Heidelberg Materials

2024+ Managing Board Remuneration System

Introduction

The previous remuneration system (2021 Remuneration System) was submitted to the Annual General Meeting in 2021, where it was approved by 92.21% of the votes. In 2023, the Supervisory Board carried out a comprehensive review of the remuneration system, taking into account the expectations of Heidelberg Materials' investors and stakeholders. The remuneration system which was further developed on the basis of the review (2024+ Remuneration System) is described in detail below. The 2024+ Remuneration System will be effective as of 1 January 2024 for all members of the Managing Board whose employment contracts are newly concluded or extended after the date on which the Annual General Meeting approves the 2024+ Remuneration System. The 2024+ Remuneration System will also be effective as of 1 January 2024 with respect to members of the Managing Board already appointed as at the date on which the Annual General Meeting approves the remuneration system. In order to implement the 2024+ Remuneration System, the Supervisory Board will offer the members of the Managing Board appropriate adjustments to their employment contracts on behalf of Heidelberg Materials.

I. Further development of the remuneration system

As part of the review and further development of the remuneration system, the following changes were made in comparison with the 2021 Remuneration System:

Changes in the remuneration system

What was the objective?	What has been changed to achieve the objective?
Annual bonus	
– To lower complexity by harmonising and reducing the number of performance criteria – To increase the transparency and comparability of Managing Board targets – To strengthen the links to Heidelberg Materials' strategic principles	– Use of two key target categories, Group Performance and Sustainable Strategy Targets, each with a 50% weighting – Definition of four performance criteria within the Sustainable Strategy Targets: 1. Health and safety 2. Free cash flow 3. Increase in sustainable revenue 4.Individual target
Long-term bonus	
– To reduce complexity by means of a standardised plan design – To increase share price orientation – To anchor ESG targets in the long-term bonus to support the achievement of ambitious sustainability targets	– Total grant amount to be issued in performance share units (PSUs) in all cases – Harmonisation of the duration to four years – Definition of four equally weighted performance criteria: 1. Earnings before interest and taxes (EBIT) 2. Return on invested capital (ROIC) 3. Relative total shareholder return (relative TSR) 4. ESG target – Introduction of an individual peer group to measure the relative TSR

Changes in the remuneration system

What was the objective?

What has been changed to achieve the objective?

The following diagram shows the changes in the long-term bonus in detail:

	Previous long-term bonus		New long-term bonus
Components	**50%** management	**50%** capital market (PSUs)	**100 %** PSUs
Term	**3 years** management	**4 years** capital market	**4 years**
Performance criteria	**Management** **50 %** EBIT **50 %** ROIC	**Capital market** **100 %** relative TSR	**25 %** EBIT **25 %** relative TSR **25 %** ROIC **25 %** ESG targets
Relative TSR	**MSCI World Construction Materials**	**DAX**	**Individual peer group** consisting of key competitors

Changes in the remuneration system

What was the objective?	What has been changed to achieve the objective?
Maximum remuneration	
– To concretise the maximum remuneration amounts	– Definition of a concrete maximum remuneration amount for the various Managing Board positions – Chairman of the Managing Board: €11 million – Regular members of the Managing Board: €6 million – Definition of the maximum remuneration amounts for members of the Managing Board whose contracts state their remuneration in US dollars: US$ 6.5 million
Share Ownership Guidelines	
– To increase the comparability of share ownership – To set the share ownership levels in line with market standards	– Specification of a fixed amount for share ownership based on the fixed annual salary of the members of the Managing Board instead of the previous fixed number of shares: – Chairman of the Managing Board: 180% of fixed annual salary – Regular members of the Managing Board: 100% of fixed annual salary
Further contractual provisions	
– To further increase the remuneration system's market conformity – To enhance the Supervisory Board's scope for action	– Removal of the option to grant a transitional allowance following retirement – Extension of the clawback rules to include the option to reclaim variable compensation elements in the event of materially incorrect annual financial statements (performance clawback)

II. Principles of the 2024+ Remuneration System

The Supervisory Board is committed to continuously developing the remuneration system for the members of the Managing Board with a view to implementing the Group strategy and serving the interests of the shareholders and stakeholders of Heidelberg Materials. Among other actions, this is achieved by means of ongoing dialogue with investors and proxy advisors as well as by regularly analysing current market practice.

The aim of the 2024+ Remuneration System is to further increase the focus of Managing Board remuneration on sustainability and strategic objectives. Working in line with the Group strategy and the Concrete Promises, the remuneration system contributes to the achievement of the corporate targets.

In order to ensure that the remuneration system contributes to the Group strategy, the remuneration of the Managing Board is designed in accordance with the following principles:

Principles of the Managing Board remuneration

- → Strong **pay for performance orientation** due to the large performance-related share of total remuneration
- → Alignment of performance-related remuneration and performance criteria with the **long-term Group strategy**
- → **Sustainability** as an important component of the performance criteria in both the **annual bonus** and the **long-term bonus**
- → Alignment of remuneration with **shareholder interests**, in particular by making the long-term bonus entirely **share-oriented**
- → Use of **relative performance assessment** and **prevention of adjustments** to target values or performance criteria during the year
- → **Total remuneration** restricted by means of **maximum remuneration amounts** defined in the remuneration system
- → **State-of-the-art malus and clawback rules** for the performance-related remuneration components

III. Overview of the 2024+ Remuneration System

Components of the remuneration system

The remuneration system for the members of the Managing Board consists of non-performance-related and performance-related components.

The non-performance-related remuneration components consist of the fixed annual salary, fringe benefits, and a pension commitment or cash allowance. The performance-related components include the annual bonus and the long-term bonus (performance share units).

Share Ownership Guidelines also apply, which oblige the members of the Managing Board to invest a substantial amount of cash in Heidelberg Materials AG shares and to hold them for the duration of their membership of the Managing Board. The following figure provides an overview summarising the remuneration system for the members of the Managing Board:

Overview 2024+ Remuneration System

Non-performance-related remuneration components	
Fixed annual salary	– Fixed annual salary, paid in 12 monthly installments
Fringe benefits	– Customary fringe benefits, such as a company car, secretarial support, health and insurance benefits, assumption of tax consultancy costs, and individual contractual agreements
Pension commitment/ consideration	– Defined contribution pension commitment – Alternatively: pension consideration (cash allowance)

Performance-related remuneration components	
Annual bonus	– Plan type: target bonus – Cap: 200% of target value **Group performance** (50%): – Profit for the financial year – CO_2 multiplier **Sustainable strategy targets** (50%): – Health and safety – Free cash flow – Sustainable revenue – Individual target
Long-term bonus (performance share units)	– Plan type: (Virtual) performance share plan – Term: Four years – Cap: 225% of target value **Performance criteria**: EBIT 25%, ROIC 25%, Relative TSR 25%, ESG targets 25%

Other remuneration components	
Share ownership	– Obligation to buy and hold Heidelberg Materials AG shares – 180% of fixed annual salary for the Chairman of the Managing Board – 100% of fixed annual salary for regular members of the Managing Board
Maximum remuneration	– €11 million for the Chairman of the Managing Board – €6 million for regular members of the Managing Board
Malus & clawback	– Compliance malus and clawback – Performance clawback

Remuneration structure

Pay for performance and the focus on the sustainable and long-term development of the company are central principles of the remuneration of the Managing Board of Heidelberg Materials. With this in mind, around 60% to 80% of the target direct remuneration (fixed annual salary, target value of the annual bonus, target value of the long-term bonus) for the members of the Managing Board consists of performance-related remuneration components. The fixed annual salary accounts for around 20% to 40% of the target direct remuneration. While the target value of the annual bonus accounts for around 20% to 35%, the target value of the long-term bonus accounts for around 35% to 50% of the target direct remuneration.

To ensure the long-term focus of the remuneration of the Managing Board and meet the regulatory requirements, the share of the long-term bonus exceeds that of the annual bonus within the performance-related remuneration components.

The other components of the target total remuneration are the fringe benefits, which amount to an average of around 35% of the respective fixed annual salary, and the pension commitment or cash allowance, which also amounts to an average of around 35% of the fixed annual salary. The relative percentages of pension commitments and fringe benefits may vary in future due to changes in the cost of contractual pension commitments or fringe benefits or due to the granting of temporary benefits or benefits agreed for the entire duration of the service contract, particularly in relation to newly appointed or seconded members of the Managing Board pursuant to section IV.

IV. Components of the 2024+ Remuneration System in detail

Non-performance-related remuneration components

Fixed annual salary

The fixed annual salary is a fixed cash payment relating to the financial year, which is based on each Managing Board member's area of responsibility and is paid in twelve monthly instalments.

Fringe benefits

The fringe benefits of the members of the Managing Board largely comprise the provision of company cars with a pool of drivers, health and insurance benefits, and the assumption of tax consultancy costs for cross-border matters. In addition, the assumption of further costs (e.g. for flights home, relocation, rent, travel hardship, cost-of-living expenses, or school fees) may be individually agreed in the event of secondments or increased travel due to departmental responsibilities.

If a newly appointed member of the Managing Board demonstrably loses remuneration claims against their previous employer as a result of moving to Heidelberg Materials (e.g. commitments to long-term performance-related remuneration), the Supervisory Board may, in exceptional cases, agree to a corresponding compensation payment. Any such compensation payments shall be disclosed and justified in the remuneration report.

Furthermore, the members of the Managing Board are covered in the company's existing D&O liability insurance. The agreed deductible corresponds to the minimum deductible pursuant to section 93(2)(3) of the German Stock Corporation Act (Aktiengesetz, AktG) in the respective version.

Pension commitment/cash allowance

Defined contribution pension commitment

Members of the Managing Board who have been newly appointed or reappointed since 2019 are generally granted a defined contribution commitment, based on which the company will pay the member an annual pension contribution. The amount of this contribution is reviewed on a regular basis. In the framework of a capital market-oriented model, these contributions are used to acquire fund shares that are credited to a pension account.

The Managing Board member is entitled to a one-off capital payment in the amount of the value of the pension account at the time of benefit commencement. Alternatively, the Managing Board member can choose to receive an annuity based on the accumulated pension capital. The pension contributions accumulated over the duration of the commitment are guaranteed.

Cash allowance

As an alternative to the granting of the defined contribution pension commitment, the Supervisory Board may grant members of the Managing Board a fixed sum for their own private provision (cash allowance).

Defined benefit pension commitment (old commitment)

The retirement agreements of the members of the Managing Board appointed prior to 2019 contain the commitment to an annual retirement pension. In the case of contract extensions, the existing defined benefit pension commitments were fixed at the value of the pension benefit at the changeover date. In addition to their defined contribution commitment, affected members of the Managing Board therefore enjoy a defined benefit pension commitment equal to the defined benefit entitlements earned up to the date on which the defined contribution commitment was granted.

Pension benefit entitlement

An entitlement to pension benefits arises in the case of both defined contribution plans and defined benefit plans either:

- After leaving the company upon reaching retirement age (pension benefit paid on an individual basis between the 62nd and 63rd year of age) or

- In the event of premature termination of contract for reasons for which the Managing Board member is not responsible, provided that they have reached the age of 60 or 62 at the time of termination of contract, or

- Due to permanent disability owing to illness.

Survivor pension benefit

The retirement agreements include a survivor pension benefit. If a member of the Managing Board dies during the term of their employment contract or after benefit commencement, their widow or widower and their dependent children receive a widow’s, widower’s, or orphan’s pension. In the case of defined contribution pension commitments, the entitlement to the value of the pension account shall pass to the widow or widower and the surviving children.

Performance-related remuneration components

The performance-related remuneration elements consist of the annual bonus and the long-term bonus. While the annual bonus relates to a financial year, the long-term bonus has a duration of four years.

For the overall consideration of the company’s success, various performance criteria are used within the performance-related remuneration components to measure the target achievement. The performance criteria are derived from the Group strategy and are both financial and non-financial. Furthermore, the majority of the selected performance criteria contribute to the achievement of Heidelberg Materials’ sustainability targets.

The Supervisory Board has the option of increasing or reducing the payout amounts from the annual bonus and the long-term bonus at its reasonable discretion by a maximum of 15% of the respective target value in order to account for the individual performance of the respective members of the Managing Board and/or for extraordinary developments or circumstances in accordance with GCGC recommendation G.11. The respective cap on the performance-related remuneration components remains unchanged as a result and will not be increased. In the event that the Supervisory Board exercises discretion, the amount of the adjustment to the payout amount and the reasons shall be set out in detail in the remuneration report.

The following figure shows the type of performance criteria used and illustrates the importance of ESG targets in the context of Managing Board remuneration:

Type of performance criteria

Performance criteria	Financial	Non-financial	ESG
Annual bonus			
Profit for the financial year	applicable	not applicable	not applicable
CO_2 component	not applicable	applicable	applicable
Health and safety	not applicable	applicable	applicable
Free cash flow	applicable	not applicable	not applicable
Increase in sustainable revenue	applicable	not applicable	applicable
Individual target	partly applicable	partly applicable	partly applicable
Long-term bonus			
EBIT	applicable	not applicable	not applicable
ROIC	applicable	not applicable	not applicable
Relative TSR	applicable	not applicable	not applicable
ESG target	partly applicable	partly applicable	applicable

● applicable ○ partly applicable ● not applicable

Annual bonus

Purpose and principal features

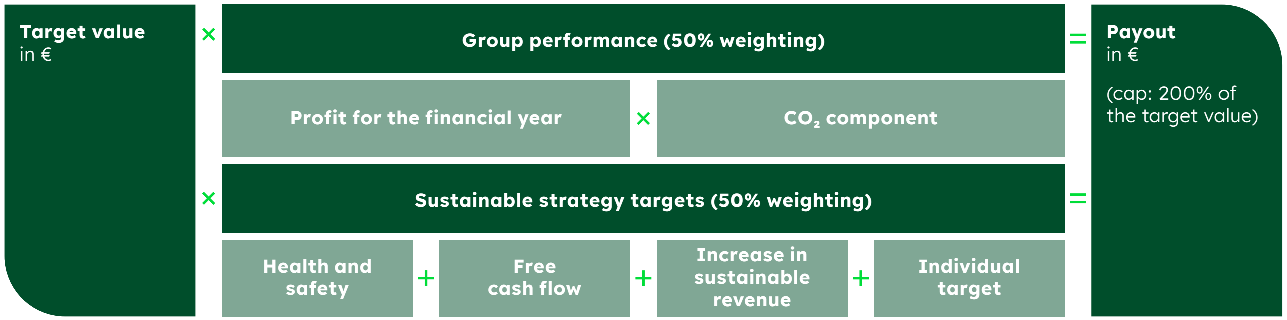
- The annual bonus provides incentives to achieve the ambitious annual financial and non-financial targets that are fundamental to the long-term and sustainable growth of Heidelberg Materials.
- Payout depends on target achievement with regard to Group performance (50% weighting) and sustainable strategy targets (50% weighting).
- Payout is capped at 200% of the target value and may not be made at all if the target is missed by a significant margin.

How it works

The annual bonus is a one-year performance-related remuneration element that provides incentives to implement the operational targets in the financial year. The payout amount depends on the overall target achievement within the performance criteria and can range between 0% and 200% of the individual target value.

The annual bonus is paid in cash after the Annual General Meeting of the following year.

Annual bonus



Performance criteria

Half of the overall target achievement for the annual bonus is measured against Group Performance and half against Sustainable Strategy Targets.

Group Performance

Group Performance is measured on the basis of the profit for the financial year attributable to the shareholders of Heidelberg Materials AG (profit for the financial year) and the CO_2 component. The target achievement is calculated by multiplying the target achievement from the profit for the financial year by the CO_2 component.

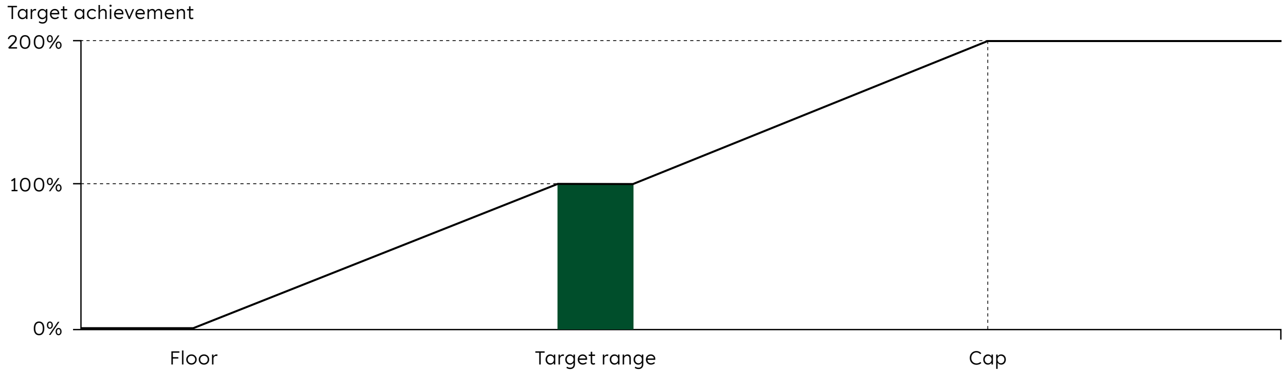
Profit for the financial year

This figure is based on the profit for the financial year, adjusted for special items. Special items are only taken into account above a value of €20 million.

The profit for the financial year reflects Heidelberg Materials' profitability as a basic parameter. Increasing the value of the Group through sustainable and result-oriented growth is intended to guarantee a lasting entrepreneurial capacity to act. In line with its financial strategy, Heidelberg Materials strives to offer an attractive investment opportunity for its shareholders and to pursue a progressive dividend policy. As a component of the annual bonus, this performance criterion is therefore intended to provide incentives for profitable management.

In order to calculate the achievement of the profit for the financial year target, the Supervisory Board determines a target corridor and the thresholds (floor and cap) at the beginning of the respective financial year. The target achievement can range from 0% to 200%.

Exemplary target achievement curve



For the profit for the financial year performance criterion, the defined target corridor, the thresholds (floor and cap), as well as the resulting target achievement and the adjustments made for the calculation of target achievement are disclosed in the remuneration report once the financial year has ended.

CO_2 component

The CO_2 component in the annual bonus is intended to provide a significant incentive to achieve the CO_2 reduction targets set as part of the Group strategy. At the same time, the aim is to promote the long-term and sustainable development of Heidelberg Materials by orienting the business model towards resource-efficient production.

The CO_2 component is set up as a multiplier, which can range between 0.7 and 1.3 (CO_2 multiplier). To determine the CO_2 multiplier, the Supervisory Board defines a target for the specific CO_2 emissions per tonne of cement at the beginning of the respective financial year. That target is derived from Heidelberg Materials' long-term CO_2 roadmap and the Group's current CO_2 performance. The specific CO_2 emissions per tonne of cement are calculated using an internal definition that takes into account the CO_2 emissions generated during the main stages of cement production.

For the CO_2 component, the set target value, the thresholds (floor and cap), as well as the resulting CO_2 multiplier are disclosed in the remuneration report once the financial year has ended.

Sustainable Strategy Targets

The Sustainable Strategy Targets represent the second category of targets for the annual bonus. They consist of four different performance criteria. Health and safety and free cash flow, adjusted for special items, are fixed in the remuneration system. All cash-flow-relevant special items are taken into account and are also adjusted for the profit for the financial year. The third performance criterion is a sustainability-related figure. For 2024, the Supervisory Board will agree targets with the members of the Managing Board aimed at increasing sustainable revenue. The Supervisory Board reserves the right to use a different key figure for measuring the achievement of the company's sustainability targets in future years. As a fourth performance criterion, the Supervisory Board sets one individual target for each member of the Managing Board at the beginning of each financial year. The Supervisory Board also determines the weighting of the individual performance criteria at the beginning of each financial year, staying within the following ranges (in relation to the weighting within the Sustainable Strategy Targets):

Weighting ranges for the sustainable strategy targets

Health and safety	**20%**	**± 10%**
Free cash flow	**40%**	**± 10%**
Sustainable revenue	**20%**	**± 10%**
Individual target	**20%**	**± 10%**

The following table provides a detailed overview of the individual performance criteria and how they relate to the Group strategy:

Sustainable strategy targets

Health and safety	– To ensure the occupational health and safety of Heidelberg Materials employees – By 2030, reduce the fatality rate to zero and cut the lost time injury frequency rate (LTIFR) by 50% compared with 2020
Free cash flow	– To measure division-specific or Group-wide free cash flow – To take cash flows into account when reviewing strategic investments and divestments
Increase in sustainable revenue	– To further increase revenue from sustainable products – By 2030, half of Group revenue to be generated from sustainable products
Individual target	– Person-specific objectives – To take account of certain strategic or operational targets depending on respective Managing Board responsibility

For the Sustainable Strategy Targets performance criteria, the set target values and the resulting target achievements are disclosed in the remuneration report once the financial year has ended. The remuneration report also transparently discloses the individual target set for each member of the Managing Board.

Long-term bonus (performance share units)

Purpose and principal features

- As a share-based remuneration component, the long-term bonus links the interests of the Managing Board with those of the shareholders, fosters the long-term loyalty of the members of the Managing Board to the company, and incentivises the achievement of important financial targets and ESG targets, which are fundamental to the long-term sustainable growth of Heidelberg Materials.
- Allocation in accordance with a virtual performance share plan in the form of performance share units (PSUs).
- Payout depends on absolute share price performance and target achievement in the equally weighted performance criteria EBIT, ROIC, relative TSR, and ESG.
- Measurement of target achievement of the performance criteria after three years (performance period) followed by a one-year deferral of payout of the PSUs (waiting period).
- Payout is capped at 225% and may not be made at all if the target is missed by a significant margin.

How it works

The long-term bonus is structured as a virtual performance share plan. It is based on virtual shares, so-called performance share units (PSUs), and is allocated in annual tranches. By using PSUs, the long-term bonus establishes a direct link to the performance of the Heidelberg Materials share price, thus strengthening the alignment between the interests of the Managing Board and the shareholders.

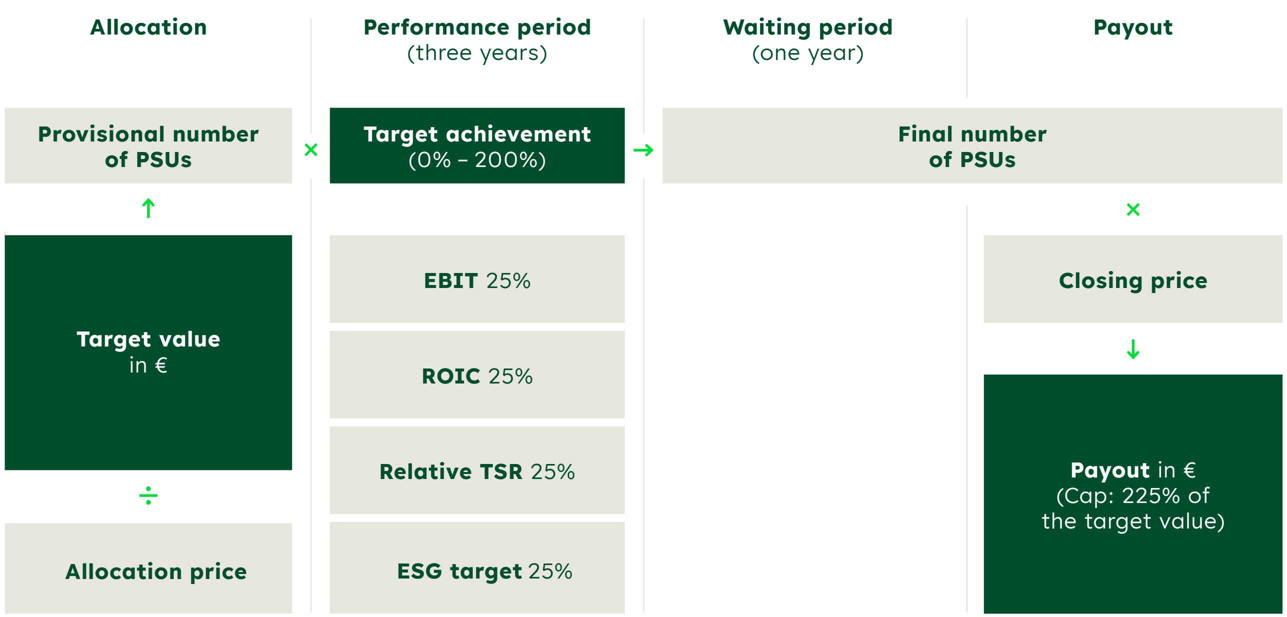
As a first step, the number of PSUs to be provisionally allocated is determined. To this end, the contractually agreed target value for the long-term bonus is divided by the reference price of the Heidelberg Materials share at the beginning of the tranche's duration (allocation price). The allocation price is generally the average of the daily closing prices of the Heidelberg Materials share on the Frankfurt Stock Exchange Xetra trading system in the three months prior to the start of the tranche's duration.

The long-term bonus has a four-year duration. This consists of a three-year performance period and a one-year waiting period. At the end of the performance period, the target achievement of the performance criteria is determined and the final number of PSUs is calculated. The target achievement can range between 0% and 200%. The final number of PSUs is calculated by multiplying the provisionally allocated number of PSUs with the target achievement.

The payout takes place after a one-year waiting period following the performance period. The final number of PSUs is then multiplied with the reference price of the Heidelberg Materials share (closing price) applicable at the time, adjusted for notionally reinvested dividend payments and for changes in capital. The closing price is generally the average of the daily closing prices of the Heidelberg Materials share on the Frankfurt Stock Exchange Xetra trading system in the three months prior to the start of the waiting period.

Payouts from the long-term bonus are capped at 225% of the contractually agreed target value and are made after the Annual General Meeting following the end of the duration. In order to comply with the Share Ownership Guidelines, half of the payout amount must be used to acquire shares in Heidelberg Materials until the complete share ownership requirement has been fulfilled (see “Share Ownership Guidelines” chapter).

Long-term bonus



Performance criteria

The overall target achievement for the long-term bonus is determined on the basis of the equally weighted performance criteria EBIT, ROIC, relative TSR, and ESG target.

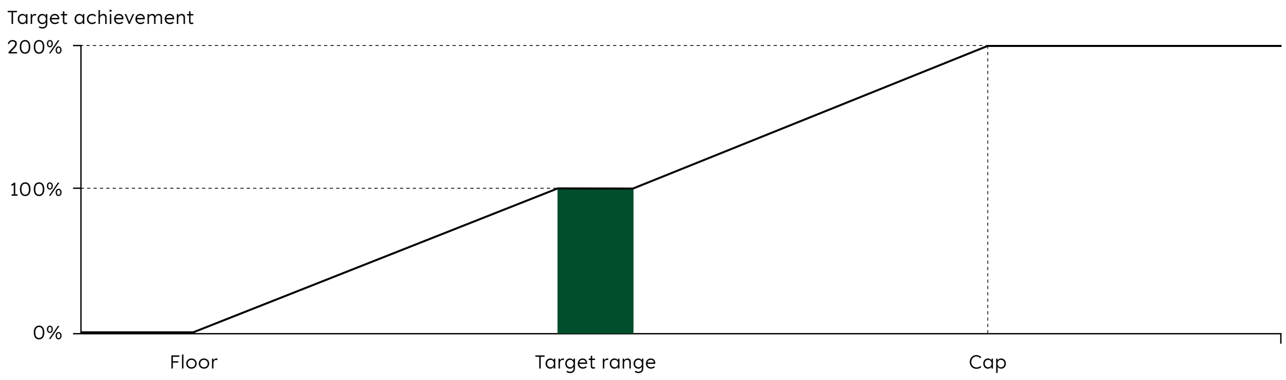
EBIT

The basis for the performance criterion is the EBIT, which is adjusted for one-time special effects that could not be foreseen at the time when the operating plan and the targets were set. As for the calculation of the profit for the financial year, only special items above a threshold of €20 million are taken into account.

EBIT is a measure of profitability and reflects the economic strength of Heidelberg Materials. Combined with the profit for the financial year in the annual bonus, incentives for profitable management are thus provided in both the short-term and long-term performance-related remuneration elements.

At the beginning of each tranche, the Supervisory Board determines a target corridor, which is derived from the Group's three-year operational plan, as well as the thresholds (floor and cap). The calculation of the target achievement at the end of the performance period is based on the comparison of the average EBIT over the three-year performance period with the specified target corridor. The target achievement can range from 0% to 200%.

Exemplary target achievement curve for EBIT



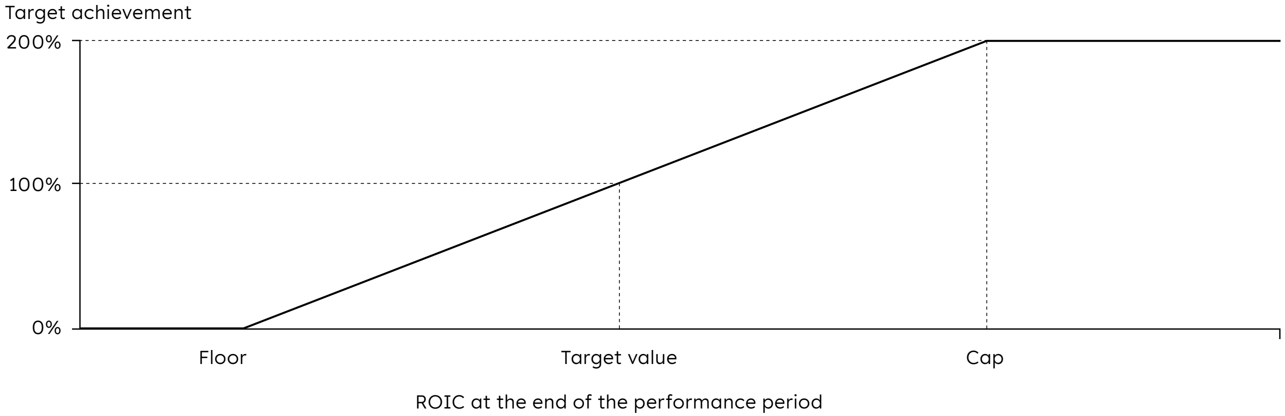
For the performance criterion EBIT, the defined target corridor, the thresholds (floor and cap), as well as the resulting target achievement and the adjustments made for the calculation of the target achievement are disclosed in the remuneration report after the duration of the respective tranche has ended.

ROIC

The performance criterion is based on return on invested capital (ROIC). ROIC is calculated as the ratio between EBIT adjusted for exchange rate effects less standard taxes and invested capital as reported in the consolidated balance sheet, also adjusted for exchange rate effects. The Supervisory Board can adjust ROIC for impairments that the Managing Board could not influence during the performance period or could only influence to a limited extent. ROIC is one of Heidelberg Materials' most important financial performance indicators. The inclusion of ROIC as a performance criterion in the long-term bonus therefore provides further incentives to increase capital efficiency in line with the Group strategy.

The achievement of the ROIC target is measured by comparing the target value set at the beginning of the respective tranche with the average ROIC over the performance period. The lower and upper limits of the target achievement curve at the start of the performance period are defined depending on the target value. The target value set by the Supervisory Board is derived from the company's relevant three-year operational plan. The target achievement can range from 0% to 200%.

Exemplary target achievement curve for ROIC



For the performance criterion ROIC, the defined target value, the thresholds (floor and cap), as well as the resulting target achievement and the adjustments made for the calculation of the target achievement are disclosed in the remuneration report after the duration of the respective tranche has ended.

Relative TSR

The total shareholder return (TSR) performance is determined by comparing the performance of the Heidelberg Materials share (calculated as percentage increase in share value taking into account reinvested dividend payments and adjustments for capital measures) with a peer group.

Relative TSR represents a capital market-oriented performance criterion that provides an incentive for the sustainable and long-term outperformance of the relevant peer group and is thus in line with Heidelberg Materials' target of offering shareholders an attractive investment opportunity.

The peer group for measuring the relative TSR is currently composed of the following competitors of Heidelberg Materials:

Peer group used from 2024 onwards

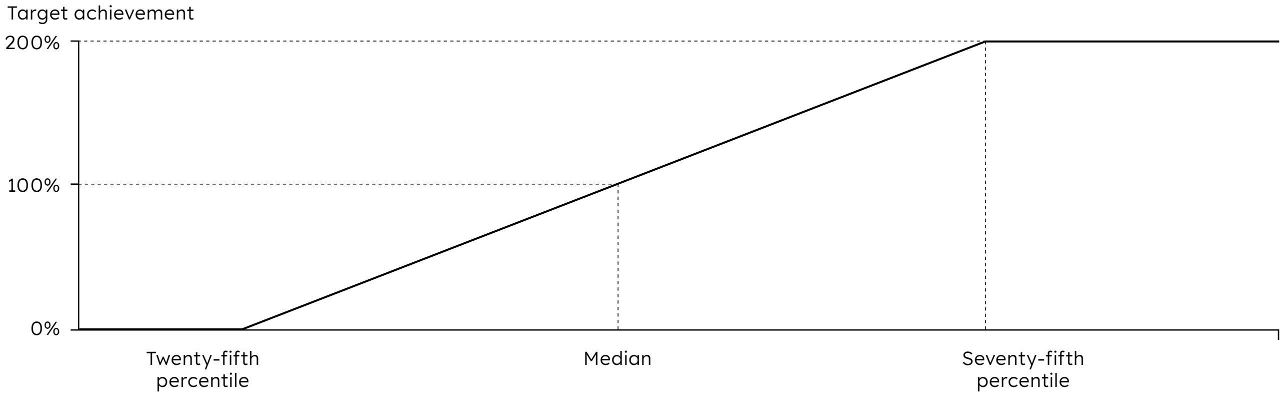
Global	Europe	North America	Asia	Australia
Cemex S.A.B.	ACS, S.A.	Eagle Materials Inc.	PT Semen Indonesia Tbk	Boral Limited
CRH plc	Bouygues SA	Martin Marietta Materials Inc.		
Holcim Ltd	Breedon Group plc	Summit Materials, Inc.		
	Buzzi S.p.A	Vulcan Materials Co.		
	Skanska AB			
	Titan Cement Int. S.A.			
	Vicat SA			

The Supervisory Board has the option of adjusting the peer group if necessary, for example if individual companies no longer serve as a meaningful comparison or if other competitors take on greater importance. During the ongoing performance period of a tranche of the long-term bonus, the peer group can only be adjusted if the peer group defined at the start of the performance period can no longer be used, for example because a peer company is delisted from the stock exchange.

The relevant peer group is published for each tranche in the relevant remuneration report in which the allocation is reported. Any changes to the peer group are also announced retrospectively in the remuneration report.

The target achievement range for the relative TSR at the end of the performance period is 0% to 200%. To measure the relative TSR, the TSR performance of Heidelberg Materials and its peers over the performance period is ranked. Target achievement is calculated depending on Heidelberg Materials' relative rank within the peer group on the basis of the following target achievement curve:

Target achievement curve for relative TSR



The target achievement rate is 100% if the TSR of Heidelberg Materials corresponds to the peer group median. Below the twenty-fifth percentile, the target achievement is 0%; above the seventy-fifth percentile, it is 200%. The Supervisory Board has set the target achievement curve in line with German market practice, while taking into account a balanced risk and opportunity profile.

ESG target

In order to address the global challenges caused by climate change and resource scarcity, Heidelberg Materials is transforming its business processes and placing sustainability at the centre of its activities. Against this background, the Supervisory Board has decided to include an ESG target in the long-term bonus from 2024 onwards in order to provide strong incentives for achieving Heidelberg Materials' ambitious sustainability targets via the long-term performance-related remuneration component too.

At the beginning of the duration of a tranche of the long-term bonus, the Supervisory Board sets a measurable and quantifiable ESG target. The ESG target is derived from Heidelberg Materials' Group and sustainability strategies.

For the ESG target, the Supervisory Board identifies a target value corresponding to a target achievement rate of 100%, a lower threshold (floor) corresponding to a target achievement rate of 0%, and an upper threshold (cap) corresponding to a target achievement rate of 200%.

The ESG target set for the tranche is disclosed in the remuneration report in which the allocation is reported. The target values set for the ESG target, the floor and cap, and the target achievements are disclosed in the remuneration report after the duration of the respective tranche has ended.

Potential ESG targets include reducing CO_2 emissions, increasing revenue from sustainable products, or introducing sustainable products. For the 2024 tranche of the long-term bonus, the Supervisory Board will agree targets with the members of the Managing Board aimed at reducing specific CO_2 emissions per tonne of cement over the three-year performance period of the long-term bonus. Reducing CO_2 emissions is a key lever for achieving Heidelberg Materials' Sustainability Commitments 2030. The use of the CO_2 multiplier in the annual bonus in combination with the definition of CO_2 reduction targets over a three-year period in the long-term bonus creates a balanced incentive profile for the members of the Managing Board to achieve the target of reducing CO_2 emissions to 400 kg of CO_2 per tonne of cementitious material by 2030.

The Supervisory Board will determine the ESG target for each tranche of the long-term bonus as required, taking into account the progress made towards the various corporate targets laid out in the Concrete Promises and the Sustainability Commitments 2030.

Provision concerning the transition to the 2024+ Remuneration System

Due to the standardisation of the long-term bonus duration to four years, there will be a one-time shift of the payout in the 2027 financial year, as only the capital market component of the 2023 LTI tranche (50% of the original grant amount) will be paid out in that financial year. In order to mitigate this one-time shift of the payout in the 2027 financial year, 25% of the provisionally calculated payout amount will be paid out after the three-year performance period on the basis of the target achievement set for the 2024 LTI tranche. This payout amount will be calculated on the basis of the reference price of the Heidelberg Materials share applicable at the end of the three-year performance period, which in turn will be adjusted for notionally reinvested dividend payments and changes in capital. This payout will then be set off against the regular payout of the 2024 LTI tranche, taking into account the reference price of the Heidelberg Materials share at the end of the waiting period in the 2028 financial year. The provisional payout will therefore not constitute additional or guaranteed remuneration.

Other remuneration components

Share Ownership Guidelines

To further harmonise the interests of the Managing Board and the shareholders of Heidelberg Materials, the Supervisory Board has adopted guidelines for share ownership. The members of the Managing Board are obliged to acquire Heidelberg Materials AG shares in the amount of a predetermined, relative proportion of their fixed annual salary and to hold these shares for the duration of their membership of the Managing Board.

The obligation amounts to 180% of fixed annual salary for the Chairman of the Managing Board and 100% of fixed annual salary for regular members of the Managing Board.

In order to comply with the guidelines, half of the payout amounts from the long-term bonus that the member of the Managing Board has received in their role must be used to acquire shares in Heidelberg Materials AG until the complete share ownership requirement has been met. Company shares that are already held by members of the Managing Board are taken into account when calculating share ownership.

Malus and clawback rules

The performance-related remuneration elements include malus and clawback rules. These give the Supervisory Board the option to reduce part or all of the performance-related remuneration elements that have not yet been paid out (compliance malus) or to reclaim performance-related remuneration elements that have already been paid out (compliance clawback) in the event of breaches of essential duties of diligence.

In the event that performance-related remuneration elements are paid out on the basis of a materially incorrect consolidated financial statement, the Supervisory Board may reclaim performance-related remuneration elements that have already been paid out (performance clawback). In this case, the repayment claim shall consist of the difference between the performance-related remuneration owed and the overpaid performance-related remuneration. The malus and clawback rules apply to both the annual bonus and the long-term bonus.

Maximum remuneration

In accordance with section 87a of the AktG, the Supervisory Board has set a maximum remuneration for the members of the Managing Board. The maximum remuneration comprises all payouts of the non-performance remuneration components in the form of the fixed annual salary, fringe benefits (or their value), the pension commitment or cash allowance, and payouts from the performance-related remuneration components consisting of the annual bonus and the long-term bonus. The maximum remuneration caps the payouts of the remuneration promised for a financial year, regardless of the actual payout date. In the case of a pension commitment, the past service costs are used in the calculation of the maximum remuneration.

The maximum remuneration of the Chairman of the Managing Board is €11 million, and that of the regular members of the Managing Board is €6 million. For members of the Managing Board who are also appointed as members of the Managing Board or Executive Board of a foreign subsidiary of Heidelberg Materials the maximum remuneration relates to the remuneration received from Heidelberg Materials AG and the respective subsidiary.

For regular members of the Managing Board whose contracts state their remuneration in US dollars, the maximum remuneration is set at US$ 6.5 million in order to avoid any effects resulting from exchange rate fluctuations. At the time the 2024+ Remuneration System was established, this amount roughly corresponded to the maximum remuneration amount set in euros.

If the actual remuneration exceeds the maximum remuneration, the long-term bonus will be reduced accordingly. To the extent that this proves insufficient to comply with the maximum remuneration, the Supervisory Board may exercise due discretion and reduce other remuneration components or demand reimbursement of remuneration already paid out.

Remuneration-related legal transactions

Duration of employment contracts

The term of the employment contracts of the members of the Managing Board corresponds with the duration of their appointment. When making appointments, the Supervisory Board takes into account the limitations laid down in section 84 of the AktG, in particular the maximum term of five years. In the case of first-time appointments, the term should not exceed three years in accordance with GCGC recommendation B.3. The right to terminate the contract without notice for good cause remains unaffected. If a member of the Managing Board's appointment to the Managing Board is temporarily revoked pursuant to section 84(3) of the AktG with a commitment to reappointment, the Supervisory Board may agree with this member of the Managing Board that they will continue to receive individual remuneration elements during the interruption of their term of office.

Exit conditions

In the event of an early termination of a Managing Board membership without serious cause, the payout from the annual bonus and the long-term bonus shall be made in accordance with the contractually stipulated due dates and conditions. There shall be no accelerated settlement or payout. The target values for the annual bonus and long-term bonus shall be reduced pro rata temporis in case of a departure during the financial year in which the annual bonus or long-term bonus is allocated.

If the employment contract of the member of the Managing Board is immediately and effectively terminated for serious cause before the end of its term, the member's claims to the annual bonus and long-term bonus shall be forfeited.

Severance pay cap

In the event of an early termination of a Managing Board membership without serious cause, in accordance with the recommendations of the GCGC, payments to a Managing Board member, including fringe benefits, shall not exceed the value of two annual remunerations and shall not compensate more than the remaining term of the employment contract (severance pay cap). The severance pay cap is calculated based on the amount of the total remuneration for the past financial year and, where applicable, on the amount of the expected total remuneration for the current financial year.

Change of control

The remuneration system does not provide for commitments in the event of an early termination of membership of the Managing Board as a result of a change of control.

Post-contractual non-compete clause

The Supervisory Board is entitled to agree a post-contractual non-compete clause with the members of the Managing Board in return for the payment of a waiting allowance.

V. Procedure for determining and implementing the remuneration system and the amount of Managing Board remuneration

Determining and implementing the remuneration system

Pursuant to section 87(1) of the AktG, remuneration is determined by the Supervisory Board. The Supervisory Board is supported in this task by its Personnel Committee, which develops recommendations on the remuneration system of the Managing Board, which are discussed in detail and decided upon by the Supervisory Board. If necessary, the Personnel Committee and Supervisory Board may seek advice from external remuneration experts. In this case, care is taken to ensure their independence from the Managing Board and the company.

The remuneration system adopted by the Supervisory Board is submitted to the Annual General Meeting for approval. The Supervisory Board regularly reviews the remuneration system for the members of the Managing Board on the basis of preparatory work by and recommendations from the Personnel Committee. If necessary, the Supervisory Board resolves to make changes. In the event of significant changes, and at least every four years, the remuneration system is submitted to the Annual General Meeting for approval.

If the Annual General Meeting does not approve the remuneration system, a revised remuneration system will be submitted for resolution no later than at the next Annual General Meeting.

Setting Managing Board remuneration and ensuring its appropriateness

The remuneration of the Managing Board is determined by the Supervisory Board following a recommendation by the Personnel Committee. The Supervisory Board ensures that the remuneration is commensurate with the tasks and performance of the respective member of the Managing Board and with the company's economic situation and that it does not exceed common levels of remuneration without special justification. To this end, the Supervisory Board regularly makes horizontal and vertical comparisons with appropriate peer groups.

The Supervisory Board may seek advice in this regard from an external expert who is independent of the Managing Board and the company. Horizontal comparisons are based on relevant national and international peer groups selected by the Supervisory Board on the basis of country, size, and industry criteria in accordance with the AktG. Against this background, the Supervisory Board has latterly used the companies of the DAX as a peer group. In order to take the industry criterion into account, the Supervisory Board may also use companies from related industries as a peer group in future.

For the vertical comparison, the remuneration of the Managing Board is compared with the remuneration of top and senior management and the remuneration of the total workforce of Heidelberg Materials, both overall and in terms of development over time.

The Supervisory Board takes the results of such reviews into account when determining the target remuneration of the members of the Managing Board, also thereby ensuring the appropriateness of the remuneration of the Managing Board.

Taking account of employees' remuneration and employment conditions

Heidelberg Materials aims to provide competitive remuneration and employment conditions for both employees and members of the Managing Board. Beyond taking into account vertical comparisons when determining the target remuneration of the members of the Managing Board, the Supervisory Board also considers the remuneration and employment conditions of Heidelberg Materials employees when determining the remuneration system for the Managing Board. In doing so, it pays attention to the consistency of remuneration within the Group.

Measures to prevent conflicts of interest

Heidelberg Materials AG's rules on preventing and handling conflicts of interest also apply to the procedure for determining, implementing, and reviewing the remuneration system. Should conflicts of interest arise in exceptional cases, these must be disclosed and may lead, among other actions, to the persons concerned being excluded from the discussion and decision-making processes.

VI. Extraordinary developments/ temporary deviation from the remuneration system

In accordance with GCGC recommendation G.11 and in addition to the above-mentioned margin of discretion of 15% of the target value within the performance-related remuneration elements, the Supervisory Board has the option of taking reasonable account within the performance-related remuneration of significant extraordinary developments (e.g. the acquisition or disposal of a company or parts of a company, impairments of property, plant and equipment or participations, the effect of changes in interest rates on the fair value of provisions, or material changes in accounting and valuation methods) to the extent that these were not already taken into account during target setting.

Furthermore, the Supervisory Board has the right, pursuant to section 87a(2)(2) of the AktG, to temporarily deviate from the remuneration system in the event of extraordinary circumstances (e.g. in the event of a severe economic or financial crisis) if this is necessary in the interest of the long-term well-being of the company. Unfavourable market developments are not to be regarded as extraordinary circumstances justifying an exception. Even in the event of a deviation, remuneration must continue to be aligned with the long-term and sustainable development of the company and must be consistent with the success of the company and the performance of the member of the Managing Board. A deviation from the remuneration system in these circumstances may only be permitted after careful analysis of these extraordinary circumstances and at the suggestion of the Personnel Committee by means of a corresponding Supervisory Board resolution specifying the extraordinary circumstances and the need for a deviation. A temporary deviation from the remuneration system may be made with regard to the following components: performance criteria of the annual bonus and the long-term bonus as well as ranges of target achievements for the individual components of the performance-related remuneration. If the incentive effect of the remuneration cannot be adequately restored by adjusting the existing remuneration components, the Supervisory Board is authorised to temporarily grant additional remuneration components or to replace individual remuneration components with other ones.

In the event of a temporary deviation from the remuneration system, details of the deviations, including an explanation of the need for the deviations and the specific components of the remuneration system that were deviated from, shall be provided in the remuneration report for the following year.