



**Remuneration Policy for the Management Board  
of AMG Advanced Metallurgical Group N.V**

Amsterdam, the Netherlands  
3 May, 2013

## **Introduction**

Please find below the remuneration policy applicable to the Management Board as amended by the 2013 General Meeting of Shareholders (following the first version being adopted by the 2009 General Meeting of Shareholders) and effective for the years 2013 and beyond.

The Remuneration Committee of the Supervisory Board has reviewed during the past year, with the support of Hay Group Consultants, the Remuneration Policy for the Management Board, specifically whether the Policy would still support the overall executive compensation philosophy of AMG Advanced Metallurgical Group NV (“the Company”) and whether corporate governance developments in general and in the Netherlands would merit an adjustment of the Policy. The resulting amended Policy as reflected herein fully meets the standards of international good corporate governance practices. Unless the Company’s interests require otherwise, this (amended) Remuneration Policy for the Management Board complies with all applicable best practice provisions of the Dutch Corporate Governance Code dated December 10, 2008. The Supervisory Board believes to have sound explanations for those best practice provisions it cannot comply with as explained in the Corporate Governance Report published on the Company’s website ([www.amg-nv.com](http://www.amg-nv.com)).

## **Executive Remuneration Philosophy**

The AMG group of companies competes throughout the world for business and for talent. Given its size and the diversity of its business it must compete for superior talent with corporations of considerable scale.

AMG’s offerings, therefore, must provide top talent with roles which are challenging and motivating in a fast paced environment and offer very competitive reward opportunities for top talent and superior performance. Accordingly, the Executive Remuneration Philosophy must:

- help secure the human capital that will achieve AMG’s short-term, medium-term and long-term objectives
- reward superior performance
- engender an innovative fast-paced entrepreneurial environment
- provide a clear linkage between executive and shareholder interests
- support the business model and, in particular, a collaborative culture

## **Compensation and Risk Assessment**

The Supervisory Board assigns importance to a remuneration structure which is generally consistent with that for the other senior executives of the AMG Group. Base level salaries of all senior executives are reviewed on a regular basis and annual incentive and long term incentive (LTI) programs are aligned both in target setting as well as performance measuring. The annual performance of the Management Board members is measured on the basis of Company wide metrics which capture the overall performance of the AMG Group.

The remuneration structure and rewards have been designed to meet the applicable risk assessment tests used within AMG Group, in order to ensure that inappropriate risk taking by executives is avoided. Specifically, it is noted that remuneration decisions are taken on the basis of scenario analysis and in the context of AMG’s Code of Business Conduct as well as applicable laws and corporate governance requirements.

The following are highlights of various measures and applications with respect to compensation arrangements that emphasize prudent risk-taking;

- AMG has adopted a compensation clawback policy for Management Board members. Under the policy, all performance based incentives awarded to Management Board members can be recouped by the Company in situations where an unfair result has been produced due to incorrect financial data, error, material misinterpretation, or the material non-compliance or misconduct by a Management Board member, within a 36 month look-back period.
- If conditionally granted (but not yet paid) compensation awarded in a previous financial year would, in the opinion of the Supervisory Board, produce an unfair result due to extraordinary circumstances during the period in which the pre-determined performance criteria have been or should have been achieved, the Supervisory Board has the power to adjust the value downwards or upwards.
- The annual corporate performance objectives used for annual incentive awards are approved by the Supervisory Board for the year. The level of business risks has been taken into account.
- With respect to the annual incentive plan, a threshold performance is required for each component to generate a payout, protecting the downside risk to the shareholders. On the other hand, a maximum amount of incentive pay out is defined with measurable objective(s), thereby earnings opportunities are capped for unnecessary risk taking.
- The use of share-based compensation (stock options and PSUs) will continue to be highly emphasized for Management Board members. The deferred vesting timeframe of stock options and PSUs is a measure of time risk, focusing on longer term performance.
- Share ownership requirements for Management Board members are in place, with direct alignment with shareholders' interests

### **Remuneration Components for Management Board**

The Remuneration Committee on an annual basis reviews and selects an appropriate compensation peer group for benchmarking purposes. The peer group selected comprises a group of approximately 20 companies which are comparable to AMG in size, complexity and geographic presence and are reflective of the various business segments that AMG is operating in - metals, technologies and mining industry. The Remuneration Committee periodically makes changes to the peer group to adjust for changes caused by mergers, bankruptcies or asset sales among the peer group. The composition of the peer group used shall be published annually in the Report of the Supervisory Board section of the Annual Report of the Company.

The Management Board members' remuneration consists of the following components:

- Base Salary
- Annual Bonus
- Long-term Incentives
- Pension and other benefits

The remuneration components support the Executive Remuneration Philosophy. AMG uses a competitive total direct compensation strategy that will help secure top talent. As an overarching policy, AMG intends to target total direct compensation (salary, annual incentive and long term incentive) between the median (P50) and 75th percentile (based on individual performance), of the compensation peer group. Total direct compensation of the Management Board consists of Base Salary, Annual Bonus and Long-term Incentives. In determining a competitive remuneration package and to reward superior performance, the Remuneration Committee has benchmarked AMG in 2012 with the peer group identified above and will continue to do so on a regular basis.

### *Base Salary*

Base Salary levels are part of the overall remuneration package and fit into the overall remuneration strategy to position the total direct compensation level in line with the target of the total compensation peer group referred to above. Base salary levels are based upon the credentials and experience of the executive compared to market analysis of base salary levels of others in the peer group.

### *Annual Bonus*

Members of the Management Board participate in AMG's short-term incentive plan. The short-term incentive plan provides for an annual cash bonus which depends on three key performance metrics:

- Return on Capital Employed (ROCE)
- Operating Cash Flow
- Individual performance

The table below provides a relative weighting of these key performance metrics including the relative importance in determining the Annual Bonus.

Key performance metrics	ROCE	Operating Cash Flow	Individual Performance
Description	EBIT / Capital Employed (%) in established target ranges	OCF realized in established target ranges	Leadership and human capital development
Weighting	40%	40%	20%

The Target Annual Bonus opportunity is expressed as a percentage of Base Salary as indicated in the table below. The Annual Bonus can vary based upon actual performance and can range from zero to three times the Target. The Target pay out percentages are determined on the basis of market analysis of the peer group.

Management Board position	Target payout
Chairman and Chief Executive Officer	85%
Chief Operating Officer	65%
Chief Financial Officer	65%

Each year the Supervisory Board determines ambitious yet realistic target ranges for each performance metric with respect to the target payout. It is deemed of critical importance that the annual bonus and long term incentive components of the remuneration package clearly reflect the principle that pay out levels should be based on actual performance achieved. This will be the most important yardstick for the Supervisory Board to use in deciding on actual pay out or award levels.

### *Long-term incentives*

The long-term incentive framework is in line with sound market practice and supports the overall Executive Remuneration Philosophy. Long term incentive awards are based upon market analysis of the peer group and are expressed as multiples of Base Salary. It is comprised of two programs: a Performance Share Unit Plan and a Stock Option Plan. The value of those two programs will be determined by the Supervisory Board, and will be reported as part of the Supervisory Board's remuneration report in the Company's annual report.

The Performance Share Unit Plan provides for a number of Performance Share Units ("PSU") conditionally awarded to the members of the Management Board on an annual basis. The PSUs are tied to the value of ordinary shares and are credited in notional accounts for each member of the Management Board – one PSU is equal to one ordinary AMG share. Fractional PSUs are added to the notional accounts to recognize any dividend payout before vesting. The PSUs vest three years after the grant date, subject to challenging performance criteria. Depending on the performance achieved, the actual number of PSUs may vary upward and downward compared to the initial grant. At vesting, the PSU payouts are redeemed and settled in cash, based on the

average fair market value of the underlying share on the last 10 trading days' closing prices immediately following the publication of the annual results of the last year comprised by the relevant PSU award. The Supervisory Board has the discretion to settle the PSU pay out in AMG shares or a combination of shares and/or cash, in which event such will be explained and reported as part of the Supervisory Board's remuneration report in the Company's annual report. The aggregate number of shares that can be issued as part of a PSU pay out settlement to the Management Board shall be no more than 5% of AMG's share capital from time to time.

Vesting of the PSUs is subject to two performance criteria:

- A threshold level of three year average Return on Capital Employed (ROCE)
- Relative Total Shareholder Return (TSR) against a relevant external market.

With respect to the relative TSR, the Bloomberg World Metal Fabrication/Hardware Index will be used. This global index is a capitalization-weighted index of the leading metal fabricate/hardware shares in the world, including approximately 50 metal and mining companies.

At the end of the performance cycle (i.e. three years after the grant date) the actual number of PSUs may be higher or lower than the initial grant. The payout multiplier is based on AMG's TSR ranking against the Bloomberg World Metal Fabricate/Hardware Index as indicated in the table below. In case the threshold ROCE level is not reached the payout will be zero, irrespective of the TSR ranking.

AMG TSR Percentile Ranking	PSU Payout Multiplier X Initial Grant
P90 - P100	175%
P80 - P89	150%
P70 - P79	130%
P60 - P69	115%
P50 - P59	100%
P40 - P49	75%
P30 - P39	25%
Below P30	0%

The Stock Option Plan ("SOP") provides for an annual conditional grant of stock options to each member of the Management Board. The aggregate number of stock options that can be granted pursuant to this Remuneration Policy and under this Plan to the Management Board shall be no more than 10% of AMG's outstanding share capital from time to time. The stock options granted under the SOP have a maximum term of ten years from the grant date. Vesting is subject to performance criteria: a threshold level of three year average Return on Capital Employed (ROCE) must be achieved for stock options under the SOP to vest. Half of the granted stock options vests after the third anniversary year and the other half after the fourth anniversary year (both subject to the 3 year average ROCE target set by the Supervisory Board). The exercise price of the stock options under the SOP equals the fair market value of the underlying share (i.e. closing price) at the grant date. Neither the exercise price nor any other of the conditions mentioned above shall be modified during the term of the options, except insofar as prompted by structural changes relating to the shares of AMG in accordance with market practice.

### *Pension and other benefits*

Each member of the Management Board will be offered pension and other benefits (i.e. company car and insurances) which are in line with market and individual country practice, taking into account the employment history of the Management Board member. No personal loans or guarantees shall be granted to the members of the Management Board.

### *Contracts*

Each newly appointed member of the Management Board will have a management contract with AMG. The contracts provide for a maximum term of four years with severance of maximum of one (1) year Base Salary. If severance of one (1) year base salary would be unreasonable, the Supervisory Board can adjust the severance up to a maximum of two (2) years base salary. Prior to the nomination of a new Management Board member to the Management Board, the Supervisory Board shall review and agree on an appropriate severance payment package which shall not exceed the maximum of two (2) years Base Salary as expressed above.

With respect to the current Management Board members who have all been promoted from within and have a long service history with AMG or one of its predecessor companies, the severance payment shall be in line with current employment agreements which are all honored and which include two years Base Salary severance payment provisions.

The main elements of the contracts of employment of the Management Board members are published under the Corporate Governance section of the Company's website.

### *Shareholding*

The Supervisory Board believes that Management Board members should align their interests with those of the shareholders by holding shares in AMG Advanced Metallurgical Group NV. The Chief Executive Officer and Chairman of the Management Board is expected to build up a shareholding of four times his base salary over a five (5) year period starting in 2013. Other Management Board members are expected to build up a shareholding to the value of two times their base salary over a five (5) year period starting in 2013. The Management Board members are expected to use the proceeds from PSU awards and to hold shares gained from SOP plans (net of the sale of a portion of such awards for tax purposes) until they achieve and maintain their respective minimum shareholding ratio.