



# Remuneration policy of ANDRITZ AG

The remuneration policy defines the principles applied in determining the remunerations of the Executive Board and the Supervisory Board of ANDRITZ AG and of the company's executives. The primary objective of the remuneration policy is to promote long-term and sustainable company development, above all in the interests of the shareholders. The Supervisory Board adopted these principles at its meeting on December 5, 2019. The principles outlined below form the framework that the Supervisory Board will follow in drawing up contracts of employment with members of the Executive Board and determining the variable, performance-based remuneration for executives. These principles have largely been implemented in all the contracts concluded since 2015. Some of the contracts from previous years still contain different arrangements that cannot be amended unilaterally. Details of these arrangements will be provided in the remuneration report that is to be presented to the Annual General Meeting for the first time in 2021.

## EXECUTIVE BOARD REMUNERATIONS

### BASIC PRINCIPLES OF THE REMUNERATION POLICY

The Supervisory Board is responsible for drawing up the remuneration policy for the Executive Board as well as for checking this policy regularly and also implementing it. Assistance is requested from an external remuneration advisor in exceptional cases if necessary. In order to avoid conflicts of interest, the Supervisory Board ensures that any advisors consulted do not also advise the Executive Board on remuneration matters.

Remuneration of the Executive Board comprises a fixed payment (basic salary) and a variable performance bonus. In addition, all Executive Board members (and all executives) have the opportunity to subscribe to a stock option program based on sustainable development of the company's share price and earnings. The variable components of the remuneration do not differentiate between the individual Executive Board members in determining the Executive Board remunerations. The relevant factors are the overall responsibility of the Executive Board and the economic interaction between the individual business areas. In determining the fixed salary components, the Supervisory Board takes account of the duties and professional experience of the individual Executive Board members, the status of the company, and the amounts customary for such remunerations. Due to his special responsibility and significance for the company, the president & CEO's remuneration is correspondingly higher. Moreover, the president & CEO also has a different pension scheme. By conducting a horizontal remuneration comparison with other industrial companies in Austria and Germany, Executive Board remunerations are obtained that are in line with market requirements and also competitive in order to attract and motivate the best qualified Executive Board members and also tie them to the company. Furthermore, the terms of remuneration and employment for the company's employees are taken into account in order to position the Executive Board's remunerations in suitable relation to the remuneration structure of the company.

With respect to C-Rule 27 of the Austrian Corporate Governance Kodex (Code of Corporate Governance), the remuneration policy contains a provision that the company can demand repayment of the variable remuneration component if it becomes evident that it was paid on the basis of figures that are clearly wrong.



## **BASIC SALARY**

The basic salary comprises a fixed annual salary paid in 14 equal parts. These salaries cover all overtime hours, traveling time, and time worked outside of the normal working hours for the company's salaried staff. This salary also covers all functions serving on the company's boards.

The basic salary is a fixed amount at a competitive level that provides an incentive for Executive Board members to act to the benefit of the company, taking account of the shareholders' and employees' interests as well as the public interest. The other payments relate primarily to taxable benefits in kind for company cars. The remuneration policy is intended to explain the incentives for the Executive Board to improve the financial position, which is important for the Group's ongoing development, in clear and simple terms and should also be fully transparent. The Supervisory Board will approach the members of the Executive Board to persuade them to accept a cut in their fixed salaries if necessary in case of extremely poor business development.

## **VARIABLE PERFORMANCE BONUS, STOCK OPTION PROGRAM**

The variable component is based entirely upon the company's net income as reported, and there are no non-financial criteria that impact the variable remuneration. The ANDRITZ GROUP operates in very different business sectors so it is not meaningful to define non-financial criteria that apply uniformly to the entire Group. The short-term, variable performance bonus depends on the company's financial success in the previous business year in each case and takes the reported net income in the consolidated financial statements into consideration as the financial target. The variable performance bonus is limited to three times the fixed salary. Amounts beyond this limit are carried forward to the next three business years. If a defined minimum target for an assessment basis is not reached, a "negative bonus" is carried forward to the subsequent years and reduces the amount of any such future bonus payments. If there is a "negative bonus" when such person leaves the company, any claims outstanding at this time will be reduced by this amount.

There are plans to introduce a non-financial criterion in addition – keeping the accident frequency rate (accidents with more than three days of absence per one million working hours: **Accident Frequency Rate AFR**) below a certain figure – as part of the variable component of the Executive Board remunerations in the coming business year. Hence, the short-term variable performance bonus depends on the achievement of both financial and non-financial criteria.

Entitlement to a bonus payment as a result of fulfilling the financial performance criteria can be increased in the event of extraordinary performance that is not reflected in the financial criteria. This can come into effect in particular if such extraordinary performance relates to building up and integrating new business areas, achieving special goals to increase sustainability or implementing far-reaching restructuring measures. Bonus payments of this kind can be granted regardless of whether financial performance criteria are reached or not and are limited to one year's gross salary calculated on the basis of the fixed salary component.



Under special circumstances (in particular in a phase of company restructuring), the Supervisory Board reserves the right to extend the financial performance criteria to include alternative performance criteria such as Free Cash Flow, EBITDA or EBIT margins. This is intended to enable the management to focus on generating Free Cash Flow while considering profitability development if the company is going through a critical phase. This will not affect the timeframe or limit on the amount payable.

The aspects of financial and non-financial sustainability were taken into account in the design of the proposed stock option programs by including a three-year vesting period and by the criteria of achieving a certain level of operating profitability (expressed as the EBITA margin), a certain increase of the ANDRITZ share price as well as remaining below a certain **accident frequency rate (AFR)** for accidents causing more than three days of absence per one million working hours. These targets must be achieved in order to exercise the options. In all stock option programs for managerial staff and the Executive Board since the Initial Public Offering (IPO), participation was contingent on investing at least 20,000 EUR in ANDRITZ shares for managerial staff and 40,000 EUR for members of the Executive Board no later than the allocation date of the options. This investment must be maintained continuously until exercise of the options by all persons subscribing to the option program, and evidence thereof must be brought when the options are exercised. There is a vesting period of three years before options can be exercised if the contract of employment is still in force (exception: end of employment contract as scheduled according to contract provisions).

The bonus arrangement and the stock option program align the interests of the Executive Board with those of the shareholders and other stakeholders. In this way, it is possible to obtain a comprehensive and balanced assessment of performance by the Executive Board members. The financial targets are objective and transparent, and it is almost impossible to change them substantially by means of short-term measures that are used to promote the business strategy and long-term development of the company.

### **SPECIAL GRATUITY AND BONUS PAYMENTS**

The remuneration committee reserves the right to grant special bonus payment for special achievements in addition to the variable performance bonus mentioned if these special achievements have resulted in a future benefit for the company, especially in the sustainability and health & safety sectors. Any special bonus payments are intended to motivate the members of the Executive Board to apply a long-term and sustainable approach in managing the company. They are limited to twice the fixed annual salary.

It is admissible to grant the Executive Board members “sign-on” and “stay” bonus payments. This may be necessary in order to attract specially qualified Executive Board members for the company and also to tie them to the company.



## **PENSION FUND**

ANDRITZ AG pays contributions into an external pension fund for the Executive Board members it employs. The amount of these payments is agreed individually when the contracts are signed. In general, early retirement schemes are not provided. The pension schemes are based on the “defined contribution” principle for Executive Board members appointed for the first time in or after 2011 and on the “defined benefit” principle for Executive Board members appointed for the first time before 2011.

## **PAYMENTS IN KIND AND OTHER BENEFITS**

The company can take out D&O and accident insurance for Executive Board members as well as other insurance policies necessary for their work, such as insurance to cover legal costs or foreign travel health expenses. The company can provide company cars for Executive Board members. In addition, the Executive Board members can receive reimbursement of business-related expenses commensurate with their position as member of the Executive Board as well as reimbursement of travel expenses. Social security contributions are split between the Executive Board members and the company according to the statutory distribution key, and the company either pays the contributions required by law to an employee pension fund or severance payments are made pursuant to §23 of the Austrian Angestelltengesetz (Salaried Employees Act).

## **DEVIATIONS FROM THE REMUNERATION POLICY IN THE EVENT OF EXCEPTIONAL CIRCUMSTANCES**

The remuneration committee of the Supervisory Board can deviate from this remuneration policy temporarily under exceptional circumstances, while still maintaining the contractual entitlements, in order to safeguard the company’s long-term development and its profitability.

In the event of an Executive Board mandate being taken over temporarily by a member of the Supervisory Board, which is only possible under special, exceptional circumstances, different variable remuneration components can be defined in order to provide incentives as the situation requires for the Executive Board member delegated from the Supervisory Board. These variable remuneration components are limited to two times the fixed annual salary.

Furthermore, different long-term and short-term performance bonus payments can be defined under exceptional circumstances that are particularly challenging for the entire economy or specifically for the company in order to attract particularly suitable Executive Board members and motivate them accordingly by means of pay incentives.

## **DURATION OF EXECUTIVE BOARD MANDATES**

Executive Board mandates are generally limited to five years, however first-time appointments are limited to three years. In order to maintain continuity in the composition of the Executive Board, care is taken to ensure that the contracts of several Executive Board members do not expire on the same date.



## **TERMINATION OF AN EXECUTIVE BOARD MANDATE**

The employment contracts for Executive Board members have a limited term. They may only be terminated without notice at any time for important reasons, particularly those mentioned in §27 of the Austrian Angestelltengesetz (reasons for dismissal according to labor law) or in the event of a serious breach of duty. In the event of permanent occupational disability or after more than six months of illness, the contract of employment can be terminated at the end of the respective month with three months' notice. In this case, entitlement to the fixed salary and 50 percent of the variable remuneration shall remain intact for the remainder of the contract term, however not longer than 18 months. This also applies in the event of premature termination of the Executive Board appointment without serious grounds.

The employment contracts contain a strict non-competition clause. If this clause is not waived, compensation in the amount of the fixed salary must be paid.

## **SUPERVISORY BOARD REMUNERATIONS**

### **BASIC PRINCIPLES OF THE REMUNERATION POLICY**

The Supervisory Board as a whole is responsible for drawing up the remuneration policy for the Supervisory Board and for checking this policy at regular intervals. However, the Supervisory Board's remunerations are defined ultimately each year by the Annual General Meeting (§ 98 AktG – Austrian Stock Corporation Act).

The Supervisory Board remunerations essentially comprise a flat-rate payment and an attendance fee for meetings of the Supervisory Board and its committees. In view of their greater responsibility and broader scope of activities, a higher flat-rate payment than is paid to the ordinary Supervisory Board members can be granted to the Supervisory Board chairman, his deputy, and to the chairperson of the audit committee. In addition, the members of the Supervisory Board are entitled to reimbursement of their expenses.

The remunerations for the Supervisory Board are intended to promote the corporate strategy and the long-term development of the company by acknowledging the responsibility and scope of activity of the individual Supervisory Board members as well as the economic status of the company. In order to guarantee unbiased supervision of the company management by the Supervisory Board, the Supervisory Board members do not receive any variable remunerations, bonus payments or share-based remunerations.



The remunerations of the Supervisory Board are defined so as to be in alignment with the tasks and situation of the company. In order to attract, motivate, and retain the most suitable Supervisory Board members, the remuneration is determined so as to be performance-oriented and in conformity with the market. In determining the remuneration in conformity with the market, both domestic and foreign companies – especially from the DACH region (Germany, Austria, Switzerland) – are used for benchmarking purposes. This is necessary due to ANDRITZ AG's global activity in order to also be able to offer an attractive remuneration to highly qualified foreign candidates. The remuneration is paid after the appropriate resolution has been passed by the Annual General Meeting.

Members of the Executive Board who sit on the Supervisory Boards of Group companies do not receive any remuneration. Remunerations paid to members of the Supervisory Board for mandates in Group companies must be disclosed.

The company has taken out D&O insurance for the members of the Supervisory Board, This is included in a general policy that covers all members of the Executive Board and executive personnel. There is no deductible.

#### **DEVIATIONS FROM THE REMUNERATION POLICY IN THE EVENT OF EXCEPTIONAL CIRCUMSTANCES**

In exceptional circumstances, the Annual General Meeting can adjust the amount of the Supervisory Board members' remuneration and the attendance fees temporarily in accordance with the status of the company if this is necessary for the company's long-term development or to safeguard its profitability.

#### **TERMS AND TERMINATION OF SUPERVISORY BOARD MANDATES**

The members of the Supervisory Board are appointed for a term of five years; a shorter term is possible in exceptional cases. In order to maintain continuity in the Supervisory Board, care is taken to ensure that there are not several appointments expiring on the same date.

The appointment of Supervisory Board members can be revoked by the Annual General Meeting before the end of a mandate by resolution with a 75 percent majority. The Supervisory Board members' remuneration is paid in aliquot parts (on a monthly basis) for the respective business year.



## **VARIABLE REMUNERATION COMPONENTS FOR EXECUTIVES (NOT INCLUDING THE EXECUTIVE BOARD)**

### **Variable performance bonus**

The variable component for executives depends on:

A) Financial goals:

The financial goals relate to the business results achieved per organisational unit (ANDRITZ GROUP, business area, division, service region, product group or company).

- EBITA of the respective organisational unit
- Order intake of the respective organisational unit
- ONWC (Operative Net Working Capital) of the respective organisational unit

Achievement of the goal has a lower and upper cap in each case. The extent of the caps varies according to the respective employee's function and/or the organisational unit.

If a defined minimum goal assessment basis is not achieved, a deduction is carried forward and applied to future bonus payments.

B) Individual goals:

The individual goals are agreed personally between the executive manager and the members of staff. The maximum possible goal achievement is 100 percent.

Under special circumstances (in particular in a phase of company restructuring), the Executive Board reserves the right to extend the financial performance criteria to include alternative performance criteria.

The stock option program is the same as the program for Executive Board members. The number of shares assigned to each person entitled depends on various financial parameters, for example the size of his/her area of responsibility.