
# Remuneration policy

## directors and executive leadership team

2024

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# Contents

# Remuneration policy

This policy provides an overview of the principles that apply to the remuneration of the executive and non-executive directors and of the other members of the Executive Leadership Team.

**Objectives**

The starting point of this remuneration policy is its alignment with the Fagron culture (the Fagron values and 'Family Rules'), with the business strategy and growth ambitions and with the long-term interests of all stakeholders. The requirements of the Corporate Governance Code 2020 (the Code) and of the Shareholders' Rights Directive (EU) 2017/828 as converted into Belgian law on 28 April 2020 have also been taken into account.

Fagron's remuneration policy is intended to attract and retain talent and to provide fair and competitive remuneration.

The core principles of this remuneration policy are:

1. Alignment with the business strategy: by stimulating the financial and non-financial performance in order to achieve the high-reaching growth ambitions and sustainability goals, and by aligning this performance with the long-term goals of sustainable growth of Fagron.
2. Alignment with the HR strategy: by aligning the remuneration policy for the Executive Leadership Team with the HR and remuneration strategy, as generally applicable within Fagron.
3. A balance between short-term and long-term objectives: through the combination of an annual bonus and a long-term variable remuneration.
4. Internal consistency: by differentiating compensation based on responsibilities, experience and required competencies of the individual jobholders.
5. External competitiveness: by providing a competitive remuneration package that is regularly assessed on the basis of a market comparison, with the starting point being a fixed remuneration around the median level of the reference market and a variable remuneration above the market median (around percentile 75) if ambitious targets are met.
6. Simplicity and transparency: through simple and clear compensation systems and processes, which are easy to understand for all stakeholders.

The Board of Directors aims to ensure that the remuneration policy is consistent with the general remuneration framework of Fagron as a leading company in the sector in which it operates.

## Adoption of the Remuneration Policy

In accordance with the Law of 28 April 2020 converting the Shareholders' Rights Directive, the remuneration policy will be listed as a separate item on the agenda of the General Meeting and submitted to the General Meeting for approval at least every 4 years. The Nomination and Remuneration Committee will regularly assess the remuneration policy for its market conformity and effectiveness, which may result in amendments.

Upon the advice of the Nomination and Remuneration Committee, the Board of Directors shall submit the components and the amount of the remuneration for non-executive directors to the General meeting for approval, taking into consideration Fagron's size, the fact that it is a listed company, the sector in which Fagron operates and relevant benchmarks in relation to designated comparable companies and general international market practices. When determining the remuneration of the non-executive directors, consideration is given to the directors' general and specific responsibilities and the associated risks.

The remuneration policy for the members of the Executive Leadership Team is determined by the Board of Directors based on the recommendations of the Nomination and Remuneration Committee.
The remuneration is aimed at attracting, motivating, and retaining highly qualified and promising leadership talent and at aligning the interests of leadership and all stakeholders of Fagron. The level and components of their remuneration are analyzed annually by the Nomination and Remuneration Committee, taking into account relevant benchmarks and individual and collective performance.

## Remuneration of the non-executive directors

The remuneration policy for non-executive directors is aimed at providing market-competitive remuneration for their role and responsibilities. Therefore, the Nomination and Remuneration Committee periodically conducts a benchmark analysis, in which the remuneration of the non-executive directors is reviewed against a reference market consisting of Belgian and Dutch headquartered and / or listed companies (focus on BEL Mid and AMX indices) with an international footprint that are comparable in terms of size.

The non-executive directors receive a fixed annual remuneration, regardless of the number of meetings. They do not receive performance-based payments directly related to the results of Fagron, nor benefits in kind or benefits that are related to pension schemes.

The amount of directors' remuneration that is submitted for approval to the General Meeting takes into account the specific role of the director, or membership of a committee, as well as the resulting responsibility and time commitment.

Principle 7.6 of the Code stipulates that non-executive directors must receive part of their remuneration in shares in the company. These shares must be held for at least one year after the end of their mandate as director and at least three years after their allocation. However, in the course of 2023, Fagron decided after due consideration that the remuneration of non-executive directors remains to be paid fully in cash. Fagron considers not providing for equity-based remuneration because this could create a conflict of interest for their long-term mandate and because they should engage in pursuing all stakeholders' interests rather than shareholders' interests only. The Nomination and Remuneration Committee will continue to review whether and to what extent the allocation of Fagron shares to non-executive directors as part of their remuneration has added value for the company and provide a recommendation about the future remuneration of the non-executive directors and any changes that should be recommended in that regard.

## Remuneration for the members of the Executive Leadership Team

This section provides an overview of Fagron's remuneration policy for the executive directors (Chief Executive Officer and Chief Financial Officer) and the other members of the Executive Leadership Team. The executive directors do not receive separate remuneration for their membership of the Board of Directors.

### Total remuneration package

The main objective is to provide the Executive Leadership Team, as all other employees, with a total compensation package that is competitive compared to similar positions in comparable companies in the reference markets.

It concerns the following remuneration components:

- a fixed remuneration
- an annual bonus
- a long-term variable remuneration
- other benefits.

To ensure an objective, competitive, and fair remuneration, the Nomination and Remuneration Committee requests an external service provider to benchmark the remuneration packages of the Executive Leadership Team. This benchmark compares the remuneration packages with those at comparable multinationals in terms of size and complexity, with the specific geographic market depending on the location of the jobholders. Such benchmark analysis is conducted at least every 2 years. Fagron's current reference market consists of European headquartered and / or listed pharmaceutical companies, that are relevant to Fagron from a labor market perspective. These reference companies are regularly reviewed by the Board of Directors to ensure that their composition is still appropriate.

Given the fact that North American pay practices significantly differ from European pay practices, a specific remuneration policy has been developed for the Area Leader North America, in line with local market practice. In addition, the remuneration policy for this position is tailored to the growth ambitions in this region.

With its general remuneration policy, and thus also for the Executive Leadership Team, Fagron strives to target the incumbent's fixed remuneration around the median of the reference market. In addition, it provides for variable remuneration components that are higher than the market median (percentile 75) in case the high-reaching targets are achieved. Where applicable, an attractive benefits package is also provided in line with local market practices.

### Fixed remuneration

The fixed remuneration is intended to reward the members of the Executive Leadership Team based on their role, experience, and competencies. In order to ensure that talented and qualified leaders can be recruited, motivated, and retained, Fagron aims for a competitive fixed remuneration for the members of the Executive Leadership Team. In terms of market positioning, Fagron focuses on the median of the reference market (with the exception of North America where the 75th percentile of the market is targeted).

The annual revisions of the fixed remuneration are made based on expected inflation and general salary increases in the different geographic markets, as well as the salary increase margins for the broader workforce, taking into account the responsibilities, individual performance, experience and competences of each member of the Executive Leadership Team as well as with the aforementioned market comparison and the overall business results.

Any increases in the fixed remuneration are applied from 1 January of each calendar year unless other legal provisions apply.

### Annual bonus

The annual bonus scheme is designed to realize short-term operational performance with a view to long-term value creation, considering the interests of all stakeholders. In view of its ambitious growth strategy and active buy-and-build strategy, Fagron opts for a variable remuneration, which is higher than the market median (around percentile 75) if the set objectives have been achieved.

The **annual on-target variable remuneration** for the CEO is 100% of the fixed annual remuneration and for the CFO 50% of the fixed annual remuneration. For the other members of the Executive Leadership Team, the annual on target variable remuneration amounts to 50% of the fixed annual remuneration (and 100% for the Area Leader North America, which is increased to 150% for the years 2024 and 2025).
The aforementioned percentages are regularly evaluated based on market comparison and can be adjusted to stay competitive and in line with the core principles of the remuneration policy.

Variable remuneration is awarded based on the achievement of **financial as well as individual objectives**, which are set and evaluated annually. The company commits not to grant any discretionary bonus awards to the members of the Executive Leadership Team.

The criteria to be considered for awarding performance-related bonuses to the members of the Executive Leadership Team are partly (75% weight) based on financial targets, in particular on (1) revenue, (2) REBITDA and (3) OWC. For the Area Leaders, these targets consider both the Fagron group objectives and those of their own region; for the other members of the Executive Leadership Team only the Fagron group objectives are considered. These performance criteria are important indicators of the successful implementation of the business strategy. In this way, the annual bonus is directly linked to long-term value creation by Fagron.

For the remaining 25%, the criteria are based on specific individual – usually qualitative – targets that are clearly defined and laid down in writing each year (e.g. employee engagement, leadership development, strategic projects, etc.).

Minimum thresholds apply to each of the bonus targets: if these are not met, no bonus is awarded for that specific criterion. The **award levels** vary between 50% and 150% depending on the level of attainment of these targets.

The annual targets are challenging but realistic. The Board of Directors can decide for each of the beneficiaries, and for any bonus reference year, to change the relative weights for each of the criteria according to their relevance to the achievement of the strategic objectives.

The pay-out of the annual variable remuneration also depends on the achievement of predefined **sustainability and quality objectives**. When the sustainability targets are met, a multiplier of 110% is applied; if these are not met, the multiplier is 90%. The sustainability targets relate to reducing greenhouse gas intensity compared to 2019. These are aligned with Fagron's ambition to have a 30% reduction in greenhouse gas intensity in 2025 compared to the base year 2019. In addition, there is a similar multiplier of either 110% or 90% if the set quality targets are met.

The final assessment of the performance for the allocation of the variable remuneration is done by the Nomination and Remuneration Committee and submitted to the Board of Directors. The variable compensation is in principle paid in the month of March of the year following the bonus reference year. To be entitled to an annual variable remuneration, members of the Executive Leadership Team must be employed at the time of payment.

From 2021 onwards, the annual bonus plans explicitly provide a right to reclaim (claw-back) the variable compensation for Fagron, in case of fraud or serious misrepresentation of the financial data. This right to reclaim applies insofar as it is contractually or legally permissible.

**Long-term variable remuneration**

The members of the Executive Leadership are awarded a long-term incentive (LTI). This aims to provide an additional incentive to align their performance with long-term value creation, considering the interests of all stakeholders, and to provide an incentive for retention.

In view of its ambitious growth strategy and active buy-and-build strategy, Fagron also opts for a remuneration level that is higher than the market median for this variable remuneration component (around percentile 75) if the set objectives have been achieved.

The LTI plan provides for the award of performance shares or PSUs, with the basic rule that the award will in principle be in performance shares.

These awards are granted annually and are subject to a performance period of three years (the first awards apply to the period 2022-2024).

**PS(U) plan**

The main features of this LTI incentive scheme can be summarized as follows:

As outlined above, the members of the Executive Leadership Team are typically awarded **performance shares**. This involves the granting of a conditional right to receive Fagron shares, in accordance with the rules set out in the plan, after the end of the three-year vesting period.

In exceptional cases, an award may be made in the form of PSUs. This involves the conditional payment in cash based on the price of the Fagron share (rather than the granting of Fagron shares) but is otherwise comparable to an award of performance shares.

The **annual award** is equal to 150% of the fixed annual remuneration for the CEO, 125% for the CFO, and 100% for the other members of the Executive Leadership Team (except for the Area Leader North America – see below).

To be eligible, a minimum tenure of one year generally applies, and for members promoted to member of the Executive Leadership Team, a minimum employment of 6 months in this role is required.

The Board of Directors may, on the advice of the Nomination and Remuneration Committee, deviate from this rule in exceptional circumstances, as further outlined below.

Vesting of the award occurs in full after the relevant **three-year performance period** has elapsed ('cliff vesting') subject to the achievement of the performance objectives.

Vesting is based on the achievement of **performance objectives**, which are set and evaluated by the Board of Directors on the advice of the Nomination and Remuneration Committee for each annual grant under the LTI plan and which are disclosed in the remuneration report.

The performance objectives are generally based on a combination of **financial objectives and sustainability objectives**. The respective weight of these objectives is set and evaluated annually. In principle, a distribution of 80/20 or 75/25 (financial objectives versus sustainability objectives) applies.

The objectives typically relate to relative total shareholder return (TSR), organic revenue growth, profitability, operational cash conversion and sustainability (such as reduction of greenhouse gas intensity and employee engagement). These criteria are important for measuring the successful implementation of the company's strategy. As a result, the LTI plan is also directly linked to long-term value creation and aligned with Fagron's ambition to create long-term value for all its stakeholders: customers, employees, investors, and society.

There is a minimum performance level for each of the performance criteria for effective vesting, with a minimum award of 50% in case of threshold performance, and the maximum vesting is 150% of the initial grant.

In addition, the beneficiaries must be employed by or have a service contract with Fagron (and/or its subsidiary) at the time of vesting, except in the case of:

- termination due to death, permanent disability, or retirement; or
- termination due to another reason and the Board of Director expressly recognizes the beneficiary as good leaver (provided that this is appropriate in light of the circumstances of the termination) in the event of (i) unilateral termination by Fagron (and/or its subsidiary) excluding termination for 'serious cause' or (ii) termination by mutual agreement.

The settlement of an LTI grant (except for settlement after death) always occurs based on the realization of the relevant performance objectives.

This arrangement counts as a settlement of the LTI award and thus does not qualify as severance pay.

The final assessment of the performance objectives is made by the Board of Directors on the advice of the Nomination and Remuneration Committee.

The LTI plan provides for a recovery right (claw-back) for Fagron if the information relating to the achievement of the performance objectives or the circumstances of which the award was made conditional, turned out to be incorrect.

**Long-term incentive program for North America**

From 2022, a specific LTI plan was developed for the Area Leader North America, comparable to the LTI plan applicable to the other members of the Executive Leadership Team, providing for the payment of specific cash allowances (3/4) and share awards (1/4) upon the achievement of long-term objectives over 3 to 5 years. These relate to financial targets (organic revenue growth, REBITDA, and operational cash conversion), targets related to market positioning in the US, and sustainability targets (reduction of greenhouse gas intensity and employee engagement). Similar to the plan of the other members of the Executive Leadership Team, this plan provides for a recovery right (claw-back) in case of fraud or serious misrepresentations of financial data.

The Nomination and Remuneration Committee decided, however, to terminate the 2022-2026 LTI plan specific to the Area Leader North America and begin a new long-term incentive plan with goals better aligned to the strategic direction in North America.

In 2024, a new LTI plan has been developed for the Area Leader North America. The annual grant is equal to 150% of the fixed annual remuneration. The plan provides for a grant in the form of performance shares (1/2) and cash (1/2) and is paid out only if a minimum level of performance is achieved. The plan provides for a minimum payout of 50% in case of threshold performance and for a maximum level of vesting of 150% of the initial award.

The focus of this new plan is to promote better alignment with Fagron's corporate strategy as well as with the new LTI plan awarded to the other members of the leadership team in North America. This plan has a performance period of three years (the first award applies to the period 2024-2026), and annual awards may subsequently be granted on a rolling basis under such plan. The performance objectives are determined annually and typically related to similar criteria as in the plan for the other members of the Executive Leadership team.

**Distribution of the variable remuneration**

Articles 7:91 of the Belgian Companies Code (BCC) stipulates that, except where the Articles of Association explicitly state otherwise or upon explicit approval by the General Meeting, the variable remuneration of executive directors must be distributed over time as follows:

- at least one quarter of the variable remuneration must be based on predetermined and objectively measurable performance criteria over a period of at least two years,
- and another quarter must be based on predetermined and objectively measurable criteria over a period of at least three years.

This mandatory distribution does not apply if the variable remuneration amounts to 25% or less of the annual remuneration.

As explained above, the LTI plans provide for a performance period of three years. Apart from the fact that Fagron's articles of association expressly allow Fagron to deviate from the provisions of Section 7:91 BCC, the plans will de facto satisfy this distribution rule.

**Other benefits**
Fagron strives to grant other benefits, where applicable, in line with local market practices. In general, the members of the Executive Leadership Team – except for those who deliver their services through a management company – adhere to the benefit plans that exist for the other employees of the company with which they are associated.

This may specifically concern the use of a company car or mobility allowance, affiliation to a pension plan and/or affiliation to a medical expense plan. Additional benefits may be granted if customary in a particular geographic region.

**Shareholding**
According to principle 7.9 of the Code, the Board of Directors must set a minimum threshold of shares to be held by the members of the executive management.

The CEO is required to accumulate a shareholding in Fagron over a period of five years up to an amount equal to 100% of the annual fixed remuneration.

Fagron encourages the other members of the Executive Leadership Team to acquire and retain Fagron shares. In the coming years, it will be further analyzed whether a minimum threshold or concrete guidelines could have an added value for Fagron.

**Contractual arrangements**
The rights and obligations associated with their position as a member of the Executive Leadership Team are individually defined in employment or management agreements in line with applicable local law. These agreements provide confidentiality, non-competition and non-solicitation clauses, termination of employment, etc. For all members of the Executive Leadership Team the contractual severance pay never exceeds an amount equal to 12 months fixed and variable remuneration.

The executive directors both have an employment contract for an indefinite period. The employment contract with the CEO provides for a contractual severance payment equal to 9 months' fixed remuneration. The non-compete clause is valid for 24 months after the end of the employment contract and applies insofar as the contract is terminated by Fagron with immediate effect for serious cause. The employment contract with the CFO refers to the applicable legal provisions for termination and provides for a non-compete clause with a validity of 18 months.

The other member of the Executive Leadership Team based in the Netherlands also has an employment contract for an indefinite period which refers to the applicable legal provisions for termination. The COO has a Spanish contract which also refers to the legal provisions for termination. The Belgian member of the Executive Leadership Team has a management agreement, which provides for a severance payment equal to 12 months' fixed remuneration. The US member of the Executive Leadership Team has a fixed-term employment contract, renewable for one year at a time, which provides for a contractual severance payment equal to 6 months' fixed remuneration. Finally, the Brazilian member of the Executive Leadership Team has an employment contract for an indefinite period which refers to the legal provisions for termination. All have a non-compete clause with a validity period varying between 1 and 3 years.

**Deviations**
The Board of Directors may decide to temporarily deviate from the Remuneration Policy in exceptional circumstances if it deems this necessary to ensure the long-term interests and sustainability of Fagron or to ensure its viability. Such deviations may relate to - but are not limited to - the recruitment or promotion of executive directors or members of the Executive Leadership Team or the retention of such individuals.

In addition, Fagron's articles of association provide for the possibility to deviate from the provisions of article 7:91 BCC for all persons who fall under the scope of the application of those provisions.

**Remuneration report**
The actual implementation of this Remuneration Policy will be reported annually in the remuneration report that is part of the corporate governance statement in the annual report, to which reference is made for the remuneration-related information relating to a specific financial year.

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