

Remuneration system of Salzgitter AG’s Board of Directors

**A. Components of the system**

The remuneration of Salzgitter AG’s members of the Board of Directors is made up of fixed and variable components. Fixed remuneration comprises a basic salary, supplementary benefits and a pension commitment. Variable remuneration consists of an annual bonus that has a short-term and a long-term component, and a long-term performance cash award.

<b>Fixed remuneration</b>	Basic salary	
	Supplementary benefits	
	Pension commitment	
Variable remuneration	Annual bonus (one-year)	50 % short term
	<ul style="list-style-type: none"> <li>▶ 70 % financial target</li> <li>▶ 30 % non-financial target</li> </ul>	50 % long term/ share based
	Performance cash award (multi-year)	long term
	<ul style="list-style-type: none"> <li>▶ 70 % financial target</li> <li>▶ 30 % non-financial target</li> </ul>	

In detail:

**B. Fixed remuneration**

**a) Basic salary**

The basic salary is granted in the form of an amount of money per year individually agreed between the Supervisory Board and the respective member of the Board of Directors in the Board of Directors member’s employment contract. The basic salary is to be paid out in twelve identical monthly partial amounts at the end of the month respectively (monthly salary).

**b) Supplementary benefits**

Supplementary benefits consist of benefits in kind, such as granting the private use of a company car, expenses for a collective accident insurance, assuming of the costs of medical check-ups, attendance fees for Supervisory Board mandates

within the Group, as well as benefits in kind subject to flat-rate taxation, such as tickets for concert events supported by the Company.

### **c) Pension commitment**

The Company transfers a certain amount of money to a pension account for each year of service as the member of the Board of Directors (defined contribution commitment) for the purpose of contributing to the pension scheme. The precondition for granting pension contributions is that the Board of Directors member has not yet reached a pensionable age under the statutory retirement pension scheme at the beginning of each contribution year.

An annual interest credit amounting to the respectably valid statutory maximum technical interest rate applicable to the life insurance industry in accordance with the Actuarial Reserve Ordinance (DeckRV) is paid into the pension account until such time when pension payments begin. If higher interest after tax is achieved through investing pension contributions, the amount will be credited to the pension account when pension payments begin.

#### Investment

Amounts are invested in accordance with the life cycle model defined under the conditions for deferred compensation in the Salzgitter Group ("SZAG model"), while taking into account the securities determined by the Investment Committee for the company pension scheme within the Salzgitter Group. The Supervisory Board may decide on a different mode of investment at its own appropriate discretion (Section 315 German Civil Code [BGB]).

#### Retirement capital

If a Board of Directors member leaves the service of the Company upon or after reaching the retirement age under the statutory retirement pension scheme, the Board member will receive the plan assets on the pension account as a one-off retirement capital amount or, upon application, in ten annual instalments. If a Board of Directors member leaves the service of the Company before reaching the statutory retirement age, the Board of Directors member will receive early retirement capital at the age of 62 at the earliest.

#### Plan assets in the event of invalidity and death

If a Board of Directors member leaves the service of the company due to invalidity or death before reaching the retirement age under the statutory retirement pension scheme, the amount of pension contributions will be added to the plan assets already actually achieved on the pension account to reflect the amount that the Board member would have had if he had continued in the employment of the Company through to the age of 60. A maximum of 10 pension contributions will be added. The plan assets saved during active service plus any allocations will be paid out as a lump sum to the Board member or to the Board member's surviving dependents.

#### Premature termination of the employment contract

If a Board member leaves the service of the Company without pension benefits having fallen due, the Board member will be granted a vested entitlement to the pension account in accordance with the statutory provisions of the Occupational Retirement Provision Act.

#### Changes to or cancellation of the pension commitment

The Company reserves the right to curtail or discontinue payments if the parameters decisive at the time when this pension commitment was introduced, have changed so significantly long term that the Company cannot be reasonably expected to maintain the promised pension contributions and/or benefits, also under appropriate consideration of the interests of the individual entitled. Contributions already paid into the pension account are excepted thereof.

#### Current retirement pension commitments

The retirement pension commitments currently made to the active Board of Directors members do not correspond or not purely to the kind of commitment (defined contribution commitments) provided for under the new remuneration system for Board of Directors members:

In the case of Prof. Dr. Heinz Jörg Fuhrmann, the commitment to pension benefits granted earlier under which a pension will be paid whose amount depends on the length of his service to the Group and will be capped at 60 % of the fixed salary shall continue to apply. In respect of the Board of Directors members Burkhard Becker and Michael Kieckbusch the continuation of the commitments to pension benefits granted at an earlier date have been stopped as of December 31, 2018 and will be supplemented by a defined contribution commitment under the new remuneration system as from January 1, 2019.

### **C. Variable remuneration**

The variable remuneration consists of the annual granting of an annual bonus made up of a short-term and a long-term component and the annual granting of a long-term performance cash award.

Variable remuneration	Performance criteria	Payout
Annual bonus	70 % proportion of EBT in the financial year to EBT previous year	50 % payout after the end of the financial year
	30 % individual performance in the financial year based on pre-defined tasks	50 % conversion into virtual shares; blocking period 3 years as from the end of the financial year; payout upon expiration of the blocking period at the share price valid at that time; max. 150 %
Performance cash award	70 % Ø ROCE in the financial year and in the 3 following years	Payout after the end of the third year after the financial year; max. 200 %
	30 % stakeholder targets for the financial year and the following 3 years	

### a) Annual bonus

The annual bonus depends on the degree to which performance criteria have been fulfilled (performance-based) and will be paid out in cash. A target bonus in the form of monthly salaries is agreed for this purpose in the Board of Directors employment contract so that the target bonus is also adjusted if the basic salary changes.

#### Key performance criteria

Performance criteria consist of earnings before taxes (EBT) as stated in the annual report, which serves as a financial performance criterion, and the individual performance of the Board of Directors member as a non-financial performance criterion. The payment factor for the EBT criterion is weighted at 70 %, and the payout factor for the individual performance criterion at 30 %.

The remuneration is intended to be an incentive for implementing the Company's strategic direction. In the opinion of the Supervisory Board, a key parameter for

measuring the success of the business strategy and the Company's long-term successful development are the earnings before taxes (EBT) achieved for the year. The Supervisory Board has therefore selected the achieving of stable or improved EBT measured against the previous year as the principal performance criterion for granting the annual bonus.

Along with this criterion, the Supervisory Board is of the opinion that non-financial criteria also have a not unimportant effect on the success of the business strategy and the Company's long-term good development. The Supervisory Board has therefore defined additional, annual performance criteria for the granting of the annual bonus. The Board of Directors remuneration system thus also makes a definitive contribution to promoting the business strategy and the long-term development of the company.

#### EBT (financial performance criterion)

The payout factor for EBT is calculated on the basis of an actual/actual comparison. The actual figure of EBT in the respective financial year is compared with the actual figure of EBT in the previous financial year ("previous year"). If EBT remains the same compared with the previous year, the payout factor is 100 % of the target bonus. If EBT is raised by +50 % compared with the previous year, the maximum payout factor of 150 % is achieved ("maximum value"). If EBT is -50 % compared with the previous year, the minimum payout factor of 50 % is applied ("minimum value"). Linear interpolation is applied to targets achieved between the intervals defined for target achievement (50 %; 100 %; 150 %). If the maximum value is achieved, any further increase in EBT does not result in an increase in the payout factor. If the minimum figure is not achieved, the payout factor is 0 %.

If EBT is negative in the previous year as well as in the current financial year, the Supervisory Board is authorized to determine the target achievement at its own appropriate discretion (Section 315 German CivilCode [BGB]). The same applies if EBT of the previous year, or of the current financial year is less than EUR 1 million. If a positive operating EBT is achieved in the previous year and negative EBT in the current financial year, the payout factor is 0 %. How the EBT performance criterion is applied is a topic of the remuneration report for the respective financial year.

#### Individual performance (non-financial performance criterion)

The criteria for assessing a Board of Directors member's individual performance are defined by the Supervisory Board at the beginning of each financial year, within the first three months at the latest or, if the employment of the Board of Directors member commences during the financial year, at the time of recruitment. The following aspects can be taken into account as criteria for the Board member's individual performance and more precisely defined by the Supervisory Board:

- strategic corporate development
- special projects (e.g. efficiency programs, restructuring measures)
- employee matters (e.g., personnel development, employee satisfaction)

- occupational safety and health (e.g. accident frequency, health report)
- environmental issues
- management
- corporate social responsibility.

The Supervisory Board may identify further criteria at its own discretion. The Supervisory Board determines the degree to which individual targets of the individual Board of Directors members and the targets for all Board of Directors members together apply.

The Supervisory Board assesses the performance of a Board of Directors member based on the criteria preassigned. The degree to which targets have been achieved can be determined by the Supervisory Board on a linear basis between 0 % and 150 %. How the individual performance criterion is applied will be reported in the remuneration report for the respective financial year.

#### Calculation of the annual bonus

The annual bonus is calculated based on:

- (1) the payout factor for EBT determined for the respective financial year and weighted at 70%, and
- (2) the degree to which the Board of Directors member has achieved his individual targets in the respective financial year, which is weighted at 30 %, with the sum total of (1) and (2) being multiplied by
- (3) the target bonus.

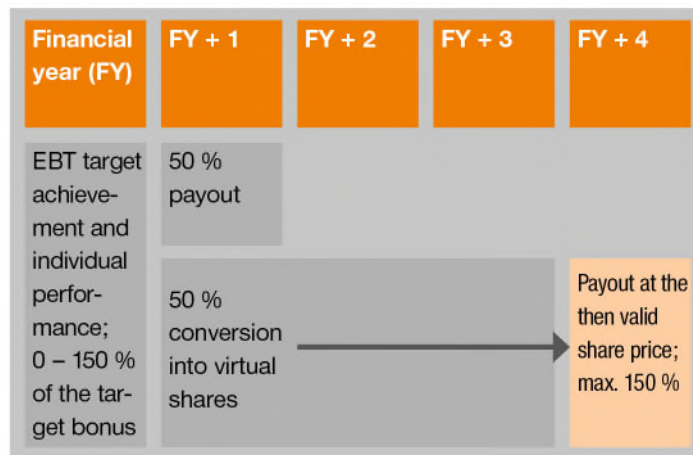
$$\begin{aligned} &[(\text{Payout factor EBT} \times 70 \%) \\ &+ (\text{Degree to which targets have been achieved} - \\ &\quad \text{individual performance} \times 30 \%)] \\ &\times \text{target bonus in EUR} \\ &= \text{annual bonus in EUR} \end{aligned}$$

The annual bonus calculated is capped at 150 % of the target bonus. In the event of exceptional, unforeseeable developments, the Supervisory Board can reduce the annual bonus within the meaning of Section 87 (1) sentence 3 clause 2 of the German Stock Corporation Act (AktG).

#### Payment of the annual bonus

The annual bonus is paid out in cash at 50 % as soon as the Supervisory Board has ascertained the degree to which goals have been achieved after the respective year has ended. The remaining 50 % (initial value) are transferred to a virtual share deferral component, i.e. retained and virtually invested in the shares of Salzgitter AG for three years (share deferral) in order to guarantee share orientation of the variable remuneration.

Annual bonus:



### Share deferral

Transferring part of the variable remuneration to a share deferral component promotes the corporate strategy and the Company's long-term development by incentivizing the Board of Directors members to increase the enterprise value and to directly align the interests of the Members of the Board of Directors with those of the shareholders, as well as enhancing the Company's attractiveness on the capital market. This is one of the prerequisites for the Company's long-term development.

Share deferral is subject to a blocking period of three years (blocking period). The blocking period commences at the end of the respective financial year for which the annual bonus was granted. The number of deferred share units at the start of the blocking period is calculated by dividing the initial value by the starting share price. The starting share price applicable is the arithmetic mean of the XETRA closing price of the Company's share on the Frankfurt Stock Exchange over the last 30 trading days prior to the date on which the blocking period begins.

The payout amount at the end of the blocking period from the share deferral is calculated by multiplying the number of units of the virtual shares with the closing share price, plus the fictitious dividend payouts that fall due during the blocking period. The closing share price applicable is the arithmetic mean of the XETRA closing price of the Company's share on the Frankfurt Stock Exchange over the last 30 trading days prior to the date on which the blocking period ends.

$$\begin{aligned}
 & [(Payout\ factor\ EBT \times 70\ \%) \\
 & + (Degree\ to\ which\ stakeholder\ targets\ have\ been \\
 & \quad achieved \times 30\ \%)] \\
 & \times target\ amount\ in\ EUR \\
 & = payout\ amount\ in\ EUR
 \end{aligned}$$

The payout amount resulting from the share deferral is capped at 150 % of the initial value.

#### Adjustments

If an unusual event or an unusual development results in a Board of Directors member receiving a higher or lower payout amount from the annual bonus compared with the amount that he would have been entitled to if this event or development had not occurred, without this being attributable to the performance of the respective Board of Directors member, the Supervisory Board is authorized to lower or raise the payout amount.

#### Rules on a Board of Directors member's joining and leaving the company

If a Board of Directors member's employment contract begins or ends during a financial year, the annual bonus will be reduced on a pro rata temporis basis. Share deferrals whose blocking period has not yet expired when the employment contract ends will be calculated and paid out only after the end of the blocking period in accordance with the general rules and regulations.

If the Board of Directors member's employment contract is terminated over the course of the financial year by way of extraordinary termination by the Company for an important reason within the meaning of Section 626 (1) German CivilCode, or prematurely terminated at the behest of the Board of Directors member without the Company having established an important reason within the meaning of Section 626 (1) German CivilCode for such premature termination and without a change of control, as laid down in the Board of Directors member's employment contract (see Section G), the entitlement to the annual bonus as well as all entitlements from current share deferrals whose blocking periods had not yet expired at the time when notice of termination was given shall lapse with no entitlement to substitution or compensation.

If a Board of Directors member's employment contract ends prematurely due to his death or to permanent invalidity as laid down in the Board of Directors member's employment agreement, the annual bonus for the respective financial year will be calculated on a pro rata temporis basis. In this case, achieving overall targets will be assumed at 100% for the calculation of the annual bonus, and the resulting annual bonus will be paid out in full within two months after the employment contract ends. Furthermore, all share deferrals whose blocking period had not yet expired on the date when the employment contract ends will be paid out within two months after the employment contract ends. The payout amount corresponds to the accumulated number of virtual shares of the outstanding share deferrals multiplied by the arithmetic mean of the XETRA closing price of the Company's share on the Frankfurt Stock Exchange over a period of the last 30 trading days prior to the date



when the employment contract prematurely ends, plus the fictitious dividend payments on the virtual shares due and payable during the respective blocking periods up until the time of the premature termination.

## **b) Performance cash award**

The performance cash award is similarly dependent on the fulfillment of the performance criteria (performance based) and will be paid out in cash. It is granted per year (tranche). Each tranche has a term of four full financial years (performance period). Each performance period commences with the start of each respective financial year in which the tranche is granted (the respective grant year) and ends upon expiration of the fourth full financial year.

A target amount in the form of a number of monthly salaries is agreed in the Board of Directors member's employment contract. This enables the Supervisory Board to take the different requirements placed on the individual Board of Directors functions into account. Moreover, this also results in the target amount being adjusted if the basic salary was to change.

### Key performance criteria

The key performance criteria consist of the return on capital employed ("ROCE") at Group level in the performance period ("ROCE target") – financial performance target – and the achieving of stakeholder goals – non-financial performance targets. Achieving the ROCE target is weighted at 70 %, and that of the stakeholder targets at 30 %.

Remuneration should be designed to include an incentive to implement the Company's strategic direction. One of the Group's key control parameters for the success of the business strategy and its long-term successful development is the achieving of return on capital employed (ROCE) that can be considered an indicator of whether and to what extent investments are eligible for implementation to promote sustainable growth. For this reason, the Supervisory Board has selected the achieving of the planned ROCE in the performance period as the principal performance criterion for the performance cash award.

Along with this criterion, the Supervisory Board is of the opinion that non-financial criteria also have a not unimportant effect on the success of the business strategy and the Company's long-term good development. In respect of granting the performance cash award, the Supervisory Board therefore additionally determines stakeholder goals per year. In this way, the Board of Directors remuneration system makes a substantial contribution to promoting the business strategy and the long-term development of the Company. From the standpoint of the Supervisory Board, the remuneration system is above all also well suited taking into account the interests of all stakeholders.

Performance cash award:

Financial year (FY)	FY + 1	FY + 2	FY + 3	FY + 4
Target achievement ROCE and stakeholder targets 0 – 200 % of the target amount				Payout

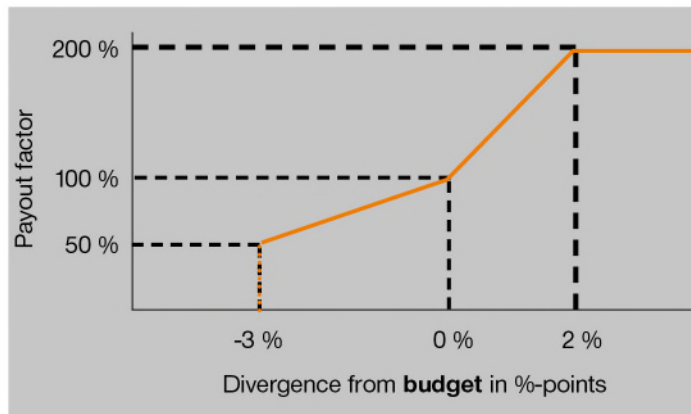
### ROCE (financial performance criterion)

ROCE comprises the return generated from the Group's business [EBIT (= EBT + interest expense excluding the interest portion of allocations to pension provisions) in relation to the total of shareholders' equity (without calculation of accrued and deferred taxes), tax provisions, interest-bearing liabilities (excluding pension provisions) and liabilities from financial leasing, forfeiting and asset-backed securitization]. The extent to which the Company deployed its committed capital efficiently and profitably is measured.

In order to establish the degree to which ROCE has been achieved, the ROCE actually achieved is compared with budgeted ROCE. Therefore at the end of the performance period the average of the ROCE figures achieved annually at the end of the respective financial years during the performance period is determined; in the next step, the average of the budgeted ROCE figures of the respective financial years is deducted in order to ascertain the divergence between the budgeted and the actual figures, expressed in percentage points ( $\emptyset$  [actual figures] –  $\emptyset$  [budgeted figures]).

Factoring in the general development of business and the economic outlook of Salzgitter AG, the Supervisory Board determines a figure for the divergence between the average ROCE achieved and the budgeted ROCE expressed in percentage points for each new tranche issued – this figure leads to a payout factor of 100 % of the target amount agreed in the Board of Directors member's employment contract (target figure) – along with figures for a payout factor of 50 % (minimum figure) and of 200 % (maximum figure). Linear interpolation is applied to targets achieved between the intervals defined for target achievement (50 %; 100 %; 200 %). If the minimum figure is not reached, the payout factor is 0 %. If the maximum figure is achieved, any further increases in average ROCE does not increase the payout factor.

Example: If the target figure for the divergence of the average ROCE achieved from the average budgeted ROCE is set at 0 %, with minimum set at -3 % and a maximum figure of 2 %, the payout factor increases per percentage point of the higher average ROCE achieved compared with the average budgeted ROCE starting from 100 % by 50 percentage points. The payout factor declines per percentage point of ROCE achieved that is lower than the average budgeted ROCE starting from 100 % by 16.67 percentage points. This example results in the following payout curve:



How the ROCE performance criterion is applied is a topic of the remuneration report for the respective financial year.

#### Stakeholder goals (non-financial performance criterion)

In addition to the financial performance target, Salzgitter AG's Supervisory Board sets stakeholder targets when each tranche is granted, or in the first three months of the grant year at the latest respectively – if the Board of Directors member's employment contract begins during the financial year – upon recruitment. The Supervisory Board can take into account the following stakeholder targets in the process and define them in more detail:

- strategic corporate development
- special projects (e.g. efficiency programs, restructuring measures)
- employee matters (e.g., personnel development, employee satisfaction)
- occupational safety and health (e.g. accident frequency, health report)
- environmental issues
- management
- corporate social responsibility.

The Supervisory Board can define other criteria at its discretion in addition to the aforementioned stakeholder goals. The assessment of a Board of Directors member's performance is based on the stakeholder targets defined at a prior date by the Supervisory Board. The degree to which targets have been achieved in the respective performance period is ascertained by the Supervisory Board after the respective performance period has ended and maybe determined by the Supervisory Board on a linear basis of between 0 % and 200 %. How the stakeholder targets are applied is a topic of the remuneration report for the respective financial year.

#### Calculation and payout of the performance cash award

The payout amount is calculated based on:

- (1) the payout factor for the ROCE target determined at the end of the performance period and weighted at 70%, and

- (2) the degree to which the stakeholder targets have been achieved, determined at the end of the performance period and weighted at 30 %, with the sum total of (1) and (2) being multiplied by
- (3) the target amount in euros defined in the Board of Directors member's employment contract.

[(Payout factor ROCE-target × 70 %)  
+ (Degree to which stakeholder targets have been achieved × 30 %)]  
× target amount in EUR  
= payout amount in EUR

The payout amount thus calculated is capped at 200 % of the target amount determined in the Board of Directors member's employment contract.

### Adjustments

If an unusual event or an unusual development results in a Board of Directors member receiving a higher or lower payout amount compared with the amount that he would have been entitled to if this event or development had not occurred, without this being attributable to the performance of the respective Board of Directors member, the Supervisory Board can lower or raise the payout amount.

### Rules on a Board of Directors member's joining and leaving the company

If a Board of Directors member's employment agreement starts to run over the course of a financial year, he will be awarded a pro rata temporis tranche under the Performance Cash Plan for this financial year. To this end, the target value applicable to the tranche will be reduced on a pro rata temporis basis.

If a Board of Directors member's employment contract ends before the expiration of the performance period, or if the Supervisory Board rescinds the appointment of the Board of Directors member before the expiration of the performance period, the payout amounts outstanding on this date – subject to invalidity in accordance with the following section – are to be determined in accordance with the general regulations of the Performance Cash Plan; payout amounts are not calculated and paid out prematurely. The tranche for the grant year in which the Board of Directors member's employment contract ends or the appointment to the Board of Directors is rescinded will be reduced on a pro rata temporis basis. The tranche will be reduced on a pro rata temporis basis for this purpose.

If a Board of Directors member's employment contract is terminated before the performance period expires by way of extraordinary termination by the Company for an important reason within the meaning of Section 626 (1) German Civil Code, or prematurely terminated at the behest of the Board of Directors member without the

Company having established an important reason within the meaning of Section 626 (1) German Civil Code for such premature termination and without a change of control, as laid down in the Board of Directors member's employment contract (see Section G), all tranches whose performance period had not yet ended at the time when premature notice of termination was given shall lapse with no entitlement to substitution or compensation.

If a Board of Directors member's employment contract ends prematurely due to his death or permanent invalidity as laid down in the Board of Directors member's employment contract, all tranches whose performance period had not yet ended at the time of the premature termination will be paid out within two months as from the end of the employment contract. The payout amounts correspond to the accumulated target figures, with the tranche of the grant year in which the Board of Directors member's employment contract ends being reduced on a pro rata temporis basis.

#### Mitigation and clawback regulation

In the event of exceptional developments that are not foreseeable, the Supervisory Board can reduce the payout of the performance cash award within the meaning of Section 87 (1) sentence 3 clause 2 of the German Stock Corporation Act (AktG).

The Supervisory Board is authorized to reduce the payout amount of the performance cash plan which results from the achieving of targets in part or in full to zero if during the respectively performance period the Board of Directors member gross negligently or intentionally fails to to comply with:

- a material duty of care within the meaning of Section 93 of the German Stock Corporation Act,
- a material provision under the Code of Conduct of Salzgitter AG, or
- any other material duty under terms of his service contract.

In its decision, the Supervisory Board must take into account of the severity of non-compliance as well as the disadvantages accruing to the Company therefrom. If, at the time the decision is made to reduce the payout amount, the payout amount has already been disbursed because the Supervisory Board gained knowledge of the Board of Directors member's non-compliance only after the performance period expired, the Board of Directors member must repay the excess amounts in accordance with the decision on the reduction. Moreover, the Company is entitled in this case to offset the amount against other claims of the Board of Directors member to remuneration. Insofar, the plea of impoverishment within the meaning of Section 818 (3) of the German Civil Code (BGB) is excluded.

#### **D. The respectively relative proportion of all fixed and variable remuneration components in the overall remuneration**

The relative proportions of the individual remuneration components in the overall remuneration of an ordinary member of the Board of Directors in terms of its target

structure with a purely contribution-oriented pension commitment in accordance with the remuneration system (rated with the amount of contribution) roughly correspond to the following figures:

	<b>For target remuneration</b>
<b>Fixed remuneration</b>	<b>53 %</b>
Basic salary	40 %
Supplementary benefits	2 %
Pension commitment	11 %
<b>Variable remuneration</b>	<b>47 %</b>
Annual bonus – cash	17 %
Annual bonus – share deferral	17 %
Performance cash award	13 %
<b>Total remuneration</b>	<b>100 %</b>

The relative proportions of the individual remuneration components in the overall remuneration of an ordinary member of the Board of Directors under the current structure with an until 2018 pension-payment-oriented and from 2019 on contribution-oriented pension commitment (both evaluated with costs in the period of service based on IAS 19) in accordance with the remuneration system roughly correspond to the following figures:

	<b>For target remuneration</b>
<b>Fixed remuneration</b>	<b>59 %</b>
Basic salary	35,5 %
Supplementary benefits	2 %
Pension commitment	21,5 %
<b>Variable remuneration</b>	<b>41 %</b>
Annual bonus – cash	14,5 %
Annual bonus – share deferral	14,5 %
Performance cash award	12 %
<b>Total remuneration</b>	<b>100 %</b>

The long-term variable remuneration amounts are granted on a share basis at around 56 % for target-based remuneration.

The proportion of long-term to short-term variable remuneration is around 64 % to 36 % for target-based remuneration.

#### **E. Maximum remuneration of Board of Directors members**

The maximum remuneration of Board of Directors members for a financial year can be achieved based on the remuneration system described in the sections A. to C. if, along with payment of the basic salary, the granting of supplementary benefits and the granting of a pension commitment, with regard to the components of the variable remuneration, the following circumstances also apply in relation to the financial year:

- achieving of the maximum payout factor for attaining the annual bonus, i.e. 150 % achievement of the EBT target and 150 % achieving of the goals set by the Supervisory Board for individual performance
- increase of 50 % in the Company's share price over the three-year blocking period of the share deferral following on from the financial year
- achieving of the maximum payout factor for attaining the performance cash award, i.e. achieving the ROCE target at 200 % in the four-year performance period and 200 % achievement of the stakeholder targets set by the Supervisory Board in the four-year performance period.

In the event of all these preconditions occurring, and taking into account the appropriate adjustments to the basic salary in the context of general wage and salary trends in the period under review of the next four years, as well as the valuation-related fluctuation range of the costs in the period of service for the pension commitment, the maximum remuneration amounts to € 2,900,000 for the ordinary members of the Board of Directors and to € 5,100,000 for the Chair of the Board of Directors.

#### **F. Consideration of the conditions of remuneration and employment of employees in the Salzgitter Group and customary practice on the market**

##### Vertical internal comparison

For the purpose of considering the remuneration and employment conditions of employees within the Salzgitter Group in determining the system laid out here for remunerating Board of Directors members, the Supervisory Board – as in the past when reviewing and, if appropriate, redefining the amount of the individual remuneration components in the context of earlier remuneration systems – draws a comparison with the remuneration of senior management and the workforce in the Group in Germany. The current amount of remuneration as well as the amount of remuneration as it developed over the course of the last five years were compared. The Supervisory Board defined the group of senior management as being the group of managing directors of larger Group companies, on the one hand, and the group of managing directors of the smaller Group companies, on the other. With regard to the workforce, a differentiation was made between employees covered by collective wage agreements and those outside collective wage agreements. In view of the different qualifications, tasks, performance requirements and responsibilities, as well as the employment conditions for Board of Directors members, on the one hand, and for the

groups of employees included, on the other, the Supervisory Board considered the difference in remuneration to be appropriate.

#### Horizontal external comparison

The Supervisory Board has taken care to ensure that the overall remuneration of the Company's Board of Directors members has been set at a level customary in the market in terms of its structure and amount and is competitive at the same time. In order to assess conformity with the market, within the scope of drawing up a concept for the remuneration system, the Supervisory Board in 2017, with the support of an independent external consultant, used the remuneration data – to the extent available – of the companies represented in Germany's mid-cap share index (MDAX) on Deutsche Börse AG to which the Salzgitter AG belonged at that point in time. The index comprises medium-sized listed companies of similar market capitalization and share turnover dimensions. Taking into account the relevant corporate data, such as revenue, employee numbers, internationality and sector, the Supervisory Board arrived at the conclusion that the components of the remuneration system and their amounts conform to the market.

#### **G. The term of Board of Directors members' employment contracts and commitments in connection with the termination of service on the Board of Directors (remuneration-related transactions)**

Board of Directors members' employment contracts have a maximum term of five years. The initial appointments of Board of Directors members are generally made for a maximum of three years. The employment contracts do not provide for an option of regular termination; the mutual right to terminate the contract without notice for an important reason remains unaffected.

Should Board of Directors service be terminated without an important reason, the Board of Directors members are entitled to the remuneration agreed until expiration of the contract. However, this entitlement is restricted to the amount of two years' remuneration (basic salary, supplementary benefits, pension commitment and variable target remuneration). In the event of premature termination of Board of Directors member service due to a change of control, the Board of Directors members are entitled to severance payment in the amount of the overall remuneration for the remaining term of their contract of employment. This settlement, however, is capped at the value of three years of remuneration.

A change of control within the meaning of this regulation occurs in particular, but not exclusively, if a shareholder or several shareholders of the Company acting jointly, or a third party

- have gained control in accordance with Section 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG)
- have gained control of the company due to a takeover offer, in accordance with Section 29 (2) of the German Securities Acquisition and Takeover Act (WpÜG)
- advise that they have achieved or exceeded 50 % or 75 % of the voting rights in the Company, or



- conclude an inter-company agreement with the Company as a dependent company within the meaning of Section 291 of the German Stock Corporation Act (AktG), and this results in a significant change in the position of the Board of Directors member,
- or if
- the Company is merged with another company or the Company is incorporated, and this results in a significant change in the position of the Board of Directors member.

The special provisions of the German Co-Determination Amendment Act applicable to the Company for the composition of the Supervisory Board and its competences shall remain unaffected.

#### **H. Procedure for determining and implementing as well as reviewing the remuneration system**

The Supervisory Board's Presiding Committee designed the structure of this Board of Directors remuneration system in 2017 at a series of meetings with the support of an external consultant. Subsequently, following consultations with representatives of the employees and of the shareholders serving on the Supervisory Board, the system was discussed in great detail by the full Supervisory Board in the absence of the Board of Directors. Further suggestions arising from the discussion having been incorporated into it, the finally developed system was at the end approved by the Supervisory Board in its meeting on March 15, 2018.

In the next step, the system was largely implemented through amending the Board of Directors members' employment contracts with respect to all Board of Directors members, and took effect as of January 1, 2019. Individual arrangements were made with regard to the existing pension commitments (see Section B. c.)).

The Supervisory Board intends to review the Board of Directors remuneration system with regard to its structure from time to time, especially when new Board of Directors members' employment contracts are concluded, and in an event-driven manner. If there are material changes to the system, and at least every four years, the Supervisory Board will present the remuneration system to the Shareholders' Meeting for its approval. In a parallel process, it regularly reviews the amount of the individual components of the remuneration system to ascertain whether adjustments are necessary. In the process, the Supervisory Board in particular compares the components' suitability in a horizontal-external and a vertical-internal comparison and, if necessary, adjusts them.

Conflicts of interest are avoided by excluding Supervisory Board members who cannot be classified as independent within the meaning of the German Corporate Governance Code from taking part in the consultations and the process of adopting resolutions on the Board of Directors remuneration. In the Declaration to the Corporate Governance that is submitted once a year, a report is made on which shareholder representatives on the Supervisory Board are considered to be independent by the Supervisory Board.

## **I. Temporary divergence from the remuneration system**

If it is necessary in the interest of the Company's long-term well-being, the Supervisory Board may temporarily diverge from the remuneration system presented to the Shareholders' Meeting. Whether this is the case and the extent of a divergence of this kind is determined by the Supervisory Board upon resolutions once a preliminary review has been made and on the recommendation of its Presiding Committee following consultation. The components of the remuneration system eligible for such divergence consist of the performance criteria for the annual bonus and the performance cash award, the proportion of the individual elements of the remuneration, the maximum remuneration and the temporary expenses for exceptional supplementary benefits. In addition, the Supervisory Board has the option of granting members newly appointed to the Board of Directors special payments in compensation for loss of salary from a previous employment arrangement or to cover costs incurred by relocation. If such an event is deemed to have occurred, the Supervisory Board will then present the Board of Directors remuneration system to the next Shareholders' Meeting for fresh approval.