

## **Compensation system for the Executive Board of KPS AG**

### **1. Principles of the compensation system and contribution to development of the business strategy and long-term development of KPS AG**

The Supervisory Board of publicly listed companies shall resolve pursuant to Article 87a Section 1 Stock Corporation Act (AktG) a clear and comprehensible system for compensation of Members of the Executive Board. In relation to approval of this system, the Annual General Meeting must pass a resolution on any material change to this system pursuant to Article 120a Section 1 Stock Corporation Act (AktG) and a resolution must be passed at least every four years. An initial resolution must be passed for the first time at the Annual General Meeting of KPS AG on 21 May 2021 (see Article 26j Section 1 Introduction Law for the Stock Corporation Act (EGAktG)).

Digitalization and transformation of the company management processes and of the IT and software landscape are increasingly a success factor for many companies. We help our customers to operate the most advanced IT and technology architectures so that they can control all their company processes in real time. As a company strategy, KPS AG pursues the goal of establishing the position of the KPS Group as a specialist for digital transformation projects through innovation, industrialization and internationalization over the long term and intensifying the growth curve. The successful and sustainable implementation of these sustainable goals requires a high level of entrepreneurial vision, innovative strength and flexibility from the Executive Management of KPS AG accompanied by sustainable focus on long-term profitability at the same time.

Accordingly, the compensation system for the Executive Board of KPS AG is based on the following guidelines:

- A transparent, traceable compensation geared to the sustainable success of the entire company makes an essential contribution to the development of the business strategy.
- The compensation of the Members of the Executive Board is directed toward the long-term and sustainable development of the KPS Group. The overwhelming proportion of the variable compensation is therefore in compliance with a basis for assessment extending over several years.
- The compensation of the Members of the Executive Board is in an appropriate relationship to the range of functions and performance of the Executive Board Member. Variable compensation elements are made dependent on the attainment of challenging targets and material failure to meet such targets leads to a tangible reduction in the compensation.
- Multi-year appraisal bases in combination with a bonus-penalty system and cap amounts for each year in relation to variable bonus components promote growth geared to profitability over the long term and avoid providing incentives to enter into disproportionate risks for the company.
- The amount and structure of the compensation for the Members of the Executive Board is in line with usual market practices and takes into account the size, the complexity and the economic position of the company.

## 2. **Scope**

This compensation system is used in all Executive Board contracts of service being newly concluded or extended. The current Executive Board contract of service with the incumbent sole Executive Board Member, Mr. Leonardo Musso, is in accordance with the conditions of the compensation system.

## 3. **Adoption, implementation and review of the compensation system**

The compensation system was adopted by the Supervisory Board as the governance body responsible for the compensation of the Executive Board in accordance with the statutory regulations defined in Articles 87 Section 1, 87a Section 1 Stock Corporation Act (AktG) and was submitted to the Annual General Meeting for approval pursuant to Article 120a Stock Corporation Act (AktG). If the Annual General Meeting does not approve the compensation system, the Supervisory Board shall present a revised compensation system for approval at the latest at the next subsequent ordinary Annual General Meeting. The compensation system is in accordance with the recommendations of the German Corporate Governance Code (DCGK), insofar as no deviations from these recommendations are elucidated in the relevant Compliance Declaration pursuant to Article 161 Stock Corporation Act (AktG).

The appropriateness of the compensation components is reviewed by the Supervisory Board at regular intervals as part of a vertical (internal) comparison with the compensation structure of the senior management circle of the KPS Group below the level of the Executive Board. A horizontal peer-group comparison is carried out by the Supervisory Board by taking an appropriate comparable group of enterprises, whereby the position in the market by comparison with KPS AG is a key factor. The focus here is on enterprises with a similar market capitalization, sales and sector comparable with that of KPS AG. The Supervisory Board takes into account the circumstance as to whether and to what extent a Member of the Executive Board has a shareholding in the company. Ultimately, if a substantial shareholding is held, this may result in the compensation of the affected Member of the Executive Board being below the usual level of remuneration in accordance with standard market practices, with the agreement of the Executive Board Member and in the interests of the company and its shareholders.

As appropriate, the Supervisory Board can consult external compensation experts for purposes of assessing appropriateness (particularly in relation to the vertical and horizontal appropriateness). If the Supervisory Board makes use of this option, it is important to establish the independence of the appointed compensation experts.

In relation to avoidance of potential conflicts of interest, the Members of the Supervisory Board are under an obligation to disclose any conflicts of interest to the Chairman of the Supervisory Board, who will duly inform the Supervisory Board about this matter. A conflict of interest may entail the affected Member of the Supervisory Board abstaining from the vote on the relevant resolution or, in the case of a serious conflict of interest, also not taking part in the deliberations. The regulation applicable for handling conflicts of interest relating to Members of the Supervisory Board also have to be observed in the procedure for defining, implementing and reviewing the compensation for the Executive Board and the compensation system.

If there are substantial changes to the compensation system, but at least every four years, the compensation system is submitted to the Annual General Meeting for approval. The Annual General Meeting can pass a confirmatory resolution on this matter.

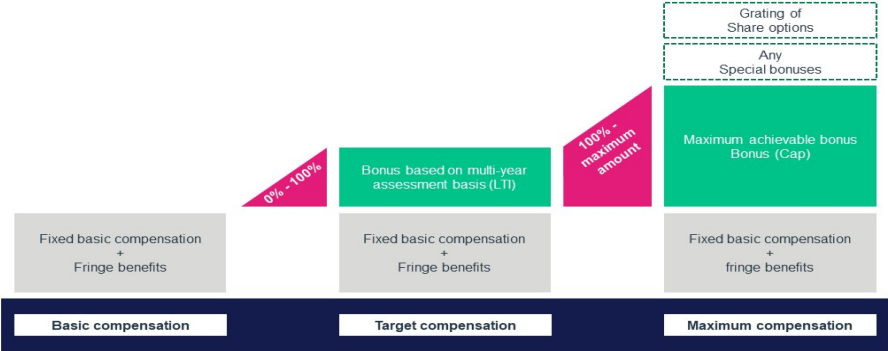
4. **Temporary deviation from this compensation system**

Where there are substantiated exceptional cases, the Supervisory Board can pass a resolution to temporarily deviate from this compensation system, if this appears to be in the interests of the long-term wellbeing of KPS AG (Article 87a Section 2 Sentence 2 Stock Corporation Act (AktG)). This applies, for example, in cases of extraordinary, unforeseeable developments (e.g. exceptional and far-reaching changes in the business situation, economic and/or financial crises, pandemics), whereby the effects in the objectives defined by the Supervisory Board cannot be adequately covered and the original corporate targets appear to be not feasible. Generally unfavorable market developments are not deemed to be an exceptional development.

In the case of a necessary deviation, it is permissible to deviate temporarily from the following components of the compensation system: compensation structure, procedure for defining the compensation, individual compensation elements and their performance criteria, their weighting and assessment parameters, the type and weighting of the performance parameters within the variable compensation and their calculation methods, and the target attainment benchmark. Furthermore, in this case the Supervisory Board can temporarily grant additional compensation elements or replace individual compensation elements with different compensation elements, insofar as this is necessary in order to guarantee an appropriate level of incentive for the compensation of the Executive Board. Deviations presented and substantiated in the context of the relevant compensation report.

5. **Compensation elements, relative proportion of the target compensation, maximum compensation**

An overview of the compensation system is provided below:



5.1 **Non-performance-related compensation**

The non-performance-related compensation secures for Members of the Executive Board an appropriate basic income and thereby avoids providing incentives to enter into disproportionate risks for the company. The individual non-performance-related components of the Executive Board compensation are comprised as follows:

**(a) Basic compensation**

The Members of the Executive Board receive a fixed basic salary each business year, which is paid on a monthly basis in twelve equal sub-amounts. The level of the basic salary is based in each case on the range of functions and the divisional responsibilities of the Member of the Executive Board, the experience of the relevant Board Member and other parameters.

**(b) Fringe benefits**

Furthermore, the Members of the Executive Board are granted contractual fringe benefits, but which can be structured individually and may differ in their amount and their scope on the basis of the individual contractual situation. These fringe benefits comprise various forms of remuneration in kind and non-cash benefits, such as provision of a company car and market-standard telecommunications and IT devices for company and private use. Furthermore, the Members of the Executive Board are provided with insurance cover in different areas, particularly in the form of an accident insurance policy and a financial loss liability insurance (D&O insurance policy). The Members of the Executive Board also receive reimbursement for the assumed employment as an employee (i) standard employer contributions for statutory pension insurance and (ii) full statutory contributions for health and long-term-care insurance.

Furthermore, in the case of newly appointed Members of the Executive Board, single payments may be made in exceptional cases at the point of assuming office, in particular for purposes of settling any payments not made from the previous employment relationship. These payments must always be reasonable and also be part of the defined maximum remuneration and the amount will insofar be restricted by this.

## **5.2 Performance-related compensation**

The Members of the Executive Board can also be granted, in addition to their basic compensation and the contractual fringe benefits, various performance-related compensation components, namely a bonus, a special bonus and share options:

**(a) Bonus on the basis of a multi-year appraisal basis**

The Members of the Executive Board receive a variable compensation component in the form of a bonus based on a multi-year appraisal basis.

**(i) Performance parameters on the basis of a multi-year appraisal basis**

The annual bonus is a performance-related bonus payment based on long-term and sustainable company development, which is calculated over an appraisal period of at least three business years (the relevant initial business year and the subsequent business years). The payment and amount of the bonus depends on attainment of defined targets. The targets are defined by the Supervisory Board at the latest by the end of March of the initial business year for the appraisal period on the basis of objectively measurable and transparent criteria. For each year of the appraisal period, a target value and a range of bandwidths or deviation bandwidths for financial and as appropriate non-financial performance criteria (together the "**Performance Parameters**") are defined, which are attributed bonus or penalty amounts for each year of the appraisal period, depending on the

individual target attainment. The targets are determined in the initial year for each year of an appraisal period, although these targets for the bonus of the starting year are not affected by the separate definition of the targets in future appraisal periods.

**(ii) Profit orientation as key criterion for the Performance Parameters**

The Performance Parameters are intended to be designed so as to be primarily profit oriented. For the current business year 2020/2021, earnings before interest and income taxes (EBIT) of the relevant business year reported in the consolidated financial statements of KPS AG is the defining factor for the sole Member of the Executive Board, Mr. Leonardo Musso, as the Performance Parameter relevant for the bonus. Group EBIT is of primary importance as a financial indicator for corporate controlling of the KPS Group. A significant increase in income over a multi-year appraisal period is a defining enabler for sustainable company growth and implementation of the business strategy for the KPS Group as a consulting company. The Supervisory Board can define alternative or additional income indicators (EBT, EBITDA) and additional financial Performance Parameters (amount of incoming orders) for bonus calculation. The Supervisory Board can carry out an adjustment of the actual value for the income indicators in order to take account of non-recurring, exceptional circumstances and/or non-operating effects. Insofar as the Supervisory Board regards it as effective for promotion of the business strategy and for long-term development of the company, it can also use non-financial Performance Parameters for bonus calculation in the form of management and personnel targets, project and process targets, and ESG targets (*Environmental Social Governance*), provided that the weighting of the Performance Parameters is primarily profit oriented.

The Performance Parameters selected by the Supervisory Board must be in conformity with the strategic alignment of KPS AG and in the opinion of the Supervisory Board be appropriate as controlling parameters for the long-term development of the company. Performance Parameters can be individual or in the case of a multi-member Executive Board also be defined jointly for all the Members of the Executive Board.

The Supervisory Board ensures that the attainment of the individual Performance Parameters is measurable on the basis of objective criteria, for example on the basis of audited financial statements for financial targets, on the basis of internal or external evaluations or audits, or in the case of project or process targets on the basis of objectively identifiable results or attainable milestones.

**(iii) Objective of the Performance Parameters**

The profit-oriented bonus based on the so-called Performance Parameters promotes sustainable growth of the KPS Group and strategic and operational management decisions geared to the success of the entire company on the basis of the multi-year appraisal basis, clarity of calculation based on objective circumstances and on the primarily profit-oriented structure geared to the entire company. The Performance Parameters are clearly defined for each business year and are always disclosed in the compensation report.

**(iv) Calculation and payment of the bonus**

After the expiry of the relevant appraisal period and the submission of the audited annual and consolidated financial statements of the company for the last business year of the appraisal period to the Supervisory Board, an overall analysis is prepared on the basis of which the accrued bonus amounts are offset with the penalty amounts incurred there. A negative overall amount is not permitted here. The balance thus calculated is due for payment with the next salary run after the calculation reference date. After the end of each business year for the relevant appraisal period, the Member of the Executive Board receives an annual advance payment, the amount of which is based on the balance of the bonus and penalty payments achieved up to that point. After the final bonus has been established, the Member of the Executive Board is obliged to repay to the company any difference between the advance payments and the bonus ultimately established.

**(v) Maximum limit (cap)**

The Supervisory Board defines for the Performance Parameters an annual target value and different bandwidths or deviation bandwidths with allocated bonus and penalty amounts, on the basis of which the amount of the bonus is calculated depending on the relevant target attainment level over the appraisal period. This yields a minimum target attainment, whereby the payment is zero if the target is not attained, and a maximum target attainment, whereby if the target is exceeded the amount of the bonus cannot increase. This means that the payment amount for each Performance Parameter and hence also for the total bonus is limited to a maximum percentage of the target amount (cap). In addition to this, the Supervisory Board can limit in accordance with current business practice the payment amount of the bonus for each Member of the Executive Board absolutely in each case to a fixed maximum amount defined in the contract of service for each business year.

**(b) Performance-related special bonus**

The Supervisory Board is authorized at its reasonable discretion to pay a performance-related special bonus in the case of exceptional performance by the Member of the Executive Board. The decision on a special bonus for a business year is taken at the meeting of the Supervisory Board to approve the financial statements for the business year in which the relevant Member of the Executive Board primarily achieved the exceptional performance. The special bonus for a business year must not attain the amount of the bonus based on the multi-year appraisal basis pursuant to item (a) for this business year. Payments of the special bonus before the final establishment of the amount of the bonus after the expiry of the relevant appraisal period for the this are subject to the proviso of repayment; excess special bonus payouts must be repaid to the company by the Executive Board Member.

The Supervisory Board believes that the possibility of paying a special bonus is an effective instrument for adequately rewarding special efforts and services by an Executive Board Member in a specific business year. This applies in particular to circumstances and events, the occurrence of which was not yet or not at all foreseeable at the time when the Performance Parameters for the annual bonus were defined pursuant to item (a). The possibility of providing compensation in the form of a special bonus like this can act as a significant incentive to undertake exceptional efforts for the benefit of the enterprise and its shareholders and other stakeholders, and to foster personal commitment beyond the ordinary duty of an Executive Board Member (for example in the case of specific individual projects or

transactions). In all cases, the Supervisory Board will ensure that the amount of the special bonus is in an appropriate relationship with the exceptional services provided by the affected Executive Board Member and the associated interest of the company.

**(c) Stock Option Program**

At the Annual General Meeting of KPS AG held on 25 September 2020, a resolution was passed on a Stock Option Program, according to which up to 2,000,000 share options on up to 2,000,000 shares in the company can be granted up to 24 September 2025 (inclusive) ("**Stock Option Program 2020**"). The Stock Option Program 2020 serves to provide targeted incentivization of program participants while at the same time fostering the loyalty of the participants for the KPS Group. The Supervisory Board is able to allocate up to the 400,000 share options to Members of the Executive Board of the company. KPS AG assumes that a share-based compensation for Members of the Executive Board will sustainably support their growth and profit orientation. Furthermore, this will contribute to promotion of the share culture and to increasing the corporate value and will therefore bring about an alignment of the interests of shareholders, management and other stakeholders.

**(i) Issue period and period of exercise, waiting time, performance target**

The share options can be issued in one or more tranches within specified issue periods up to 25 September 2025 (inclusive). The options can be exercised at the earliest four years after the day of the issue of the relevant options (waiting time) and the exercise is restricted to times outside certain exercise blocking periods. The share options have a maximum term of seven years and lapse after that date without any compensation, insofar as they are not exercised within this maximum term. The share options can only be exercised if and insofar as defined performance targets were achieved. The key performance target for the Stock Option Program 2020 is an increase in the Group EBIT of the company for the business year ending before the expiry of the relevant waiting time by at least 50 % compared with the Group EBIT for the business year ending before the issue of the corresponding share options.

**(ii) Exercise price and maximum limit (cap)**

The exercise price defined for the Stock Option Program 2020 corresponds to 100 % of the issue price. The profit of the option holder attainable by the exercise of the share options in the form of the difference between the strike price and the exercise price must not exceed three times the issue price (cap). If the cap is exceeded, the exercise price of the relevant share options affected is adjusted such that the difference between the strike price and the adjusted exercise price does not exceed three times the issue price. The issue price and/or the strike price is equal to the average closing price (arithmetic mean) of the shares of the company in the Xetra electronic trading system of the Frankfurt Stock Exchange (or a comparable successor system) on the last five trading days before the day of the issue or exercise of the relevant share options.

**(iii) Reservation of the concrete option issue**

Up to the date of the first-time submission of this compensation system to

the Annual General Meeting of the company no share options from the Stock Option Program 2020 had been issued to Members of the Executive Board. The incumbent sole Executive Board Member, Mr. Leonardo Musso, has a significant shareholding in the company as a shareholder and therefore in the opinion of the Supervisory Board and in agreement with Mr. Musso no share-based compensation components were necessary so far for the purpose of further incentivization of a sustainable increase in corporate value. However, the Supervisory Board expressly reserves the right to grant share options from the Stock Option Program 2020 to Members of the Executive Board.

### **5.3 Target compensation, relative share and differentiation in accordance with the relevant requirements profile**

When the annual targets are defined for the performance-related bonus, the Supervisory Board indirectly thereby also defined the target compensation for a business year for each Member of the Executive Board in the case of a target attainment level of 100 %. Independently of that, the Supervisory Board can in accordance with its duty of due discretion decide whether and to what extent a Member of the Executive Board receives share options and/or a special bonus, which then contributes to the maximum compensation and insofar are limited in amount by this.

In the case of a one-hundred percent target attainment for the bonus, the relative proportions set out below of the individual compensation components of the target compensation are made up of basic salary, fringe benefits and bonus. The granting of any share options or a special bonus is not taken into account in definition of the relative shares because such a grant is subject to a case-by-case decision of the Supervisory Board and cannot be definitively foreseen in advance.

35 to 45 % is attributable to fixed basic salary. The performance-related bonus contributes 42 to 52 % (Chief Executive Officer/Sole Executive Board Member) or 45 to 55 % (ordinary member) to the target compensation. Fringe benefits in the amount of in 5 to 15 % of the target compensation are granted.

The compensation system permits the Supervisory Board to take appropriate account of the function and the area of responsibility in the amount of the relevant compensation of the individual Member of the Executive Board. In accordance with the duty of due discretion of the Supervisory Board, nuanced differentiation for specific functions is permissible, according to which criteria such as standard market practices, experience of the relevant Executive Board Member and the divisional responsibilities of the Board Member are to be taken into account.

### **5.4 Maximum compensation**

Pursuant to Article 87 Section 1 Sentence 2 No. 1 Stock Corporation Act (AktG), the Supervisory Board defines a limit on the maximum amount for the total of all compensation components including fringe benefits and performance-related components. The maximum compensation for the Members of the Executive Board of KPS AG is calculated from the total of basic compensation, the fringe benefits, the bonus, a special bonus and any share options granted. The maximum compensation for a business year was defined for the Members of the Executive Board of KPS AG as follows:

- Chief Executive Officer / Sole Board Member: EUR 900,000.00
- Each additional Executive Board Member: EUR 650,000.00



## 6. Compensation-related legal transactions

The underlying arrangements for the compensation of the Executive Board are defined with the individual Members of the Executive Board in their contracts of service and the annual bonus agreement based on that. The term of the contracts of service for the individual Executive Board Members is subject to a previous mutual revocation or amendment to the appointment period of the Executive Board member and is extended on reappointment for the duration of reappointment. Ordinary notice of termination is excluded in principle for both parties (with the exception of the termination right in the case of a change of control as set out below).

The following principles apply for the appointment period or the duration of the reappointment: The first appointment as a Member of the Executive Board of KPS AG is generally made for a period of three years. Reappointments are generally made for a period of three to five years. The company generally informs the Board Member twelve months prior to the expiry of the appointment and of the associated contract of service, whether the member can anticipate an extension. This does not provide a legal entitlement to a reappointment to the Executive Board.

If the Member of the Executive Board is unable to perform their duties during the term of the contract (as defined in more detail in the contract), the contract of service shall end at the latest with the end of the third month following establishment of invalidity. In the case of an illness, the monthly compensation continues to be paid for the period of a maximum of six months, at the longest until the end of the contractual term. In the case of the death of a Member of the Executive Board during the term of the contract of service, the surviving dependent can continue to be paid the basic compensation for a defined period of time.

A Member of the Executive Board is entitled to receive an ex-gratia payment for each month of a competition prohibition in the amount of up to 100 % of the monthly basic salary for the duration of a post-contractual prohibition on competition.

In the case of a change of control in the company, a Member of the Executive Board can be granted the right to serve notice of termination on their contract and to resign from their office at the time of termination. If the special right to serve notice of termination is exercised, the Executive Board Member can be granted payment of a severance payment in the amount of 75% of the total (i) of the gross annual income agreed at the date of the contract termination in the form of the annual basic salary and (ii) of the bonus defined for the year of the contract termination. In this case, for purposes of the bonus calculation the starting year is deemed to have 100-percent target attainment and is exclusively based on this starting year. However, any ex-gratia compensation shall be taken account of with this.

On 21 January 2021, the Supervisory Board resolved to extend the appointment of Mr. Leonardo Musso as a Member of the Executive Board for the period of office from 1 January 2022 to 31 December 2026. His contract of service, which complies with the conditions of this compensation system for the Executive Board, is extended for the same period of time