



Explanations and comments on the ANDRITZ 2018 Stock Option Program (SOP)

Dear Shareholders,

Cognisant of the importance of good corporate governance standards, ANDRITZ AG is also looking to align company interests with the interests of our shareholders. As a result, the company has decided to propose a revised Stock Option Program (SOP) at this year's Annual General Meeting (AGM), with the goals of further linking our key executives' pay to the company's performance, providing an incentive to maximize share value and ensuring that key employees are attracted, retained and properly incentivized within our global peer group. As ANDRITZ is aware that proposals regarding remuneration policies receive special attention, we would like to share our reasoning for the proposed changes.

In the SOP 2018 to be proposed at the AGM on 23 March, 2018, the EBITA margin of the ANDRITZ GROUP was chosen as the new operative KPI for exercising the options. In past ANDRITZ SOPs, earnings per share was the operative KPI. This has now been replaced by the EBITA margin, which we believe to be a more suitable parameter for the following reasons (please also see description and targets of the SOP 2018 as attached):

- In changing the operative KPI of the SOP to EBITA margin, ANDRITZ is aligning the publicly communicated long-term financial goals of the GROUP with the terms of the SOP. The company's goals, vision and strategy can be found [here](#).
- Since its IPO in 2001, ANDRITZ has always had the goal of long-term profitable growth. This included the disclosure of certain targets for sales growth and reaching certain targets for the EBITA margin. These targets have been published continuously in the annual reports and various presentations as well as being discussed with investors and analysts at roadshows. They have also been a key measure reflected in selling side reports over the past few years.
- To our knowledge, EBITA margin is also one of the most heavily used parameters by our peers, investors and analysts, especially when conducting peer group comparisons.
- Within our peer group, which ANDRITZ defines as a benchmark comprising such companies as GEA Group AG, Valmet Oyi, Danieli & Co, the EBITA margin is also used as a leading KPI in the SOPs of these companies, e.g. [Valmet](#) or [GEA Group](#) (page 57).
- The EBITA margin is a key KPI for the variable remuneration component of ANDRITZ top executives. ANDRITZ is also working on improving the transparency of its remuneration structure further. Though no specific structure has been disclosed up to now investors, can refer to the "focus document" of the Austrian shareholders association IVA, in which ANDRITZ has commented about the remuneration structure over the past few years before the general meetings. The questions posed by the IVA leading up to AGMs are public. A sample of ANDRITZ's responses regarding remuneration is available [here](#).



- The KPI hurdles defined in the SOP 2018 are in line with the ANDRITZ business goals communicated. ANDRITZ considers the new SOP 2018 hurdles as ambitious in the current market environment and challenging to reach when looking at the EBITA margins achieved so far (see the historic development of EBITA margin in the graph below).

CHALLENGING PROFITABILITY LEVELS TO EXERCISE STOCK OPTIONS



Long-term goal to reach average EBITA margin of 8%



- ANDRITZ has also analysed the performance targets and testing periods for granting of potential awards. The company has revised the share price hurdles to 10% or 15%. Given the current market environment and ANDRITZ's development vs. the peer group, the company considers the targets as challenging given the unchanged, difficult market environment in the markets served by ANDRITZ and basically no company growth over the past three years. As a consequence of stagnant sales, the ANDRITZ share price has remained flat over the past five years and underperformed substantially in its peer group.





- ANDRITZ also wishes to point out that no capital increase will be needed for the new SOP, hence there will be no dilution for existing shareholders. If the SOP can be exercised, ANDRITZ will only use own treasury shares. ANDRITZ currently holds around 2.9 million treasury shares. The maximum number of options granted (one option=one share) is 1.3 million.
- ANDRITZ understands the trend to include relative metrics and non-financial criteria linked to LTI plans to supplement absolute performance measures. Non-financials goals are already part of the variable remuneration of the ANDRITZ top executives. In the SOP, however, at this stage there are no non-financial criteria and relative measures in the SOP that impact the extent of the variable remuneration plan, but the company is assessing how any of these metrics could be implemented in future SOPs. ANDRITZ operates in business areas that show considerable differences in some respects, which is why the usefulness of defining uniform non-financial criteria for the entire Group is limited. This fulfils the requirements of the objectivity and clear traceability concepts. The sustainability aspect was taken into account in designing the share option program by including a three-year waiting period and requiring an increase in profitability, which is supportive of our rationale to use EBITA margin as a more sustainable KPI.
- Lastly, ANDRITZ is trying to align company interests further with shareholder interests in accordance with best international practice with multi-year performance periods. The ambitious SOP plan and its share price hurdles, which are measured over at least three years, are considered to align management and shareholder interests with the overall ANDRITZ strategy and company goals. This is further ensured as the SOP also features EBITA-margin as a second target parameter, which is set up to ensure and incentivize sustainable profitability measures for the company and its shareholders.

We thank you for being a shareholder in ANDRITZ and also appreciate your support in this important matter. If you have any questions or feedback, please do not hesitate to contact us at investors@andritz.com