klöckner & co

Supplementary information on agenda item 6

Remuneration system for the members of the Management Board

Klöckner & Co SE is one of the largest producer-independent distributors of steel and metal products and one of the world's leading steel service center companies. We have set ourselves the goal of transforming Klöckner & Co into an industry pioneer by serving our customers with maximum efficiency and exceptional standards of quality on the basis of a largely automated supply and value chain in the future. Leveraging our years of experience in digital transformation and the development of innovative technical solutions, we continuously adapt our product and service portfolio to match customer needs. We are also expanding our portfolio and market reach in cooperation with partners in order to develop Klöckner & Co into the leading platform company in the steel and metals sector. This ambitious goal requires dedicated, strategic and long-term leadership by the Management Board.

The Supervisory Board is proposing to the Annual General Meeting a new system for the remuneration of the members of the Management Board (remuneration system) that contributes significantly towards advancing this goal and complies with the new statutory requirements and the recommendations of the German Corporate Governance Code as most recently amended on December 16, 2019 and published on March 20, 2020 (GCGC).

1. Principles of the remuneration system: Promotion of the corporate strategy and the Company's long-term development

The new remuneration system at Klöckner & Co SE, like the previous system from which it has been developed, is geared to promoting the corporate strategy and the Company's long-term development. In designing the remuneration system, the Supervisory Board attached importance as before to a simple and clear incentive structure. Outstanding performance should be suitably rewarded; failure to meet targets should result in a noticeable reduction in remuneration. Disproportionate fluctuations in Management Board remuneration are prevented by appropriately weighting fixed and variable remuneration components and by setting maximum amounts.

The new remuneration system is designed to minimize the risk of misaligned incentives, both from outside and from within the Company, by requiring Management Board members to make a substantial long-term personal investment. In particular, it aims to prevent Management Board decision-making that is calculated in the short-term to maximize remuneration but is not conducive to the sustainable success of the business. By extending the mandatory term of Management Board members' personal investment to at least four years, the new remuneration system strengthens the incentive for a long-term development of the Company.

For the annual bonus, clearly measurable targets will be set that are core components of Klöckner & Co SE's growth and value strategy. At the same time, the Management Board is also given non-financial targets which serve the Company's strategic and sustainable orientation.

The long-term personal investment by each Management Board member in Klöckner & Co SE shares is closely tied to the annual bonus, as the investment is made directly from the annual bonus amount. This results in a coherent incentive structure that combines short-term and long-term elements.

At the same time, Management Board remuneration shall be in line with the market and be competitive so that the Company is able to attract capable executive talents. Within specified bounds, the remuneration system is therefore also intended to give the Supervisory Board the latitude to respond flexibly to the Company's changing financial situation and to changes in the market and competitive environment. The incentives are intended to be structured in a clear and comprehensible manner, both for shareholders and for the members of the Management Board themselves. Overall, the intention is to create plausible and sustainable incentives for dedicated and successful management in a dynamic business environment.

The remuneration system as a whole takes into account the challenging task faced by the members of the Management Board to systematically implement the corporate strategy.

This new and balanced remuneration system is intended to be in force for several years, and, during this time, to help to sustainably increase the value of Klöckner & Co SE.

2. Process for determination, implementation and review of the remuneration system

By law, the responsibility for resolving, implementing and reviewing the remuneration system for the members of the Management Board lies with the Supervisory Board. The Supervisory Board determines the remuneration for the individual members of the Management Board in accordance with the remuneration system submitted to the Annual General Meeting for its approval. Preparation of the related Supervisory Board resolutions is the responsibility of the Supervisory Board's Presidium.

The Supervisory Board consulted intensively on the new remuneration system in several meetings after the Presidium had already dealt with the preparation of the remuneration system and possible alternatives in meetings from March 2020 onwards. In the development and determination of the new remuneration system, the Supervisory Board also took into account the remuneration and employment terms of the workforce of Klöckner & Co SE and its affiliated companies and expressly included employee-related targets in the non-financial targets. The Supervisory Board additionally conducts vertical benchmarking in order to gauge the appropriateness of Management Board remuneration. The Supervisory Board adopted a framework of the remuneration system following in-depth consultation at its meeting on December 14, 2020 and finally adopted it in the form presented herein at its meeting on February 25, 2021.

The Annual General Meeting votes to approve the remuneration system submitted by the Supervisory Board; the Annual General Meeting is also required to take a vote on the remuneration system for the members of the Management Board at every material change and in any case at least every four years (Section 120a (1) German Stock Corporation Act (AktG)). If the Annual General Meeting does not approve the remuneration system, the Supervisory Board must submit a reviewed remuneration system for resolution at the next Annual General Meeting at the latest (Section 120a (3) AktG). In addition, at the request of shareholders whose combined shareholdings amount to 5% of the share capital or the pro rata amount of EUR 500,000, the Annual General Meeting may reduce the specified maximum remuneration (Section 87 (4) AktG in conjunction with Section 122 (2) sentence 1 AktG).

The Supervisory Board will implement the requirements of the new remuneration system in individual contracts with the members of the Management Board upon all new appointments and reappointments. Existing contracts remain unaffected.

The Supervisory Board sets the targets for variable remuneration for each Management Board member for the forthcoming fiscal year. After the end of a fiscal year, the Supervisory Board will, in close chronological proximity to adoption of the annual financial statements, determine target achievement on the basis of a proposal by the Presidium and set the specific Management Board remuneration for each Management Board member. Target achievement will be documented and thereby will be comprehensible in terms of both basis and amount. The Management Board and the Supervisory Board of Klöckner & Co SE also prepare an annual report on remuneration granted and owed to each individual current or former member of the Management Board in the prior fiscal year, which is audited by the auditor and submitted to the Annual General Meeting of the Company for approval (remuneration report, Section 162 AktG).

The Presidium will continue to regularly review the appropriateness and structure of the remuneration system even after the Annual General Meeting has adopted a resolution approving the remuneration system and will discuss this in advance of the annual target-setting process. Where necessary, the Presidium will submit proposals for modifications to the Supervisory Board, on which the Supervisory Board may then proceed to pass a resolution.

In the opinion of the Supervisory Board, there are currently no conflicts of interest to which individual members of the Supervisory Board would be exposed in connection with the remuneration system and Management Board remuneration. Should a conflict of interest involving a Supervisory Board member ever arise, such member will abstain from any consultations and resolutions on Management Board remuneration.

3. Structure of the new remuneration system, remuneration components and relative share of remuneration

Remuneration for Management Board members consists of non-performance-related (fixed) and performance-related (variable) components.

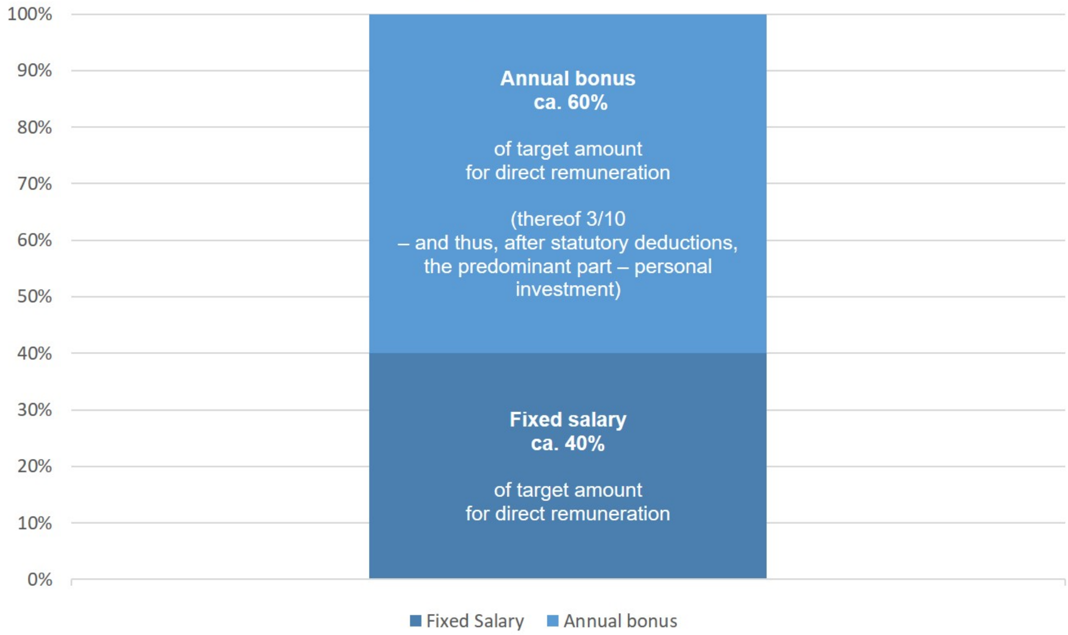
- The **non-performance-related remuneration** comprises a basic salary (fixed salary), an amount to be used for private retirement provision and ancillary benefits (specifically, insurance premiums and a company car).
- The **performance-related remuneration** consists of a variable annual bonus, the majority of which after statutory tax and social insurance deductions is to be used by the members of the Management Board to purchase shares in the Company (personal investment component), with the excess remaining at their free disposal (cash component).

The Supervisory Board sets a target amount for direct remuneration (target direct remuneration) for each member of the Management Board. This comprises the fixed salary plus the target amount for the annual bonus assuming 100% target achievement (target bonus).

Under the new remuneration system, the target amount for the annual bonus accounts for approximately 60% of the target amount for direct remuneration, with – assuming a 50% tax and social insurance burden – the long-term variable remuneration in the form of the personal investment component accounting for approximately 36% and the short-term variable remuneration in the form of the cash component accounting for approximately 24% of the target amount for direct remuneration. The personal investment component may increase or decrease relative to the cash component depending on the individual tax and social insurance burden but should always exceed the net amount of the cash component after statutory tax and social insurance deductions. This is ensured by requiring Management Board members to purchase shares in the Company for a sufficiently large amount equivalent to 30% of their gross annual bonus. The weighting of the personal investment component aligns the remuneration structure as a whole with sustainable development and long-term growth in the value of the company.

The chart below shows the percentage shares of the fixed salary and target amount for the annual bonus in the total target amount for direct remuneration.

Figure 1:
Structure of target amount for direct remuneration



<u>Note</u>: The relative proportion of the remuneration components within direct remuneration effectively granted will generally differ from the proportion of the target amount for direct remuneration shown here because variable remuneration varies in amount, and hence also its proportion, depending on the target achievement level. However, irrespective of the specific variable remuneration amount, the personal investment component always accounts for 30% (3/10) of the gross annual bonus, so that at a 50% tax and social insurance burden, 60% of the net annual bonus to be paid must always be converted into long-term variable remuneration in the form of the personal investment component. The amount of the annual bonus effectively granted and the remaining remuneration components are subsequently published in the Company's annual Remuneration Report.

An additional remuneration component is the contribution to retirement provision, which is to be granted in the amount of 20% to 40% of the fixed salary. Management Board members are granted ancillary benefits in a maximum amount of 10% of the fixed salary. In total, retirement provision and ancillary benefits are thus limited to a maximum of 50% of the fixed salary or 20% of the target amount for direct remuneration.

The target amount for direct remuneration (comprising the fixed salary and target bonus), the contribution to retirement provision and the ancillary benefits normally comprise all remuneration components and hence the **target total remuneration**.[1]

Based on the above percentages proportion and assuming a contribution to retirement provision of 30% of fixed salary and ancillary benefits at the maximum of 10% of fixed salary, the following rounded figures result for the remuneration components as proportion of the target total remuneration: Fixed salary 35%, retirement provision 10%, ancillary benefits 3% and target bonus in total 52%, with – assuming a 50% tax and social insurance burden – the long-term variable remuneration in the form of the personal investment component accounting for 6/10 of the target amount for the annual bonus (equating to 31% of the target total remuneration) and the short-term variable remuneration in the form of the cash component accounting for 4/10 of target amount for the annual bonus the target amount for the bonus (equating to 21% of the target total remuneration). The personal investment component and the cash component may increase or decrease relative to each other depending on the individual tax and social insurance burden.

This remuneration structure applies uniformly to all Management Board positions. In keeping with the principle of collective Management Board responsibility, the targets for Management Board members will generally be set on a uniform basis. The Supervisory Board reserves the right to set individual targets for specific Management Board members if it deems a differential incentive structure among the members of the Management Board to become necessary.

4. Non-performance-related remuneration components

The non-performance-related remuneration consists of the fixed salary, the retirement provision and the ancillary benefits.

- The **fixed salary** is paid in twelve equal monthly installments at the end of each month net of statutory tax and social insurance deductions. If a member of the Management Board is appointed or leaves during a fiscal year, the fixed salary is granted pro rata temporis.
- For **retirement provision**, each member of the Management Board receives an annual amount not exceeding 40% of the applicable fixed salary (gross), paid in twelve equal monthly installments at the end of each month in compliance with tax and social insurance provisions. Should a member of the Management Board wish instead to receive retirement provision in the same amount in the form of a payment

[1] For possible deviations, see heading 8; for potential additional benefits on commencement of a Management Board position, see heading 11.

by the Company into a reinsured pension/provident fund, the Company may accommodate this by making such a payment, if desired, also in advance at the beginning of the year.

- The contractual **ancillary benefits** primarily include customary additional benefits such as insurance premiums (such as occupational and non-occupational accident insurance, liability insurance, industrial criminal law insurance and general legal expenses insurance) as well as the provision of communication devices and a company car for business and private use (in the case of the CEO potentially including driver). Ancillary benefits can vary in value from year to year due to person and occasion related issues but are limited to a maximum of 10% of the fixed salary. The ancillary benefits and hence the 10% limit do not apply to the reimbursement of expenses to which Management Board members are entitled by law or to inclusion in D&O insurance in the interests of the Company, although Management Board members must bear the deductible required under the German Stock Corporation Act.

5. Performance-related remuneration components

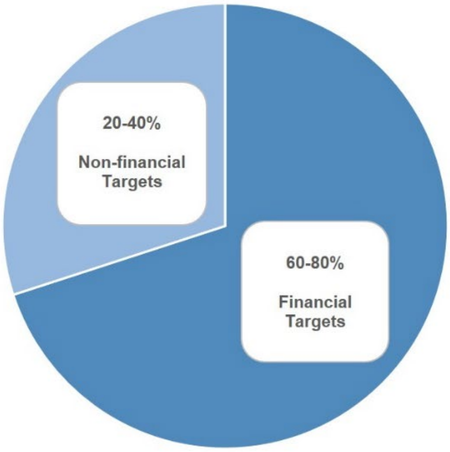
Overview

In addition to the non-performance-related remuneration components, all Management Board members receive performance-related variable remuneration in the form of a bonus, the amount of which initially depends on the degree to which certain targets are achieved in a fiscal year. This annual bonus incentivizes the members of the Management Board both to achieve key annual budgeting targets – which are derived in turn from long-term strategic planning – and to pursue targets whose achievement does not have a direct financial impact but is of great importance for the strategic and sustainable development of Klöckner & Co.

The basis for determining the amount of the annual bonus is its target amount (target bonus). This is the annual bonus to which a member of the Management Board is entitled under the respective service contract at 100% achievement of the specified annual targets. According to the degree of over- or underachievement of the specified annual targets, the annual bonus increases or decreases on a target achievement curve determined by the targets set. If annual targets are exceeded, the annual bonus may therefore exceed the target bonus (cap). It is capped, however, at 200% of the target bonus. If a member of the Management Board is appointed or leaves during a fiscal year, the annual bonus is paid pro rata temporis.

The annual bonus is calculated for each fiscal year and depends on the degree of target achievement both of financial and of non-financial targets. The chart below shows the structure of the annual bonus:

Figure 2: Structure of annual bonus



Earned annual bonus is not paid out in full. Instead, Management Board members must invest a flat 30% of their gross annual bonus in shares in the Company. Assuming a 50% tax and social insurance burden, 60% of the annual net bonus is consequently converted into a personal investment component and thus into long-term variable remuneration.

Financial targets

In order to specify the financial targets, the Supervisory Board sets the targets for financial key performance indicators and their respective weighting for calculation of the bonus amount. They are weighted relative to the non-financial targets in such a way that the financial targets account for 60% to 80% of the target bonus at 100% achievement of all financial and non-financial targets.

As financial targets, the Supervisory Board sets targets for the following financial key performance indicators at the level of the Group as a whole:

- Earnings before interest, taxes, depreciation and amortization and impairments (**EBITDA**), adjusted for any material special effects, as the case may be. EBITDA is the most important key performance indicator for the Group's results of operations and is fundamental to management processes and decision-making at the strategic and operational level.
- Operating cash flow (**OCF**). Cash flow from operating activities likewise represents an objective basis for measuring the performance of the business activities and is a key performance indicator for the Group's orientation.

In place of or in addition to EBITDA and OCF, the Supervisory Board may specify financial indicators out of the following list if it is convinced that they are more suitable as performance indicators for the development of Klöckner & Co: EBIT (earnings before interest and taxes), net cash flow (operating cash flow less cash flow from investing activities and less repayments of lease liabilities), net financial debt (financial liabilities plus transaction costs less cash and cash equivalents), ROCE (return on capital employed, measured as EBIT over average capital employed), ROE (return on equity, measured as EBIT over equity) and relative capital market performance (the capital market performance of Klöckner & Co shares relative to an index). When deciding on the determination and weighting of the key performance indicators, the Supervisory Board gives due regard to ensuring a continuously effective incentive structure.

Non-financial targets
The Supervisory Board sets the non-financial targets each year by specifying between three and six performance indicators from the list of strategy and sustainability targets shown in Figure 3, which are of importance to the strategic and sustainable development of the Company, including its corporate social responsibility (CSR). As with the financial targets, the Supervisory Board also lodges measurable criteria to the non-financial targets so that a precise degree of target achievement can be determined after the end of a fiscal year. They are weighted relative to the financial targets in such a way that the non-financial targets account for between 20% and 40% of the target bonus at 100% achievement of all financial and non-financial targets.

Figure 3: Non-financial Targets

Implementation of Corporate Strategy	Sustainability
• Business development • Market access and exploitation • Transformation- and Digitalization targets • Optimization/Efficiency improvement • Leadership capabilities and strategic priorities • Corporate structure and organisation • Strategic projects	• Compliance and Risk management • Customer satisfaction • Employee-related targets (including health and satisfaction) • Diversity • Innovation • Succession Planning • Reporting and communication • Limitation of CO_2-emissions and sustainable use of ressources

Determination and review of the financial and non-financial targets
The combination of financial and non-financial targets for the annual bonus provides the incentive for implementation of a fully integrated long-term Group strategy at Klöckner & Co SE.

Before the beginning of each fiscal year, the specific requirements and target figures for the financial and non-financial targets for the fiscal year are set by the Supervisory Board in its duty bound discretion; they are basically set uniformly for the entire Management Board. The Supervisory Board will base the targets on the annual budgeting and ensure that targets are ambitious but remain achievable for the Management Board and hence retain their incentivization effect.

After the end of the fiscal year, based on the actual figures derived primarily from the audited consolidated financial statements, the Supervisory Board assesses to what extent each target has been met, exceeded or missed, and calculates the specific degree of target achievement. The share of the target bonus accounted for by a target multiplied by the degree of target achievement gives the share achieved for each target. The sum total of all such amounts gives the total bonus earned, which is capped, however, at 200% of the target bonus.

If the targets set for a given fiscal year are not met at all, the bonus may be omitted.

The table below shows **by way of example** how the financial and non-financial performance criteria may be set and weighted and how the actual bonus amount for a member of the Management Board is determined annually on this basis:

	Percentage of target bonus in %	**Degree of target achievement in % (fictional numbers)**	**Share achieved in %**
Financial performance criteria			
EBITDA after IFRS 16	40.0	100	40.00
OCF after IFRS 16	30.0	95	28.50
Non-financial performance criteria			
Share of digital sales in total sales	7.5	80	6.00
Implementation of digitalization strategy	7.5	90	6.75
Size of the earnings impact from digitalization	7.5	90	6.75
Reduction of work-place accidents with lost working time (LTIF)	7.5	110	8.25
Total:	100.0		96.25
	Target bonus in EUR (fictional number)		**Bonus achieved in EUR**
Member of the Management Board	600,000		577,500

Personal investment component
Beyond the annual target achievement, the annual bonus shall also provide incentives for long-term and sustainable growth in the value of the Company. The targets to be set annually are already intended in themselves to promote the strategic and sustainable development of Klöckner & Co, as described above. In addition, the members of the Management Board must use the majority of the annual bonus amount after statutory tax and social insurance deductions to purchase shares in the Company and hold them on a long-term basis.

The personal investment component is ensured to exceed the remaining cash component by requiring Management Board members to purchase such shares for a flat 30% of their gross annual bonus. Assuming a 50% tax and social insurance burden, 60% of the annual net bonus is consequently converted into the personal investment component. The shares are normally purchased on the first stock market trading day of the month following the payout of the cash component.

Shares purchased as part of the personal investment component are subject to a four-year lock-up period. Once this lock-up period expires, Management Board members are free to sell or continue to hold the shares.

The personal investment makes the multi-year performance of the Klöckner & Co share price a key determining factor of the variable Management Board remuneration. Management Board members benefit on the one hand from increasing share price until the end of the lock-up period, but on the other hand suffer a financial loss if the share price falls during that period. In addition to promoting sustainable development of the Company, the personal investment bonus component also aligns interests between the Management Board and shareholders and reinforces Management Board members' identification with the Company from the perspective of an investor.

Cash component
The bonus amount remaining after deduction of the personal investment component is paid out to Management Board members following the Supervisory Board meeting at which the annual financial statements are adopted for the respective reporting year. Assuming a 50% tax and social insurance burden, 40% of the annual net bonus is consequently paid out.

The weighting of the cash component relative to the personal investment component ensures that the achievement of annual targets is appropriately subordinate in nominal terms to multi-year growth in the value of the Company.

Discretionary bonus
In exceptional instances, to reward special performance and successes on the part of members of the Management Board, the Supervisory Board may, at its reasonable discretion, grant an extraordinary bonus (discretionary bonus). Also including any extraordinary bonus, the annual bonus granted may not exceed 200% of the target bonus. The Supervisory Board may make the granting of a discretionary bonus to a member of the Management Board conditional upon the Management Board member using part or all of the discretionary bonus to purchase shares in the Company.

In the exceptional event of a discretionary bonus being granted, the Supervisory Board will report on it transparently and in detail.

6. Target total remuneration under the new remuneration system and assessment of the appropriateness of Management Board remuneration

On the basis of the remuneration system, the Supervisory Board determines the specific target total remuneration for each Management Board member for the forthcoming fiscal year as the sum total of all remuneration components in the event of full target achievement. With regard to ancillary benefits, the Supervisory Board can base its determination on reasonable estimates.

The Supervisory Board sets target total remuneration that it considers to be appropriate, competitive and in line with the market. In particular, target total remuneration is set in such a way that it is appropriate to each Management Board member's own tasks and performance as well as to the enterprise's overall situation and performance and such that it does not exceed the usual level of remuneration without specific reasons.

The appropriateness of Management Board remuneration is also ensured considering the results of horizontal and vertical benchmarking of Management Board remuneration by the Supervisory Board.

- **Horizontal benchmarking:** In order to assess whether the specific total remuneration of Management Board members is in line with usual levels, the Supervisory Board regularly applies a peer-group comparison. This is a horizontal assessment of the appropriateness of Management Board remuneration against an appropriate peer group of other companies. With respect to the peer group, the Supervisory Board takes into account the limited number of national and European companies with a comparable market position to Klöckner & Co SE. The Supervisory Board therefore includes in the peer-group comparison a selection of companies in the SDAX index that are comparable in terms of sales and number of employees, the average management board compensation at SDAX companies, and also a selection of international companies with comparable market positions or business models.
- **Vertical benchmarking:** Furthermore, the Supervisory Board regularly assesses Management Board remuneration with regard to its appropriateness within the Company. For this vertical benchmarking, the Supervisory Board considers the ratio of Management Board remuneration to senior management and Group-wide employee remuneration overall, including its development over time. The Supervisory Board defines senior management for this purpose as comprising those management levels throughout the Group below the Management Board of Klöckner & Co SE that the internal job evaluation system classifies in Management Level 1.

7. Maximum remuneration under the new remuneration system

The Company's maximum expense for a member of the Management Board can be calculated for each fiscal year on the basis of the fixed salary, the capped annual bonus and the likewise capped retirement provision and ancillary benefits.

In addition, in accordance with Section 87a (1) sentence 2 no. 1 AktG, the remuneration system proposed by the Supervisory Board specifies an absolute euro figure for the maximum amount of remuneration granted to a Management Board member in a given fiscal year (maximum remuneration). For this purpose, the Supervisory Board assumed the maximum expense that the Company would incur for the individual Management Board members for the current fiscal year 2021 applying the caps on retirement provision and ancillary benefits applicable under the new remuneration system. In addition, a moderate additional buffer of around 20% is included to enable a flexible response to market changes and currently unforeseeable situations during the lifetime of the remuneration system. Including this additional buffer, the maximum remuneration for the Chairman of the Management Board is set at EUR 6.4 million per year, for the Deputy Chairman of the Management Board EUR 4.0 million per year and for the remaining members of the Management Board EUR 2.2 million per year.

This maximum remuneration thus determined for the purposes of the German Stock Corporation Act is not the level of remuneration targeted by the Supervisory Board. It merely sets an absolute upper limit on the total annual remuneration achievable under the remuneration system and is to be clearly distinguished from the target total remuneration.

8. Exceptional developments and scope for derogation

The criteria for measuring performance-related remuneration and the annual targets set by the Supervisory Board before the beginning of the fiscal year shall not be changed in the course of a fiscal year. Subsequent changes to the measurement criteria and targets are not possible.

Exceptional developments that could lead to inappropriately high remuneration for a member of the Management Board are countered by the cap on the annual bonus (see heading 5 above). If exceptional developments lead to inappropriately low remuneration, the Company may, by resolution of the Supervisory Board, grant a discretionary bonus to a member of the Management Board in the event of special performance and successes (see heading 5 above).

In addition, Section 87a (2) sentence 2 AktG allows the Supervisory Board to temporarily derogate from the remuneration system if this is necessary to serve the long-term interests of the Company and if the remuneration system specifies the procedural conditions under which the derogation can be applied and the elements of the remuneration system from which a derogation is possible. Procedurally, any such derogation requires an explicit resolution of the Supervisory Board determining the duration of the derogation, the derogation as such and the specific reason for it. Substantively speaking, the Supervisory Board may derogate from the following elements of the remuneration system: (i) provisions regarding procedure, remuneration structure and amount as well as (ii) individual remuneration components. In particular, the relative proportion accounted for by the individual remuneration components and their respective preconditions may be derogated from and the fixed remuneration salary may also be temporarily set at a different level in individual cases if this is in the long-term interest of the Company. Examples include alignment of the remuneration system in the event of a significant change in corporate strategy that requires a change in incentives, or external circumstances such as a severe economic crisis.

9. Clawback for variable remuneration

The Company may claw back performance-related remuneration (bonuses) if, after payment, it reveals that the audited and adopted consolidated financial statements on which the bonus entitlement is based were objectively in error and therefore, in accordance with the relevant accounting standards, are subsequently corrected either retrospectively or in the current consolidated financial statements, and a smaller or zero bonus entitlement would have arisen on the basis of the corrected audited consolidated financial statements. The Management Board member does not need to be at fault with regard to the need for correction of the consolidated financial statements (clawback). The clawback claim is due on correction of the consolidated financial statements. It also applies if the term of office and/or contract with the Management Board member has already terminated or is expired at the time the clawback claim falls due.

The amount of the clawback claim is the difference between the performance-related remuneration paid and the performance-related remuneration that should have been paid on the basis of the corrected audited consolidated financial statements. The Management Board member must reimburse the gross amount, meaning the amount of clawback claim including taxes and social insurance contributions paid on that amount by the Company. Subsequent correction of the consolidated financial statements may not under any circumstances lead to an increase in the entitlement to performance-related remuneration.

The Supervisory Board will, in the exercise of its professional judgment, agree on the details of the clawback arrangement in the individual contracts with the members of the Management Board. The right to assert other claims against members of the Management Board, in particular including claims for damages, remains unaffected.

10. Offset of remuneration for supervisory board positions

Remuneration for any intra-Group supervisory board positions or other concurrent board positions is offset from the fixed salary. If a member of the Management Board wishes to accept a supervisory board position outside of the Group with the consent of the Supervisory Board, the Supervisory Board will decide as part of the required consenting resolution whether and to what extent the outside remuneration is deducted from the fixed salary.

11. Benefits on commencement of Management Board service and covering of currency risk

The Supervisory Board may agree to make payments to newly appointed members of the Management Board when they take up their position in order to compensate for any costs incurred, notably benefits forgone (such as pension awards) upon leaving their previous employer, to meet costs of taking up the position, in particular any relocation costs, or as an inducement to join Klöckner & Co. In exercising its professional judgment, the Supervisory Board will decide whether, and in what amount within the maximum remuneration limits, it will agree by way of exception to such additional remuneration benefits and will stipulate the payment amount on an individual contract basis. Such awards will be disclosed separately in the Remuneration Report.

To cover currency risk, the Supervisory Board may agree in the individual contracts with members of the Management Board whose habitual place of residence is outside of the eurozone that all or specific remuneration components are not permitted to fall below a specified equivalent value in the Management Board member’s home currency on a fixed date.

12. Contract term and remuneration related to the termination of Management Board office

In appointing members of the Management Board and in determining their contract term, the Supervisory Board observes the requirements of Section 84 AktG and the recommendations of the GCGC. On initial appointment, the service contracts of Management Board members will generally not exceed a term of three years. For reappointments and extensions to the term of office, the statutory maximum term is five years.

Without prejudice to any right of extraordinary termination, the Company will agree for the event that a Management Board member leaves office prematurely that the Management Board member's contract may be terminated prematurely ahead of term by ordinary notice observing the notice period specified in Section 622 (2) of the German Civil Code (*BGB*). Said notice period will be determined taking into account the entire duration of service with the Company, including any employment prior to joining the Management Board. In the event of termination of contract ahead of term by ordinary notice given by the Company, a severance payment for the Management Board member will be agreed in the amount of two years' remuneration (severance cap). If the remaining term of contract is less than two years, the severance payment is reduced and calculated pro rata temporis. No severance payment will be granted in the event of termination for a good cause by the Company.

The amount of annual remuneration relevant for the calculation of the severance payment cap is the sum total of the fixed salary and the annual bonus for the last full fiscal year before termination of the contract. If the contract has lasted less than one full fiscal year, the annual bonus is assumed to be the target bonus.

Change of control clauses that commit to benefits in the case of early termination of a Management Board member's contract due to a change of control are not normally agreed upon. Should the Supervisory Board agree on such benefits by way of exception, it will report on them transparently and in detail. The current contracts with members of the Management Board do not commit to any benefits in the event of a change of control.

Post-contractual non-compete covenants are agreed with the members of the Management Board providing for compensation payable by the Company for the duration of the post-contractual non-compete covenant of up to two years. For the duration of the non-compete covenant, the Management Board member concerned receives monthly compensation, commencing the month following termination of contract, amounting to 50% of one-twelfth of the then applicable total direct remuneration (fixed salary and target bonus). In accordance with Section 74c of the German Commercial Code (HGB), any other earnings and any earnings willfully failed are deducted. The compensation is offset against any severance payment. In the event of termination for a good cause, the party having the right to terminate can cancel the post-contractual non-compete covenant within one month of termination. Furthermore, the Company may waive the non-compete covenant at any time at six months' notice, with the entitlement to compensation ending at the end of the notice period.

In the event that a member of the Management Board becomes permanently incapacitated for work during the term of the Management Board member's contract, the contract terminates at the end of the sixth month following determination of the permanent incapacity for work, unless the regular contract term under the contract ends earlier. Permanent incapacity to work is defined as when a member of the Management Board is likely to be permanently unable to perform their assigned duties without limitation.

In case of the death of a member of the Management Board during the contract term, the widowed spouse and dependent children under the age of 25 living in the same household as the Management Board member are entitled as joint and several creditors to continued payment of the agreed Management Board remuneration for the month of the death and the following six months.

13. Remuneration Report

The Management Board and the Supervisory Board of Klöckner & Co SE additionally prepare an annual report on remuneration granted and owed by the Company and its affiliated companies to each individual current or former member of the Management Board and of the Supervisory Board in the last fiscal year. This Remuneration Report is audited by the auditor and submitted to the Annual General Meeting of the Company for approval.