

# COMPENSATION POLICY FOR MANAGEMENT BOARD MEMBERS

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voestalpine AG

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# 1. INTRODUCTION

The present Compensation Policy for the Management Board of voestalpine AG (hereinafter “voestalpine” or the “Company”) determines the parameters and principles governing the compensation of the members of the Company’s Management Board. It implements the requirements of Section 78 through 78b Austrian Stock Corporation Act (*Aktiengesetz – AktG*) as well as the requirements of the Austrian Corporate Governance Code.

The present Compensation Policy was prepared by voestalpine’s General Committee, acting as Compensation Committee, and resolved by the Supervisory Board at its meeting on June 2, 2020. It will be submitted to the Company’s 28<sup>th</sup> Annual General Meeting on July 1, 2020, for a vote. Under Section 78b (1) AktG, the Compensation Policy must be submitted to the Annual General Meeting for a vote at minimum once every four business years.

## 2. PRINCIPLES AND AIMS OF THE MANAGEMENT BOARD’S COMPENSATION

The compensation system for the Management Board aims to compensate the Management Board’s members in ways appropriate to the size and financial position of voestalpine and to offer them incentives for successfully managing and developing the Company.

The compensation must be both market based and competitive in order to enable the Company to recruit sufficiently experienced and competent individuals and ensure that they remain loyal to it.

The compensation comprises non-performance-based, fixed elements and performance-based, variable elements. This is designed not only to prevent members of the Management Board from taking unreasonable corporate risks, but also to provide appropriate motivation for them to continue developing voestalpine in risk-sensitive ways and to reconcile the interests of the Management Board with those of all other stakeholders—particularly those of the shareholders in their capacity as voestalpine’s owners and those of the Company’s employees—as best as possible. The performance-based targets compensate the Management Board in accordance with the Company’s business strategy, especially with respect to both earnings and the return on capital employed. Putting in place multi-year, performance-based targets is designed also to ensure that adequate attention is paid to voestalpine’s long-term interests and sustainable development.

# 3. COMPENSATION OF MEMBERS OF THE MANAGEMENT BOARD

## OVERVIEW OF THE COMPONENTS OF COMPENSATION

Component	Summary
<b>Non-performance-based, fixed compensation</b>	
Base salary	Salary determinations consider market standards and competitiveness; as a rule, the base salary is the same for all members of the Management Board excepting the chairman
Ancillary payments and bonuses	Includes non-cash benefits, insurance premiums, long-service bonuses, sick pay, special payments in special cases (employee inventions, signing bonuses)
Pension contributions	The current Compensation Policy provides for a pension contribution of up to 20% of the annual gross base salary to an industry-wide pension fund; different provisions under legacy contracts entail defined benefit obligations as well as higher contributions to the pension fund
<b>Performance-based, variable compensation</b>	
Variable compensation	Achievement of particular quantitative and qualitative targets yields a maximum bonus of 250% for the chairman of the Management Board and of 200% for all other members of the Management Board; sustainable action is achieved by setting quantitative targets for three years in each case

## 3.1. NON-PERFORMANCE-BASED, FIXED COMPENSATION

### 3.1.1. BASE SALARY

Every member of the Management Board is paid a base salary for carrying out their duties as such. This base salary is stipulated in the form of a monthly gross amount that is disbursed 14 times a year (“Annual Gross Base Salary”).

The amount of this base salary is tailored to the responsibilities an individual assumes in connection with a seat on the Management Board and considers whether the compensation conforms to market standards and, in particular, whether it is sufficiently competitive—i.e., enables voestalpine to compete in the market for the most suitable candidates. In addition, the base salary is intended to be high enough to prevent situations where the individuals concerned depend on the variable compensation and thus to eliminate, as best as possible, any incentive to assume unreasonable risks for the Company.

Based on the current allocation of responsibilities among the members of the Management Board, all Management Board members with the exception of the chairman are paid the same base salary. However, the base salary of a new member of the Management Board may be lower than that paid to the Management Board’s existing members. The Company may deviate from its policy of paying

the same base salary to all members of the Management Board excepting the chairman if there are changes in the way responsibilities are allocated among the Management Board members, taking into account different tasks and individual performance.

The members of the Management Board are not entitled to compensation for serving as officers and/or directors in Group companies or affiliates as well as in economic organizations or lobbies to which the Company may belong; this does not apply to the reimbursement of expenses. Any claims to compensation or other pecuniary benefits (excepting the reimbursement of expenses) made available to a member of the Management Board for working in any such capacity must be assigned to voestalpine.

The General Committee of voestalpine may raise the base salary of Management Board members during the term of their given director's contracts. While any such raise must consider the need to offset any loss in purchasing power as well as particular developments in the Company that impact market-based and competitive compensation, the members of the Management Board do not have a claim to such consideration.

### **3.1.2 ANCILLARY PAYMENTS AND BONUSES**

#### **3.1.2.1. Company car**

voestalpine may make a company car available to every member of the Management Board for their professional and personal use as long as they serve on the Management Board. The General Committee of voestalpine must approve the size, cost, and type of vehicle, and the Company's customer structure must be adequately considered in this connection as well.

Any fees and taxes arising from the private utilization of company cars must be borne by the Management Board members themselves.

#### **3.1.2.2. Insurance**

##### **» Accident insurance**

voestalpine may purchase accident insurance that covers death, permanent disability, and the costs of accidents for members of the Management Board or for third parties designated by a given Management Board member.

##### **» D&O and criminal defense insurance**

Just as other directors and officers of the voestalpine Group, all members of the Management Board are adequately covered by D&O insurance as well as criminal defense insurance, both of which the Company has purchased for the entire Group. The cost of these insurance policies benefiting the Management Board members are borne by the Company.

#### **3.1.2.3. Long-service bonus**

The members of the Management Board may be granted long-service bonuses as follows: one month's gross pay for 25 years of service with the voestalpine Group; two months' gross pay for 35 years of service; and three months' gross pay for 45 years of service; any prior periods of service are included as necessary.

#### **3.1.2.4. Continued compensation during illness or accident**

The Company may continue to pay the base salary of any member of the Management Board, who is temporarily unable to carry out their duties due to an illness or accident (provided neither of which results from any intention or negligence on the part of that Management Board member), for the duration of the absence but for no more than four months at full pay and two additional months at a rate of 49% of the base pay.

#### **3.1.2.5. Employee inventions**

A member of the Management Board may be obligated to assign inventions as defined in Section 7 Austrian Patent Act (*Patentgesetz*) to voestalpine. Adequate compensation as per the Patent Act must be paid if the Company claims an invention for itself.

#### **3.1.2.6. Signing bonus**

The Company may promise to pay a one-time signing bonus to a new member of its Management Board for various reasons, for example, to offset the loss of a bonus from the person's prior employer or to cover relocation expenses incurred due to the change in jobs.

### **3.1.3. PENSION PLAN**

#### **3.1.3.1. Defined contribution plans**

A defined contribution system may be put in place for Management Board members as part of an industry-wide pension fund. voestalpine may contribute up to 20% of a Management Board member's Annual Gross Base Salary to such a fund. With the exception of different waiting and vesting periods as well as contribution amounts, the provisions of defined contribution plans for members of the Company's Management Board are the same as those for the Company's officers.

#### **3.1.3.2. Pension commitments under legacy contracts**

Two members of the Management Board are entitled to a defined benefit pension due to pension commitments under legacy contracts or activities within the Group that preceded their appointment to the Management Board. The amount of the contractual pension payable to these two Management Board members depends on the length of their service. For each year of service, their annual pension will be equivalent to 1.2% of their most recent Annual Gross Base Salary. However, the pension benefit may not exceed 40% of their most recent Annual Gross Base Salary. The pension shall be paid at the end of the monthly periods that were used as the basis for determining the severance payment. The Company may waive this so-called suspension of claim to pension, with the effect that this pension would be paid immediately upon retirement.

A review of the adequacy of the claim to pension resulting from the contributions paid up to the time at which three members of the Management Board were reappointed to their positions was conducted in 2018, and an additional contribution to the existing defined contribution agreement was resolved (= 15% of the Annual Gross Base Salary). The additional defined contribution payment will be disbursed in five annual instalments for the first time during the business year 2019/20.

## 3.2. PERFORMANCE-BASED, VARIABLE COMPENSATION

Variable compensation is contingent on the setting and achievement of financial (i.e., quantitative) and non-financial (i.e., qualitative) targets that must be stipulated with voestalpine's General Committee annually no later than at the start of a business year. The lion's share of the variable compensation—i.e., 75% or more—is based on quantitative targets.

In any event, the variable compensation must be limited as to the amount, even in case of potential target overachievement. This may be accomplished by stipulating an absolute maximum or a percentage of the fixed compensation, both ahead of time. The maximum payable bonus is limited to 200% of the fixed compensation (= Annual Gross Base Salary) paid to members of the Management Board and to 250% of the fixed compensation paid to the chairman of the Management Board; this maximum bonus can be achieved solely in case of quantitative target overachievement. If the agreed quantitative targets are achieved exactly, a total of up to 80% of the maximum bonus is owed for both the financial and the non-financial targets. Each year, the General Committee determines the specific percentage of the maximum bonus to be paid if the agreed targets are achieved. Any overachievement of the quantitative targets is considered proportionately until the maximum bonus is reached.

The members of the Management Board are obliged to repay any disbursement of variable compensation to them if it turns out retroactively that such compensation was paid on the basis of obviously false data (clawback).

### 3.2.1. QUANTITATIVE TARGETS

The lion's share of the variable compensation—i.e., 75% or more—is based on quantitative targets. The target agreements applicable to the members of the Management Board provide for the following quantitative performance criteria:

- » **Return on capital employed (ROCE):** As a financial ratio that expresses earnings relative to the capital employed, this key performance indicator (KPI) shows how judiciously and efficiently the Company utilizes the capital it invests to achieve the greatest possible earnings. It thus serves to provide an incentive to use the capital available to the Company as best as possible.
- » **Earnings before interest and taxes (EBIT):** As a financial ratio that describes the operating profit from the Company's own activities, i.e., excluding income or expenses arising from finance and taxes, this KPI provides an incentive for focusing on the Company's performance.

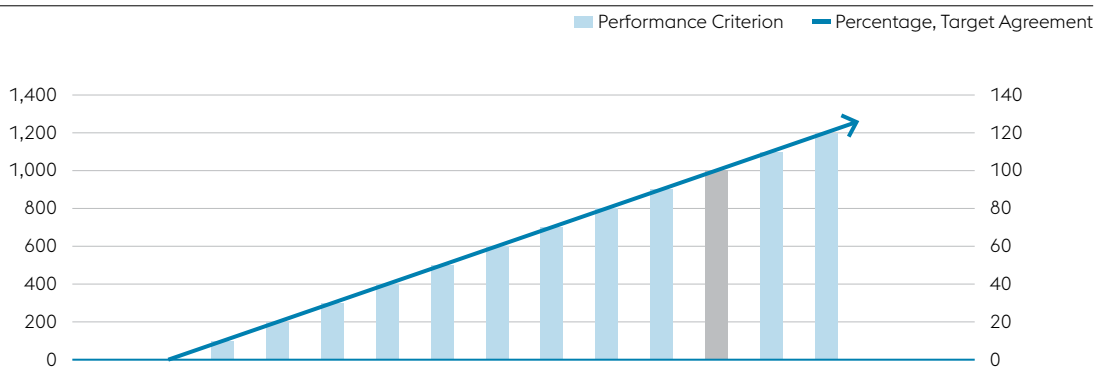
Besides these two quantitative performance criteria, additional performance criteria promoting the Company's business strategy may be established, especially those that reflect capital commitments and the creation of liquidity (for example, working capital relative to revenue or free cash flow). In any weighting of the quantitative performance criteria, the ROCE must be considered more significant than EBIT, and EBIT more significant than other performance criteria.

In any event, the Company's General Committee determines the specific targets for the performance criteria, ROCE and EBIT, at the start of a given period for a total of three years at minimum. This uncouples the variable compensation system from the annual business and corporate planning process, for one, and ensures that long-term, strategic objectives are considered in the compensation of Management Board members, for another.

In special circumstances, such as an economic crisis, the General Committee may replace the financial performance criteria that it established for a three-year period with alternative or additional performance criteria such as free cash flow. In these special cases, the weighting of the performance criteria specified in the Compensation Policy may be adjusted as well.

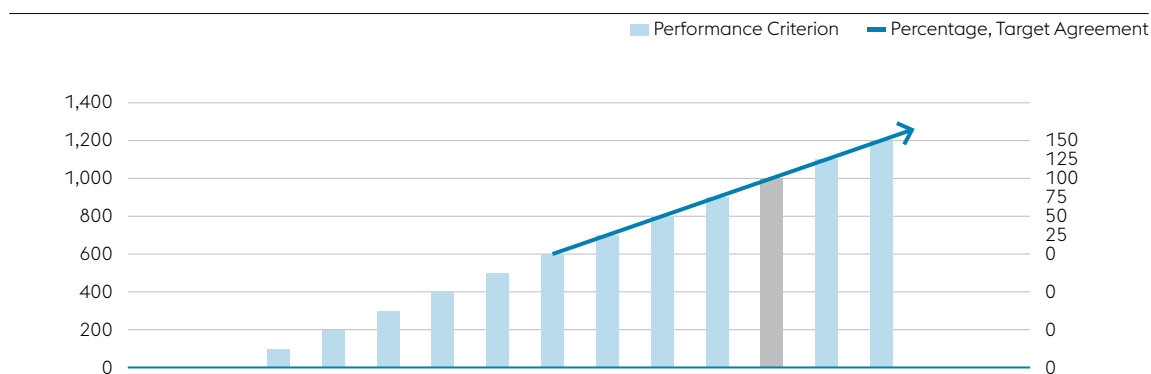
While identical quantitative targets are stipulated with all members of the Management Board, the manner in which they are determined may differ.

**I. Determining a target:** When a target is achieved, the given member of the Management Board is entitled to the variable compensation stipulated for the target. Deviations from the target lead in linear fashion either to a reduction in the variable compensation all the way to its elimination or, conversely, to an increase in the variable compensation all the way to the maximum bonus.

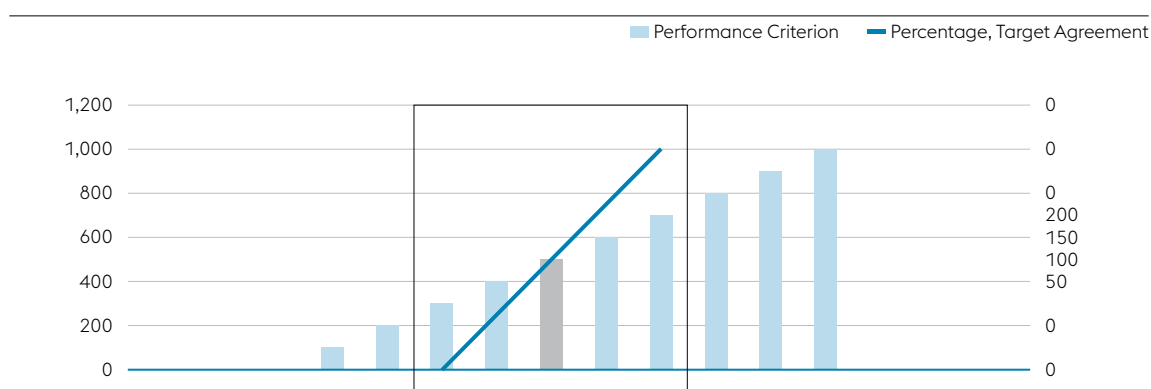




**II. Determining a target as a minimum value:** If this minimum value is not achieved, no variable compensation is paid for it. If the minimum value is achieved, the variable compensation must be paid as agreed. Any target overachievement is considered proportionately until the maximum bonus is reached.



**III. Determining a target including a minimum and a maximum value:** If the minimum value is not achieved, no variable compensation is paid for it. If the maximum value is achieved, the given member of the Management Board is entitled to the maximum bonus for this target. In relation to the target, this portion of the variable compensation decreases or increases linearly between the minimum and the maximum value.



### 3.2.2. QUALITATIVE TARGETS

The target agreement applicable to the members of the Management Board must establish non-financial performance criteria that account for up to no more than 25% of the variable compensation. This component of the compensation, which generally comprises two targets, may involve criteria related to the Company's corporate social responsibility. The same or different qualitative targets may be established for all or individual members of the Management Board. When these performance criteria (which may change from year to year) are established, care must be taken to ensure that they promote the Company's development in the long term and do not provide incentives for achieving merely short-term effects.

The Compensation Report that must be submitted to the Annual General Meeting each year contains a detailed description of the financial and non-financial performance criteria established for a given business year as well as their weighting.

### 3.3. RATIO OF PERFORMANCE-BASED COMPENSATION TO NON-PERFORMANCE-BASED COMPENSATION

Depending on the degree to which the variable targets are achieved, and taking into account the 75%/25% weighting of the fixed quantitative targets relative to the fixed qualitative targets, the ratio of the non-performance-based compensation (excluding ancillary payments, bonuses, and pension contributions) to the performance-based compensation is as follows:

#### TARGET AGREEMENT

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Variable compensation  
Maximum bonus (200% or 250% of the Annual Gross Base Salary)



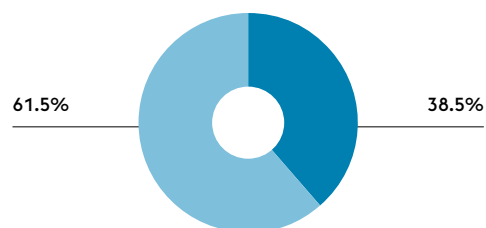
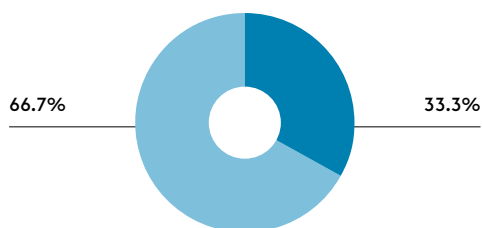
**RATIO OF THE NON-PERFORMANCE-BASED COMPENSATION (EXCLUDING ANCILLARY PAYMENTS, BONUSES, AND PENSION CONTRIBUTIONS) TO THE PERFORMANCE-BASED COMPENSATION**

■ Non performance based, fixed    ■ Performance based, variable

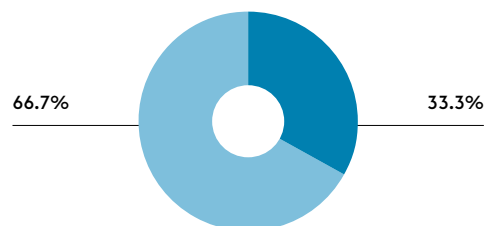
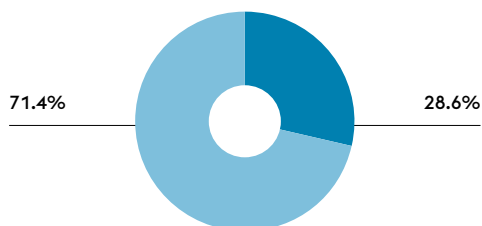
**Chairman of the Management Board**

**Members of the Management Board**

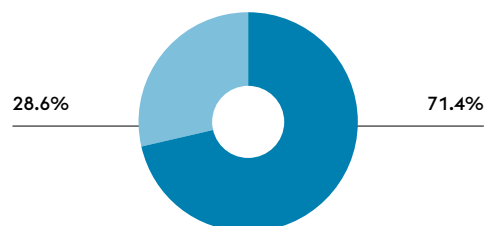
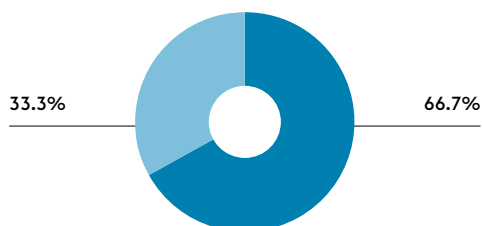
Exact achievement of all quantitative and qualitative targets



Overachievement of the targets up to the maximum bonus



Achievement of all qualitative targets; non-achievement of quantitative targets



**3.4. SHARE-BASED PAYMENT**

The compensation of the members of the Management Board does not include share-based components such as stock options or phantom stocks. Hence any share-based compensation can be granted to a member of the Management Board only if the present Compensation Policy is revised and then submitted to the Annual General Meeting for a vote.

## 4. COMPENSATION AND EMPLOYMENT CONDITIONS APPLICABLE TO EMPLOYEES

The compensation system applicable to the Management Board basically corresponds to the compensation structure applicable to the voestalpine Group's senior management (*Führungskräfte*) and voestalpine AG's officers (*leitende Angestellte*). It contains both fixed and variable compensation and, in connection with the quantitative targets related to the variable compensation, the exact same performance criteria and long-term view that apply to the Management Board.

D&O insurance and criminal defense insurance have been purchased as well for the voestalpine Group's senior management. In addition, the Company's employees are entitled to severance payments (if their contracts began prior to January 1, 2003) or payments from the corporate provision fund, long-service bonuses, compensation for employee inventions, and a company pension. The Company's officers are generally also entitled to a company car that they may use for private purposes as well, accident insurance, and expanded sick pay in case of illness.

# 5. TERM AND TERMINATION OF DIRECTOR'S CONTRACTS

## 5.1. TERM

The terms of the director's contracts (= employment contracts) of Management Board members correlate with the term, not to exceed five years, of their appointment to the Management Board.

## 5.2. EARLY TERMINATION

If a member of the Management Board is removed from office for cause—particularly pursuant to Section 75 (4) AktG or, by analogy, Section 27 Austrian White-Collar Employee Act (*Angestelltengesetz – AngG*)—the given director's contract ends with the date of removal.

If a member of the Management Board is removed for reasons beyond their control, they are entitled to severance pay based on their claims under their director's contract up to the end of the contract's term not to exceed 24 months. This severance payment may also contain variable compensation for each month of the severance period in addition to the base salary (= monthly gross salary), taking into account 14 months' payment of the Annual Gross Base Salary; in such cases, the variable compensation may be determined based on a forecast or on the average of the variable compensation paid to the given member of the Management Board in recent years.

## 5.3. CLAIMS UPON TERMINATION

### 5.3.1. SEVERANCE PAYMENT

Members of the Management Board are in any case subject to the corporate severance scheme under the Austrian Act on Severance and Retirement Funds for Salaried Employees and Self-Employed Persons (*Betriebliche Mitarbeiter- und Selbständigenvorsorgegesetz – BMSVG*). The Company thus is obligated to make contributions to the corporate provision fund in the amount prescribed by law.

Members of the Management Board may be paid contractual severance upon termination of their director's contract by analogy to the Austrian White-Collar Employee Act (in the version that applied immediately prior to the effective date of the amended federal law as per Austrian Federal Gazette (BGBl I 2002/100), so-called "Old Severance Payment Scheme"). In such cases, the gross severance pay from the corporate provision fund to which a Management Board member is entitled under the provisions of the BMSVG upon termination of their employment must be offset against the contractual gross severance pay.

### 5.3.2. VACATION

Any vacation not taken at the time a director's contract is terminated must be paid, unless the termination is related to removal from office.

## 6. DETERMINATION, REVIEW, AND IMPLEMENTATION OF THE COMPENSATION POLICY

The Compensation Policy is resolved by the Supervisory Board pursuant to the proposal of the General Committee, acting as Compensation Committee; subsequently, it is submitted to the Annual General Meeting for a vote at minimum once every four business years. The currently applicable Compensation Policy was resolved by the Supervisory Board on June 2, 2020, based on the proposal of the General Committee, acting as Compensation Committee, and it will be submitted to the Annual General Meeting on July 1, 2020, for a vote.

The General Committee, acting as Compensation Committee, reviews the adequacy of the Compensation Policy at minimum once every four business years, taking into account voestalpine's size and financial position as well as whether the Management Board's compensation is both market based and competitive. If the General Committee, acting as Compensation Committee, believes that changes to the Compensation Policy are necessary, it shall submit the relevant proposal to the Supervisory Board and, subsequently, a revised version of the Compensation Policy to the Annual General Meeting for a vote as necessary. If the General Committee, acting as Compensation Committee, does not believe in the fourth business year from the date it last submitted the Compensation Policy to the Annual General Meeting that any changes are necessary, it shall propose an unchanged Compensation Policy to the Supervisory Board for submission to the Annual General Meeting.

The specific fixed and variable compensation of a Management Board member, including performance criteria and weighting, is established annually by the Company's General Committee based on the compensation policy in effect at the time and subsequently set forth in writing in director's contracts and/or target agreements. As regards quantitative targets, when it establishes the annual target agreement, the General Committee is bound, at minimum, to the targets it set with respect to the two main performance criteria (ROCE and EBIT) for a minimum period of three years.

The General Committee determines whether quantitative targets have been achieved and to what degree on the basis of the audited consolidated financial statements. The results of the qualitative targets must be presented to the General Committee or the Supervisory Board, and the General Committee must determine target achievement and, if necessary, the degree to which these targets were achieved.

Any conflicts of interest on the part of members of the General Committee, acting as Compensation Committee, in connection with the preparation of a proposal for a Compensation Policy and its submission to the Supervisory Board, or on the part of members of the Supervisory Board in connection with the resolution on the Compensation Policy, must be immediately disclosed to the chairman of the Supervisory Board or—if the chairman of the Supervisory Board has a conflict of interest—the deputy chairman. Any conflict of interest and the associated disclosures by the given member of the Supervisory Board must be weighed by the chairman of the Supervisory Board or, if necessary, their deputy and reviewed as to both its materiality and its effects on the impartiality of the given Supervisory Board member. If bias cannot be precluded, specific steps must be taken for handling the conflict of interest (e.g., excluding the member in question from voting in connection with the given Compensation Policy).

## 7. DEVIATIONS FROM THE COMPENSATION POLICY

In special circumstances, the Company may temporarily deviate from item 3.2 (Variable compensation) of the Compensation Policy. Special circumstances are given whenever there is a need to deviate from the Compensation Policy for the sake of the Company's performance in the long term or for ensuring its profitability.

If a deviation from the Compensation Policy is planned, the General Committee must submit a suitable proposal to the Supervisory Board and explain why a special circumstance is given. If the Supervisory Board determines that a special circumstance applies and approves the proposed deviation, the General Committee may make agreements with members of the Management Board that deviate from the Compensation Policy. The next Compensation Report to be submitted to the Annual General Meeting must address the special circumstance and the actual deviation from the Compensation Policy.

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