculated on the basis of the consolidated financial statements, as follows: EBIT is net income + taxes + interest expenses – interest income + income from minority holdings (non-associated companies). EBIT is set in relation to sales pursuant to IFRS 15. The EBIT margin is quoted as a percentage. The calculation includes an adjustment for effects resulting from the acquisition or divestment of an entity or part of an entity. The EBIT margin has been determined as a key target parameter of compensation because, as an operating profit figure, it is an important key figure for the Company and a key management indicator for the Board of Directors. The EBIT margin reported in the consolidated financial statements for the adjusted consolidated net result is used for the purposes of calculating the STI.
  - The second KPI, free cash flow margin, is calculated at LEONI on the basis of the cash flow statement pursuant to IFRS using the following formula: "FCF = cash flow from operating activities + cash flow from investment activities".
    In macroeconomic terms, this key indicator thus shows the cash flow from operating activities less capital investment with an effect on cash flow. It is reported clearly in the consolidated financial statements for the fiscal year in question. The calculation of the free cash flow margin, like that of the EBIT margin, includes an adjustment for effects from the acquisition or divestment of an entity or part of an entity (see explanation on the adjustment of the EBIT margin). Free cash flow is also a key management indicator for the orientation of the LEONI Group.

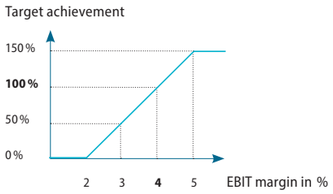
Both STI components are included in the calculation of the target achievement for the STI at half each.

STI structure

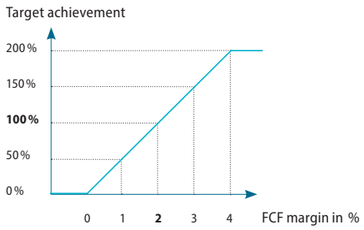
By drawing on the EBIT margin and the free cash flow margin as indicators for the STI, the Compensation System promotes and incentivises particularly the progress made by the Board of Directors in implementing LEONI AG's Group strategy, which has a long-term focus. New projects in this area will, in accordance with the Group strategy, be geared more heavily to the quality of earnings and the cash flow profile in order to help improve the EBIT margin and free cash flow margin.

The two STI target figures for the EBIT margin and free cash flow margin are determined in the first quarter of a fiscal year for that fiscal year for the entire Board of Directors by the Supervisory Board in the proper exercise of its discretion. The Supervisory Board will be guided by the budget approved by the Supervisory Board, by the target figure for the EBIT margin and by the determination of the corporate goals approved by the Supervisory Board for the free cash flow margin; it will ensure that the targets are appropriate, challenging and ambitious while remaining achievable for the Board of Directors, to ensure that they retain their incentive function. For example, the targets may look as follows:

EBIT margin Example



Free cash flow margin Example



After the end of the fiscal year the Supervisory Board determines, on the basis of the actual values resulting from the audited consolidated financial statements, whether the annual targets were achieved, exceeded or missed. If the annual targets were not achieved in full, the annual bonus may be below the target or be omitted altogether. For the EBIT margin a target achievement of between 0% and 150% is possible whereas for the free cash flow margin a target achievement of between 0% and 200% is possible. Adding the two target achievement figures and dividing the result by two produces the total target achievement in the STI (0% to 175%). The product of the total target achievement in percentage terms and the STI target amount produces the annual bonus to be paid. The payout amount is due on the day following the day of the Supervisory Board Meeting as part of which the Group financial statement are approved.

Specifically, this means that if the STI annual targets are, all told, missed in full, the annual bonus may be omitted altogether and total zero. The maximum payout amount possible for the STI is achieved if the target achievement for the EBIT margin target is 150% and that for the free cash flow margin is 200% or above. This would result in a total payout for the STI totalling 175% of the STI target figure. By contrast, if the overall STI target achievement is 50%, for example, the member of the Board of Directors receives half of the STI target figure as their Annual Bonus. A linear bonus line is drawn between the figures of 0% and 175%, which is used to establish the STI payout depending on the specific target achievement.

If a member of the Board of Directors leaves during the fiscal year as a so-called "good leaver", the STI will be granted on a *pro rata temporis* basis at the due date set out in the employment contract if the corresponding target achievement is approved at the end of the fiscal year. A "good leaver" is a member of the Board of Directors who leaves the Company at the Company's wish or prompting and without having stated a reason, or if the contractual relationship has simply expired as scheduled. In individual cases the Supervisory Board is authorised to settle the existing STI claims of a member of the Board of Directors that leaves during the fiscal year by means of a one-off payment (in this case the Company will provide the reasons for the deviation from recommendation G. 12 of the GCGC). If the member of the Board of Directors leaves the Company's services as a so called "bad leaver", they will lose all entitlements to an annual bonus. A member of the Board of Directors is considered a "bad leaver" if they leave the Company at their own initiative without providing a reason or if the Company has terminated the contractual relationship for a good cause that is the responsibility of the member of the Board of Directors.

- Long-term, multi-year variable compensation (LTI): Furthermore, the members of the Board of Directors receive long-term, multi-year compensation in the form of a newly designed LTI component. The size of the LTI is based on the target amount ("LTI Target Amount"). This is the amount to which the member of the Board of Directors would be entitled if they achieved the multi-year targets at 100%. The LTI target amount is approx. 36% of the overall target direct compensation. If the multi-year targets are exceeded, the LTI may be higher than the LTI target amount; its maximum (cap) will, however, be 150% of the LTI target amount. If the multi-year targets were not achieved in full, the LTI may be below the LTI target amount or be omitted altogether. A target achievement line is drawn between the figures of 0% and 150 %, which is used to establish the LTI payout depending on the specific target achievement. The LTI performance period is three years.

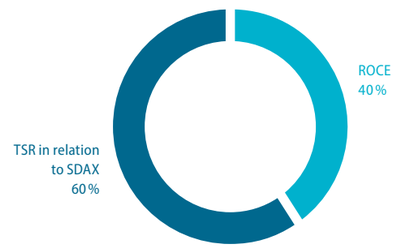
The target achievement is calculated at the end of a performance period on the basis of the actual figures. The LTI is paid out after the expiry of a three-year assessment period in cash. The members of the Board of Directors are, however, obliged to invest half of the gross payout amount in LEONI AG shares and to hold these shares for at least one year in a separate blocked security deposit (share ownership obligation). The shares will be acquired after the Annual General Meeting on the stock market.

If a member of the Board of Directors leaves before the end of a performance period as a "good leaver", the LTI will be granted on a *pro rata temporis* basis for the year of departure at the due date set out in the employment contract if the corresponding target achievement is approved after the expiry of the performance period. In individual cases, the Supervisory Board is authorised to settle the existing LTI claims of a member of the Board of Directors that leaves during the performance period by means of a one-off payment (in this case the Company will provide the reasons for the deviation from recommendation G. 12 of the GCGC). If the member of the Board of Directors leaves the Company's services as a "bad leaver", they will lose all entitlements to the LTI during the departing year.

In the wake of the contractual implementation of the new Compensation System with retroactive effect as of 1 January 2020 (see above III.), it shall be agreed that all members of the Board of Directors have no entitlement resulting from long-term component pursuant to the previous employment contracts. According to the new Compensation System, therefore, the members of the Board of Directors will potentially not receive an inflow from the LTI component until after the expiry of the fiscal year 2022, i.e. in 2023.

For the time during which no CSR component is defined, the amount to be paid depends on the achievement of the targets for the relative total shareholder return (rTSR) compared with the overall SDAX and the ROCE (return on capital employed). The Supervisory Board is, however, authorised to provide for various sustainability targets and targets in the area of Corporate Social Responsibility (CSR) as the third target component. As long as no sustainability targets and no CSR targets have been provided, the relative TSR will be taken into account as a share price-based component at 60% and the ROCE with 40% as LTI target figures.

LTI structure



Once the Supervisory Board determines sustainability targets and CSR components as additional LTI components, they will account for 25% of the LTI component, while the rTSR as share price-based component will have a weighting of 45% and the ROCE a weighting of 30% in the calculation of the LTI.

– The key indicator of relative total shareholder return (rTSR) is calculated from the performance of the LEONI share (in percentage terms) including the dividend paid per share during the performance period in relation to the development (in percentage terms) of the TSR performance index in the SDAX during the same period.

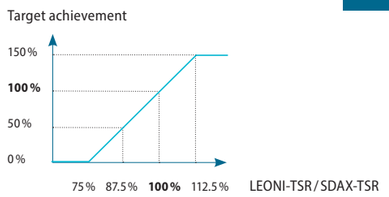
  LEONI's share price performance (LEONI TSR) is calculated using the initial price as a volume-weighted average of closing prices of the LEONI share in XETRA trading (or a comparable successor system) of the Frankfurt Stock Exchange on the stock market trading days of the last two months before the start of the relevant performance period and the closing price as a volume-weighted average of closing prices of the LEONI share in XETRA trading (or a comparable successor system) of the Frankfurt Stock Exchange on the stock market trading days of the last two months of the relevant performance period and the dividends as total of all dividends paid out per share during the performance period.

  For the calculation of the SDAX performance (SDAX TSR), the initial figure is the arithmetical median of the SDAX closing prices on the stock market trading days of the last two months before the start of the performance period in question and the end figure the arithmetical median of the SDAX closing prices on the stock market trading days of the last two months of the performance period in question. Should the Company no longer be in the SDAX, the SDAX change considerably or other developments emerge that make a reference to the SDAX no longer seeming appropriate, the Supervisory Board may determine a different suitable share index as a reference.

  The SDAX TSR is the 100% target figure for the rTSR target in the LTI.

If capital measures lead to a reduction or increase in the number of the Company's shares (e.g. share split or merger of shares), this effect will be taken into account appropriately in the calculation of the target achievement in the rTSR and its effect neutralised.

Relative TSR (rTSR) Example



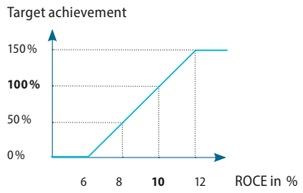
For the rTSR target for 2020 (2020 to 2022), the initial price of the LEONI share of EUR 11.55 applies, and the initial SDAX TSR reading of 12,128.03. A target achievement of 100% is achieved if the LEONI-TSR corresponds to the SDAX-TSR at the end of a performance period. The target achievement is 0% if the ration of LEONI-TSR to SDAX-TSR is below 75%. A target achievement of 150% is achieved if the ratio of LEONI-TSR to SDAX-TSR is at least 112.5%.

The multi-year compensation component will thus be established at initially 60% and with a guaranteed minimum of 45%, taking into account an essentially share-based component (rTSR). The price performance of the LEONI share thus becomes a decisive factor for the size of the multi-year variable compensation for members of the Board of Directors. This means that the interests of the Board of Directors and the shareholders are in sync as they both aim for an attractive and sustainable return. Most of the long-term variable compensation is dependent on achieving the rTSR target. The rTSR target is assigned a higher weighting so that the support of the strategic orientation and the development of enterprise value are reflected to a greater extent in the LTI.

As before, the granting of treasury shares or share option plans or other forms of share-based compensation do not form part of the Compensation System. But the Compensation System provides for a share ownership obligation, according to which the members of the Board of Directors are obliged to invest half of the gross payout amount of the LTI in LEONI AG shares and hold these shares for a minimum period of one year in separate blocked security deposit. In this way the Company exactly meets recommendation G. 10 of the GCGC. The Supervisory Board reserves the rights to set down the detailed provisions in the so-called share ownership guidelines.

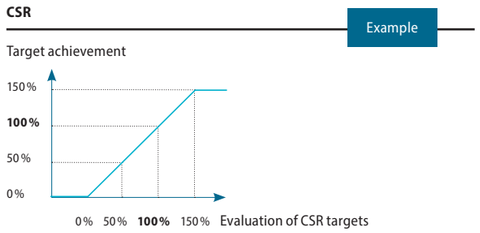
– The target component ROCE (Return on Capital Employed) is a key indicator used by the Board of Directors to monitor the profitability of the business segments. It lends itself particularly well to reflecting the Company's long-term success. The ROCE is calculated using the ratio of EBIT to the average Capital Employed, which shows the non-interest-bearing assets less the non-interest-bearing liabilities. Where necessary, ROCE and capital employed will be adjusted for special effects, as with regard to the STI. Capital Employed is goodwill + fixed assets + inventories + trade receivables – trade payables. ROCE is calculated on the basis of the consolidated financial statements according to the applicable requirements of Group accounting for the fiscal year in question. The size of the ROCE targets for the year and for the fiscal years of the performance period is determined in advance by the Supervisory Board in the proper exercise of its discretion; it is generally guided by the ROCE targets of medium-term budget planning. The target achievement is measured using the relevant three-year average of target achievement in %-points during the individual years of the assessment period.

ROCE Example



– The new Compensation System is designed to enable the Supervisory Board to integrate sustainability targets and CSR targets into the long-term variable compensation of the Board of Directors. CSR stands for Corporate Social Responsibility. It comprises success factors of the Company that are not expressed directly in balance sheet items but which are indispensable for the sustained success of LEONI. But because the management function of these targets, contrary to measurable targets with a macroeconomic focus, is not easy to determine, the LTI tranche of fiscal 2020 will not as yet be guided by sustainability targets and CSR targets. Furthermore, the Supervisory Board would like to make sufficient time available for the discussion of and decision on this LTI component, in particular, and wants to test the proposed parameters in test runs. The sustainability targets and CSR targets are to become part of the LTI component no later than when the compensation for the Board of Directors in fiscal year 2023 is determined; should this not be the case, the target amount of the LTI component will be reduced by 25%. Conceivable sustainability targets and CSR targets include, for example, employee satisfaction and the promotion of diversity (employee engagement), customer satisfaction (net promoter score) and sustainability (CO2 reduction); this list merely serves illustrative purposes and is neither exhaustive nor compulsory if looked at in isolation; the Supervisory Board may carry out the final selection and weighting of the sustainability targets and CSR targets in the proper exercise of its discretion. For an LTI component "sustainability targets and CSR targets" the Supervisory Board will also ensure that they are explained clearly and transparently to the Board of Directors and must accordingly be meaningfully evaluated on the expiry of the three-year performance period, which also applies to this third LTI component.

The following chart shows, merely for illustrative purposes, how the CSR targets may in future be included (weighted) in the LTI calculation.



At the end of the three-year performance period, the Supervisory Board establishes the target achievement of relative TSR based on the actual values of the ROCE target achievement as shown in the audited consolidated financial statements and on the publicly accessible and thus transparent SDAX benchmark figures. With regard to the sustainability targets and CSR targets that may be included as the third LTI component, the Supervisory Board will determine the target achievement in the proper exercise of its discretion.

If the LTI targets are not achieved in full, the long-term variable compensation may be below the LTI target amount or be omitted altogether. For the components ROCE and rTSR, a target achievement of between 0% and 150% is possible, and with regard to the CSR targets the Supervisory Board will determine a target achievement figure ranging between 0% and 150%. The weighted adding up of the two or possibly three target achievement figures and division of the result by two or three produces the total target achievement in the LTI (0% to 150%). The product of the total target achievement in percentage terms and the LTI target amount produces the payout amount for the annual LTI bonus. After the three-year performance period there will be no further deferral periods for the payout of the LTI bonus. The payout amount is due on the following the day of the Supervisory Board Meeting as part of which the Group financial statements are approved. Half of the gross payout amount must be invested by the members of the Board of Directors in LEONI AG shares, in line with the share ownership obligation.

VII.
Current overall target compensation under the new Compensation System

Taking into account the market viability analysis and corresponding thoughts on appropriateness, the Supervisory Board sets the basic compensation in the new Compensation System at EUR 900,000 p.a. for the Chair (male or female) of the Board of Directors and at EUR 600,000 p.a. for the regular members of the Board of Directors.

Accordingly, it will determine the total target compensation in fiscal year 2020 for the individual members of the Board of Directors as follows (amounts in euros):

Target compensation	Chairman of the Board of Directors	Regular members of the Board of Directors
Fixed compensation	900,000	600,000
Pension contribution	270,000	180,000
Additional benefits	approx. 40,000	approx. 40,000
STI target amount	610,000	406,800
LTI target amount	850,000	567,000
Target compensation 2020	**approx. 2,670,000**	**approx. 1,793,800**

In view of the upcoming tasks and expected performance of the Board of Directors and in the light of the Company's current position compared with other companies in a suitable peer group, as well as looking at a vertical comparison within the LEONI Group, the Supervisory Board considers this total target compensation to be appropriate and usual. It has been confirmed in this assessment by independent external compensation advisors Korn Ferry.

- For the peer group comparison (horizontal review of the appropriateness of the compensation for the Board of Directors) the Supervisory Board, at the recommendation of Korn Ferry, looked at 14 peers from the SDAX and MDAX that are meaningfully comparable to LEONI in terms of their industry, size, region and the transparency of their compensation for the Board of Directors[1]. Based on the most recent figures available for this peer group, LEONI ranks on the 63rd percentile in a sales comparison, on the 13th percentile in terms of market capitalisation, on the 38th percentile in terms of total assets and on the 88th percentile in terms of employees.

- For an appropriateness comparison within the LEONI Group (vertical review of the appropriateness of the compensation for the Board of Directors) the Supervisory Board looked in particular at the development of the compensation for the top management tier and the staff as a whole. Beyond this vertical appropriateness review, the Supervisory Board did not take the compensation and employment conditions of the employees directly into account when determining the Compensation System. It does, however, point out that in future the concerns of employees as a behaviour-controlling target for the Board of Directors may be looked at, particularly in the context of the sustainability targets and CSR targets that are scheduled to be introduced for the LTI.

The Compensation System for the Board of Directors of LEONI AG thus meets all requirements for a contemporary, competitive compensation of members of the Board of Directors and is in line with good corporate governance in terms of its structure, its specific design and of its size.

- High level of transparency and comprehensibility
- Balanced selection of performance indicators
- Easy-to-understand weighting of the individual compensation components
- Strong focus on the Company's success and performance
- Takes into account long-term goals
- Inclusion of share price performance and increase in enterprise value
- Appropriateness and acceptability in a horizontal and vertical perspective

VIII.
Maximum compensation

The Company understands maximum compensation to mean the maximum achievable compensation of a member of the Board of Directors in a fiscal year. It constitutes the maximum expenditure of LEONI AG for each member of the Board of Directors for one fiscal year. The maximum compensation is calculated as the total of all components of the compensation for the Board of Directors in the event of maximum target achievement.

In the maximum compensation proposed in the Compensation System the Supervisory Board assumes an annual target compensation that is identical to that provided for fiscal year 2020. Since the variable compensation components derived from this may total 175% for the STI and 150% for the LTI if the target requirements are exceeded, the resultant amounts in the event of optimum (maximum) target achievement are as follows (all amounts in euros):

Target compensation	Chairman of the Board of Directors	Regular members of the Board of Directors
Fixed compensation	900,000	600,000
Pension contribution	270,000	180,000
Additional benefits	40,000	40,000
STI target amount	1,067,500	711,900
LTI target amount	1,275,000	850,500
Compensation for maximum target achievement	**3,552,500**	**2,382,400**

1 The following companies were included in the peer group comparison: Deutz, Dürr, Fuchs Petrolub, GEA, Hella, K+S, KION, Krones, MTU Aero Engines, Osram, Rheinmetall, Salzgitter, Schaeffler, Stabilus.

Consequently, the suggestion for the annual maximum compensation for the purposes of Section 87a (1) sentence 2 number 1 of the German Stock Corporation Act is as follows:

Function	Maximum compensation
Chair (male or female) of the Board of Directors	EUR 3,552,500
Members of the Board of Directors (regular)	EUR 2,382,400

Important note: Based on its structure in terms of the German Stock Corporation Act, the maximum compensation is neither the compensation amount aimed for by the Supervisory Board nor the compensation that must necessarily be viewed as appropriate. A clear distinction needs to be drawn between the maximum compensation and the annual target compensation. The maximum compensation merely provides an absolute cap in order to avoid disproportionately high compensation for the Board of Directors in an unexpectedly good fiscal year.

IX.
Material changes compared with the current Compensation System

The new Compensation System differs from the current compensation for the Board of Directors in that it includes two rather than three variable compensation components because the medium-term component has been eliminated. Furthermore, the individual target components have been changed and simplified considerably. Finally, the relative weightings of the different compensation components has changed, primarily through a greater focus on cash flow-oriented indicators.

X.
Exceptional developments

The criteria for the assessment of the performance-related compensation and the annual targets set at the start of the fiscal year by the Supervisory Board do not change in the course of the fiscal year. Any retroactive amendment of the target figures or the comparison parameters is excluded in the new Compensation System.

Exceptional developments whose effects are not sufficiently considered in the target achievement may be appropriately taken into consideration by the Supervisory Board in the context of the determination of the objectives in justified and rare exceptional cases. This may result in an increase or decrease of the STI payout amount (annual bonus). Possible exceptional developments during the year include, for example, exceptional changes in the economic situation (for example, due to an economic crisis, healthcare crisis with an impact on the global economy) as a result of which the original corporate targets become irrelevant, provided that they were unforeseeable. Generally unfavourable market developments are not considered exceptional intra-year developments. Should exceptional developments requiring an adjustment emerge, the Supervisory Board will report on them in detail and with transparency. The Supervisory Board may also take appropriate account of such exceptional developments in justified and rare exceptional cases when determining the targets for the LTI.

XI.
Clawback provisions for the variable compensation

The Supervisory Board may retain or demand the repayment of the short-term, one-year and long-term, multi-year performance-related compensation in the following cases:

- In the event of a serious breach of duty or compliance breach the Supervisory Board may reduce the short-term performance-related compensation, even to zero, in the proper exercise of its discretion. Depending on the seriousness of the breach, the Supervisory Board may let the long-term performance-related compensation lapse without replacement, in full or in part.

- The Company is entitled to demand repayment of the performance-related compensation paid to a member of the Board of Directors if it emerges after payment of the performance-related compensation that the audited and approved consolidated financial statements on which the claim to performance-related compensation is based was objectively faulty and therefore had to be retroactively corrected pursuant to the relevant accounting provisions, and if, on the basis of the corrected audited consolidated financial statements, there would have been no claim for performance-related compensation or the claim would have been lower. It is not necessary for the member of the Board of Directors to have been responsible for the need to correct the consolidated financial statements. The repayment is due once the annual financial statements have been corrected. This also applies if the office and/or the employment relationship with the member of the Board of Directors has been terminated by the time the repayment claim falls due. The repayment claim totals the difference between the performance-related compensation paid out and the performance-related compensation that would have had to be paid out on the basis of the corrected audited consolidated financial statements. The member of the Board of Directors must reimburse the gross amount, that is, the amount of the repayment claim including any taxes and social security contributions the Company has paid. Under no circumstances does a retroactive correction of the consolidated financial statements result in an increase in the claim for performance-related compensation.

The Supervisory Board may agree the details of the clawback agreement in the proper exercise of its discretion with the members of the Board of Directors in the individual employment contracts.

XII.
Netting of compensation from sideline work

The compensation received for any Group-internal Supervisory Board posts or other dual mandates will be netted against the compensation receivable by the member of the Board of Directors.

If a member of the Board of Directors, with consent, wishes to take on a Group-external supervisory board mandate, the Supervisory Board will decide in the context of the required decision on whether to grant its approval, whether the external compensation will be netted against the compensation receivable by the member of the Board of Directors. In this context, the Supervisory Board will be guided, in particular, by the time the board member is expected to spend on the non-Group supervisory board mandate.

XIII.
Benefits payable on taking office as member of the Board of Directors and on termination

Before a member of the Board of Directors takes up his/her post the Supervisory Board decides, in the proper exercise of its discretion, whether and to what extent additional compensation benefits (for example, relocation allowance or compensation for lost earnings due to the move to LEONI) should be agreed in the individual employment contract.

When the member of the Board of Directors takes up his/her post, the Supervisory Board may grant him/her compensation for the loss of benefits from the previous employer (for example, pension entitlements) or pay part of the relocation costs of the member of the Board of Directors. The size of the compensation and the relocation expenses must be agreed in the individual employment contract: The relocation expenses should not exceed an appropriate maximum amount.

Payments to a member of the Board of Directors upon the early termination of the employment contract without there being good cause for the termination of the position on the Board of Directors will be limited to two annual compensations and not exceed the annual compensation for the residual term of the employment contract (severance pay cap). The annual compensation applicable for the calculation of the severance pay is the total of the fixed salary and the STI target amount. In the event of early termination of the position on the Board of Directors for good cause, no severance pay will be granted by the Company.

XIV.
Other material provisions in the employment contract

For first-time appointments, the employment contracts of the members of the Board of Directors will not usually have a term of more than three years. Regular termination of the employment contract is excluded for both sides. This does not prejudice either party's right to terminate the contract for cause. In the event of early termination of the mandate, the employment contract will end automatically (tying clause).

The employment contract will not include any promises of benefits in the event of the early termination of the employment contract by the member of the Board of Directors due to a change of control. Finally, the employment contract will not include a post-contractual ban on competition.

For new appointments the Supervisory Board may guarantee the variable receipts of an appropriate size to the newly joined members of the Board of Directors for a limited period.

XV.
Transparency, documentation and Compensation Report

In the event of a resolution by the Annual General Meeting that adopts the Compensation System, the resolution and the Compensation System will be published immediately on the Company's website and remain accessible free of charge for the duration of the validity of the Compensation System and for a minimum of ten years.

Moreover, the Board of Directors and the Supervisory Board of LEONI AG shall prepare a clear and easily understandable report on the compensation granted and owing to every single current and past member of the Board of Directors and Supervisory Board of the Company and its associates ("Compensation Report"). The Compensation Report, which must be audited by the auditors, will include detailed information on the individual compensation of every member of a corporate body and on the development of the compensation for the members of the Board of Directors, pursuant to Section 162 of the German Stock Corporation Act. The Annual General Meeting of the Company shall then pass a resolution approving the Compensation Report for the previous fiscal year, which has been prepared and audited pursuant to Section 162 of the German Stock Corporation Act. The first resolution must be adopted by the end of the first Annual General Meeting counting from the start of the second fiscal year that follows 31 December 2020.

XVI.
Special arrangements for the appointment of Mr Hans-Joachim Ziems as a member of the Board of Directors

In its meeting on 13 March 2020, the Supervisory Board decided to appoint Mr Hans-Joachim Ziems as a member of the Board of Directors for the period of one year (1 April 2020 to 31 March 2021) as Chief Restructuring Officer (CRO) and, in that capacity, to take charge of the Company's ongoing financial and operational restructuring. Mr Ziems had already been working for the Company since October 2019 based on a contract as a senior manager with the authority of a 'Generalbevollmächtigter'. Under this employment contract, Mr. Ziems receives a fixed monthly salary of EUR 108,750 (gross). Indirectly, Mr Ziems also benefits from the fees of the Ziems & Partner consulting firm, which has also been working for LEONI since October 2019. Mr Ziems is a major shareholder in the Ziems & Partner consulting firm. The Ziems & Partner consulting firm is paid for its advice on restructuring at customary, hourly rates according to time actually spent and a performance component. The Supervisory Board considered and approved this mandate agreement with the Ziems & Partner consulting firm in reaching its decision on appointing Mr Ziems as a member of the Board of Directors.

Mr Ziems' transfer from the position of 'Generalbevollmächtigter' to the Board of Directors is not to alter the existing financial arrangement, especially not at LEONI's expense. The Supervisory Board therefore decided in the context of the compensation system and in view of the special situation involving Mr Ziems, who is to be a member of the Board of Directors for only one year, to maintain his existing employment contract on the same material terms, i.e. with the same fixed salary, as a Board of Directors employment contract. The Supervisory Board has thereby intentionally deviated from the compensation system that applies to the other members of the Board of Directors because this, in the Board's assessment, is necessary in the interest of the Company's long-term well-being (Section 87a (2) sentence 2 of the German Stock Corporation Act). With this purely fixed compensation, the Company has also deviated from the provision under Section 87 (1) sentence 2 of the German Stock Corporation Act and various recommendations of the German Corporate Governance Code and has to that extent declared a deviation. However, these deviations seem reasonable and justified because successful financial and operational restructuring of the Company is the crucial basis for its long-term well-being and the other incentive structures of compensation for members of the Board of Directors are evidently inappropriate for Mr Ziems as a restructuring consultant.

Resolution and Voting Result

to the Annual General Meeting of LEONI AG on 23 July 2020

Agenda item 8
Resolution on approval of the system for compensating members of the Board of Directors
The Supervisory Board proposes – based on the recommendation of its Personnel Committee – to approve the Compensation System or the members of the Board of Directors reproduced in the annex to this notice and resolved with retroactive effect as of 1 January 2020 by the Supervisory Board.

Voting result (only in German)
Bei der Abstimmung über TOP 8 wurden 8.170.638 gültige Stimmen abgegeben. Dies entspricht 25,01 %* des eingetragenen Grundkapitals.

Es wurde wie folgt abgestimmt:

Ja	7.350.159 Stimmen; dies entspricht 89,9582%*
Nein	820.479 Stimmen; dies entspricht 10,0418 %*

Der Beschlussvorschlag wurde angenommen.

* Die Prozentzahlen können mathematisch gerundet sein.