

Overview of the intended changes to the remuneration system for the members of the Management Board

The previous remuneration system for the members of the Management Board (the "2021 Remuneration System") was presented to the Annual General Meeting on May 12, 2021 and approved with a majority of 71.2%. The Supervisory Board of Klöckner & Co SE regularly reviews the remuneration system for the members of the Management Board.

In the opinion of the Supervisory Board, the basic concept of the remuneration system for the members of the Management Board has proven itself and does not require any adjustment. This applies in particular with regard to the clear and thus transparent structure that is readily comprehensible for shareholders.

In the view of the Supervisory Board, only a selective adjustment to the remuneration system with regard to the maximum remuneration is indicated. There is currently no need for further significant changes to the 2021 Remuneration System. However, various editorial changes and updates are to be made to the 2021 Remuneration System on the occasion of the above-mentioned amendment. This also includes additional explanations in relation to points of criticism raised by shareholders with regard to the 2021 Remuneration System.

The table below provides an overview of the main intended amendments and other (unmodified) key elements of the remuneration system, in each case together with an explanation of why the amendment has been made or why no changes are indicated. For details and the remaining editorial changes, please refer to the amended remuneration system for the members of the Management Board (the "2024 Remuneration system"), which is contained in the Invitation to the 2024 Annual General Meeting and is also available on the website for the 2024 Annual General Meeting, and also to the -tracked-change comparison with the 2021 Remuneration System that is likewise available on the website for the 2024 Annual General Meeting.

The 2024 Remuneration System was adopted by the Supervisory Board of Klöckner & Co SE on March 5, 2024 at the recommendation of its Presidium (in its capacity as the Personnel Committee responsible for the remuneration of the Management Board) and will be submitted to the Annual General Meeting for approval on May 23, 2024. If approved by the Annual General Meeting, it will apply from January 1, 2024.

Maximum remuneration (amendment)

Current version:

Maximum remuneration (total annual remuneration):

- Chairman of the Management Board: EUR 6,400,000
- Deputy Chairman of the Management Board: EUR 4,000,000
- Ordinary member of the Management Board: EUR 2,200,000

Amendment:

Increase in maximum remuneration (total annual remuneration) as follows:

- Chairman of the Management Board: EUR 6,400,000 (unchanged/no increase)
- Deputy Chairman of the Management Board: EUR 5,000,000
- Ordinary member of the Management Board: EUR 3,500,000

Background:

The previous amounts for the maximum remuneration were set at the beginning of 2021 based on the remuneration at that time. In the view of the Supervisory Board, in particular the cap for ordinary members of the Management Board of EUR 2.2 million is now in need of adjustment.

Within specified bounds, the selected maximum remuneration is 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 while retaining the ability to offer competitive Management Board remuneration. In particular, the Kloeckner Americas segment has grown strongly, not least due to the acquisitions and investments made there, and in the future will become more important for the Group as a whole. Due to the size that the organization has reached and the diversified business, the tasks of management in this segment have become significantly more complex. An in-depth horizontal benchmarking also showed that the US market and companies comparable to Klöckner in North America pay higher remuneration. To take account of the increased demands and the difference in remuneration, it is necessary to be also able to pay market-oriented remuneration for members of the Management Board who are based in the USA.

In addition, the selected maximum remuneration includes an additional buffer to enable a flexible response to market changes and currently unforeseeable situations during the term of the 2024 Remuneration System. Considering this additional buffer and the remuneration levels within the Management Board, the maximum remuneration for the Deputy Chairman of the Management Board is to be adjusted to EUR 5.0 million per year and for the remaining members of the Management Board to EUR 3.5 million per year; the maximum remuneration for the Chairman of the Management Board shall remain unchanged at EUR 6.4 million per year.

However, the above amounts do not represent the level of remuneration targeted by the Supervisory Board, but merely constitute the absolute upper limit of the total annual remuneration achievable. The maximum remuneration must therefore be clearly distinguished from the total target remuneration.

Amounts for retirement provision and ancillary benefits (unchanged)Current version:

Retirement provision: Maximum of 40% of the fixed salary

Ancillary benefits: Maximum of 10% of the fixed salary

No adjustmentBackground:

In the view of the Supervisory Board, the existing limits of a maximum of 10% of the fixed salary for ancillary benefits and 20% to 40% maximum of the fixed salary for retirement provision are still appropriate. They should therefore remain unchanged.

Variable remuneration (unchanged)Current version:

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.

The basis for determining the amount of the annual bonus is its target amount (target bonus).

The target bonus is the annual bonus to which a member of the Management Board is entitled under his or her contract at 100% achievement of the specified 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 specified when setting the targets. If annual targets are exceeded, the bonus may therefore exceed the target bonus. However, it may not exceed 200% of the target bonus (cap).

No adjustmentBackground:

In the view of the Supervisory Board, the provisions of the remuneration system on variable remuneration are still appropriate and reasonable. In particular, the targets available under the remuneration system allow adequate account to be given to sustainability-related aspects (including ESG criteria) and strategic considerations.

By defining "milestones", it is also possible to set multi-year linked targets and thus to set medium- and/or long-term targets as part of one-year variable remuneration (e.g. under multi-year plans for digitalization and sustainability targets). The target setting for the annual bonus therefore makes possible a balanced combination of short-term and long-term components.

Long-term variable remuneration in the nature of an LTI; share ownership (unchanged)Current version:

There is an obligation to invest a flat 30% of the gross annual bonus in Klöckner shares (personal investment). Assuming a 50% tax and social insurance burden, this corresponds to 60% of the net annual bonus. Shares purchased as part of the personal investment component are subject to a four-year lock-up period.

No adjustmentBackground:

The long-term variable remuneration (in the nature of a long-term incentive/LTI) is provided under the remuneration system by way of a requirement to use the majority of the annual bonus (see above) to purchase Klöckner shares, combined with a four-year lock-up period.

In the opinion of the Supervisory Board, this is the best possible way to give an incentive predominantly towards the long-term development of the share price and thus the success of the Company. The German Corporate Governance Code also explicitly mentions the possibility of purchasing shares as a long-term remuneration component. This form of long-term variable remuneration in the nature of an LTI is also easy to comprehend, without the need for complex calculations with diverse KPIs and factors, and is therefore also transparent for shareholders. In addition to the personal investment as the main LTI component, it is also possible to take account of multi-year targets when setting the targets for the annual bonus (see above).

Due to its level and the lock-up period, which generally also applies beyond any termination of Management Board service, the personal investment also obliges members of the Management Board to build and hold a significant share ownership. On the basis of the target bonus, the annual personal investment corresponds to a significant portion of the annual fixed salary, with the size of that portion increasing or decreasing according to target achievement; with increasing length of service on the Management Board, the total size of the personal investment can therefore grow to a multiple of the annual fixed salary.

Discretionary bonus (unchanged)Current version:

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.

No adjustmentBackground:

The Supervisory Board still considers it appropriate to have the general possibility of granting a discretionary bonus. At the same time, it expressly does not regard this as an instrument for arbitrary increases in Management Board remuneration beyond the system of targets provided for in the remuneration system. Instead, it is an option for truly exceptional cases, which the Supervisory Board will use very restrictively. Accordingly, it is almost 14 years since the last discretionary bonus was awarded. In addition, even if a discretionary bonus is awarded, the cap of 200% target achievement continues to apply (for the sum of regular and discretionary bonuses).

Clawback/negative bonus (malus) (unchanged)Current version:

The Company may claw back performance-related remuneration (bonuses) if, after payment, it transpires 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 (clawback).

In addition, the remuneration system already includes possibilities for negative bonus (malus) components in remuneration, even if they are not explicitly designated as such.

- Within the agreement on the individual targets, it is, in general, possible to determine that target achievement can become negative (as a negative bonus (malus)) – please see for example, the negative target achievement for operating cash flow in fiscal year 2021. This may result in a corresponding reduction of the overall target achievement and thus of the annual bonus.
- The obligation to purchase and hold shares (personal investment) can also act as a negative bonus (malus) in the event of negative share price performance.

No adjustmentBackground:

The existing provisions of the remuneration system on the clawback of remuneration components in conjunction with the statutory clawback and compensatory claims for damages, as well as the components described above that can have the effect of a negative bonus (malus), continue to be appropriate in the view of the Supervisory Board. The remuneration system should therefore remain unchanged in this respect.