

# Remuneration statement 2018

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# Review of compensation arrangements of the Board of Directors and the Leadership Team of Outokumpu Group

## Decision making process and main principles of rewarding in Outokumpu

### Decision process for different compensation elements

The Board of Directors nominates and dismisses the CEO and his possible deputy and decides on the CEO's terms of service, including base salary, fringe benefits, pension benefits and incentive schemes.

The Remuneration Committee of the Board determines and approves the terms of service, including salaries, bonuses, pension benefits and other benefits, of the Outokumpu Leadership Team members other than the CEO.

The Board of Directors decides on the interpretation and implementation of the terms and conditions, and on any other matters relating to the share-based incentive programs. The Board also decides on the exact contents of the performance criteria, and any possible changes to them.

The remuneration of the Board of Directors is decided annually by the Annual General Meeting.

### Main principles of rewarding in Outokumpu

Outokumpu has adopted a compensation philosophy which includes shareholder value as the underlying focus of the reward strategy, business strategy aligned incentives, pay for performance and competitive salaries and total compensation. Incentive plans have an emphasis on absolute performance to ensure that management achieves its goals and relative performance to encourage Outokumpu to perform ahead of its peers. In line with the pay-for-performance principle, exceptional performance should provide exceptional rewards.

The compensation of the CEO and the members of the Leadership Team consists of base salary, fringe benefits, short-term incentives, share-based long-term incentives and pension arrangements. The total compensation is reviewed regularly by the Board of Directors. The review includes benchmarking of the different components of total remuneration to market practices in corresponding positions.

## Remuneration elements of the Leadership Team

### Fixed elements of compensation

The fixed elements of compensation of the CEO and the members of the Leadership Team consist of base salary, fringe benefits and pension arrangements.

### Variable elements of compensation

The variable elements of the Leadership Team members' compensation consist of short-term incentive plan and share-based incentive programs.

The earning period of the short-term incentive program is calendar year. Possible rewards are paid for the participants after the publishing of the annual accounts in the following year. In 2018, the maximum reward from the short-term incentive program is 95% of the annual base salary for the CEO. For the other members of the Leadership Team, the maximum reward varies between 50% and 100% of annual base salary. The pay-out will be based on the achievement of an EBITDA target and occupational safety, delivery reliability and individual objectives. The incentive payable in spring 2018 based on year 2017 targets included targets for EBITDA, occupational safety, savings and individual objectives.

The company's regular long-term incentives consist of the Performance Share Plan (PSP) and Restricted Share Pool (RSP)

which have been devised as part of the key employee incentive and commitment system. The objective of the programs is to reward selected employees for good performance which supports Outokumpu's strategy, to engage them and to form part of a competitive compensation package. The purpose of the programs is also to direct the employees' attention to achieving Outokumpu's financial targets and increasing shareholder value over a longer period of time. Outokumpu has currently no active stock option programs.

With the exception of CEO Baan, the aggregate gross value of payments from short-term incentive plan and Performance Share Plan and Restricted Share Pool programs in any individual year may not exceed 200% of the executive's annual base salary. If the payments from the above-mentioned plans would exceed this level, the share-based payments would be cut to the extent decided by the Company.

Outokumpu has also two Matching Share Plans, one for the CEO and one for a limited number of other key management. The plans were introduced to emphasize shareholder value creation, enforce an ownership culture and to incentivize the achievement of the 2020 vision.

### Pension arrangements

The retirement age for the members of the Leadership Team is 63 or 65 years, depending on the start date in the Leadership Team and they participate in the local retirement programs applicable to employees in the country where their employing company is located. The members employed in Germany are entitled to pension benefits in accordance with the rules of the German Essener Verband. The members employed in Finland participate in the Finnish TyEL pension system, in addition to which they are entitled to a defined contribution pension plan, for which the maximum premium is 25% of an individual's annual earnings, excluding share

rewards or of annual base salary, depending on start date in the Leadership Team. The pension benefits of the other Leadership Team members vary in line with the local market practices.

#### Terms of notice

The CEO is not entitled to a specific severance payment, and the notice period is three months for both parties. For the other members of the Leadership Team, the notice period is six months for the employee and either twelve months for the Company, without additional severance compensation and with the possibility to stop salary payment during notice period if the executive finds another employment before the end of notice period, or 18 months' base salary at the maximum, including salary for notice period and severance compensation.

### Share-based incentive plans

#### Performance Share Plan 2012

Performance Share Plan 2012 offers a possibility to receive Outokumpu shares as a long-term incentive reward, if the targets set by the Board of Directors for each earnings period are achieved. It consists of annually commencing performance share plans. Each plan contains a three-year earning period after which the share rewards will be delivered to the participants. The share grants are expressed as gross number of shares. If the performance criteria set by the Board are met, applicable taxes will be deducted of the achieved gross award and the remaining net value will be delivered to the participants in Outokumpu shares.

#### January 1, 2018 status of the ongoing Performance Share Plans

Performance Share Plans	PSP 2016–2018	PSP 2017–2019	PSP 2018–2020
Number of participants	109	138	150 <sup>2)</sup>
Maximum number of gross shares to be paid <sup>1)</sup>			
CEO Baan	220,000	92,000	72,000
Other Leadership Team members	739,500	482,000	398,000
Other participants	1,458,750	1,215,000	1,029,600 <sup>3)</sup>
Total maximum number of gross shares to be paid <sup>1)</sup>	2,418,250	1,789,000	2,900,000 <sup>4)</sup>
Earning criteria	Outokumpu's return on operating capital compared to a peer group, and Outokumpu's gearing in 2018.	Outokumpu's return on operating capital compared to a peer group	Outokumpu's profitability and the efficiency with which its capital is employed compared to a peer group
Share delivery year	2019	2020	2021

<sup>1)</sup> The maximum number of gross shares (taxes included) payable if the set performance targets are achieved in full.

<sup>2)</sup> The maximum number of participants for the plan.

<sup>3)</sup> January 1, 2018 status.

<sup>4)</sup> The maximum number of shares that can be allocated from the plan.

#### Payment summary of Performance Share Plans that have ended

Performance Share Plans	PSP 2013–2015	PSP 2014–2016	PSP 2015–2017 <sup>2)</sup>
Actual achievement, % of target	65.1%	75.6%	100.0%
Number of participants	84	84	93
Total number of shares delivered <sup>1)</sup>	178,789	293,761	416,223
CEO	-	-	-
Other Leadership Team members	36,606	69,393	109,850
Earning criteria	Outokumpu share price at the end of 2015, EBITDA for the year 2013, EBIT improvement for the year 2014, EBIT excluding non-recurring items for the year 2015 and achievement of Inoxum transaction related synergies.	EBIT improvement for the year 2014, EBIT excluding non-recurring items for the year 2015 and Underlying EBITDA for the year 2016, cash flow measure for the years 2014, 2015 and 2016 and Outokumpu ROCE in the end of 2016.	EBIT excluding non-recurring items and a cash flow measure for the year 2015; and return on operating capital ranking among peers and debt-to-equity ratio (gearing) in 2017.
Share delivery year	2016	2017	2018 <sup>2)</sup>

<sup>1)</sup> Shares delivered after deduction of applicable taxes. Outokumpu has used treasury shares for the payment which means that the total number of shares of the company did not change.

<sup>2)</sup> The reward will be paid by the end of April 2018. Treasury shares will be used for the payment.

### Restricted Share Pool

Restricted Share Pool program consists of annually commencing plans with a three-year vesting period after which the allocated share rewards will be delivered to the participants provided that their employment with Outokumpu continues uninterrupted throughout the duration of the plan, until the shares are delivered.

The share grants are expressed as gross number of shares. Applicable taxes will be deducted of the gross award and the remaining net value will be delivered to the participants in Outokumpu shares.

Restricted share grants are approved annually by the CEO on the basis of the authorization granted by the Board of Directors, with the exception of possible allocations to Leadership Team members, which will be approved by the Remuneration Committee.

### Matching Share Plans

Outokumpu has two active Matching Share Plans, one for the CEO and one for other key management.

According to the Matching Share Plan for the CEO, CEO Baan is entitled to receive in total 1,157,156 gross shares including taxes on the condition that he has personally invested EUR 1 million into Outokumpu shares by February 20, 2016. The matching shares will then be delivered in four equal installments in the end of 2016, 2017, 2018 and 2019, respectively. The CEO is required to keep all the shares he has acquired and at least the first vesting portion paid at the end of December 2016 throughout his service with Outokumpu. If the CEO's service contract is terminated without any fault or negligence attributable to him, all unvested matching shares (i.e. shares not yet delivered) will vest at the expiry of the CEO agreement. The second vesting portion was delivered to the CEO as planned in December 2017.

### January 1, 2018 status of the ongoing Restricted Share Plans

Restricted Share Pool	RSP 2016–2018	RSP 2017–2019	RSP 2018–2020
Number of participants	17	58	0
Maximum number of gross shares to be paid <sup>1)</sup>			
CEO Baan	-	-	-
Other Leadership Team members	-	-	-
Other participants	35,000	81,500	-
Total maximum number of gross shares to be paid <sup>1)</sup>	35,000	81,500	150,000 <sup>2)</sup>
Share delivery year	2019	2020	2021

<sup>1)</sup> The gross number of shares (taxes included) payable if the employment has continued until the delivery date of the shares and no notice of termination has been given prior to the delivery date.

<sup>2)</sup> The maximum number of gross shares (taxes included) that can be allocated by the CEO from the 2018-2020 plan.

### Payment summary of Restricted Share Pool plans that have ended

Restricted Share Pool plans	RSP 2013–2015	RSP 2014–2016	RSP 2015–2017 <sup>2)</sup>
Number of participants	2	5	4
Total number of shares delivered <sup>1)</sup>	7,426	10,557	12,139
CEO	-	-	-
Other Leadership Team members	5,070	-	1,401
Share delivery year	2016	2017	2018 <sup>2)</sup>

<sup>1)</sup> Shares delivered after deduction of applicable taxes. Outokumpu has used treasury shares for the payment which means that the total number of shares of the company did not change.

<sup>2)</sup> The reward will be paid by the end of April 2018. Treasury shares will be used for payment.

### January 1, 2018 status of the ongoing Matching Share Plans

Matching Share Plans	CEO Plan	Management Plan
Number of participants	1	30
Number of gross shares to be paid <sup>1)</sup>		
CEO Baan	1,157,156	-
Other Leadership Team members	-	1,262,152
Other participants	-	768,058
Total number of gross shares to be paid <sup>1)</sup>	1,157,156	2,030,210
Shares delivered (net of taxes) <sup>2)</sup>	370,154	323,671
Gross shares to be paid <sup>3)</sup>	578,578	1,522,649
Share delivery years	2016, 2017, 2018, 2019	2017, 2018, 2019, 2020

<sup>1)</sup> The total plan volume payable in four tranches.

<sup>2)</sup> Including shares delivered in 2016 and 2017.

<sup>3)</sup> The number of gross shares (taxes included) not yet delivered.

In April 2016, the Board of Directors of Outokumpu approved the establishment of a Matching Share Plan program for key management for years 2016–2020. According to the plan, the participants have invested an amount corresponding to 30–120% of their annual gross base salary into Outokumpu shares. Outokumpu will match each share acquired by the employee with two gross shares from which applicable taxes will be deducted and the remaining net number of shares will be delivered to the participant. The matching shares will be delivered in four equal instalments in the end of 2017, 2018, 2019 and 2020, respectively. In order to receive the matching shares, the participants are required to keep all the shares they have acquired until the vesting of each matching share tranche. The first vesting portion was delivered to the participants as planned in December 2017.

#### Guidelines for ownership of shares received from incentive schemes

Outokumpu maintains a share ownership requirement policy pursuant to which members of the Outokumpu Leadership team are required to maintain a specific minimum share ownership in the company as long as he/she is a member of the Leadership Team. In accordance with the share ownership policy, members of the Outokumpu Leadership Team are obliged to hold Outokumpu shares acquired or received under incentive programs for the value of their annual gross base salary (including fringe benefits and holiday allowance and excluding any bonuses or any other variable compensation). In line with the Terms and Conditions of the Performance Share Plan 2012, Restricted Share Pool program and Matching Share Plan, 50% of the net shares received under the programs must be used to fulfil the above ownership requirement.

## Chief Executive Officer

### Base salary and benefits

The annual gross base salary of the CEO Baan is EUR 950,000 excluding holiday pay. In addition, he is entitled to taxable housing benefit, car benefit, phone benefit, medical and life insurance and compensation for schooling costs of his children in Finland.

### Short-term incentive plan

In 2018, the maximum reward from the short-term incentive program is 95% of the annual base salary for the CEO. The pay-out will be based on the achievement of targets related to EBITDA, occupational safety, delivery reliability and individual objectives. The incentive payable in spring 2018 based on 2017 targets included targets for EBITDA, occupational safety, savings and individual objectives.

### Pension arrangements

The CEO participates in the Finnish TyEL pension system in addition to which he is included in a defined contribution

pension plan with an annual insurance premium of 25% of his annual earnings, excluding share rewards. He has the right to retire at the age of 63.

### Terms of notice

The CEO is not entitled to a specific severance payment, and the notice period is three months for both parties.

### Shares received from incentive programs

The second vesting portion of CEO's Matching Share Plan, in total 185,077 shares after deduction of applicable taxes, was delivered to the CEO in the end of 2017. In addition, 749,134 EUR was paid in cash for taxes.

### Share plan summary of the CEO

Share plans of the CEO	PSP 2016–2018	PSP 2017–2019	PSP 2018–2020	Matching Share plan
Total number of gross shares to be paid <sup>1)</sup>	220,000	92,000	72,000	1,157,156
Shares delivered (net of taxes) <sup>2)</sup>	-	-	-	370,154
Remaining number of gross shares <sup>3)</sup>	220,000	92,000	72,000	578,578
Share delivery years	2019	2020	2021	2016, 2017, 2018, 2019

1) For PSP plans, the number of gross shares (taxes included) payable if the maximum performance level is achieved. For the MSP plan, the total plan volume payable in four tranches.

2) Including shares delivered in December 2016 and December 2017.

3) The number of gross shares (taxes included) not yet delivered.

## Remuneration report

### Board of Directors

The fees payable to the Board members until the next Annual General Meeting, confirmed by the 2017 Annual General Meeting, were 140,000 EUR for the Chairman of the Board, 80,000 EUR for the Vice Chairman and 60,000 EUR for the other members of the Board. 40% of the annual fee was paid in Outokumpu shares purchased from the market and 60% in money. The shares were freely disposable after delivery. The members of the Board are not entitled to any other share-based rewards.

In addition to the annual fee, all members of the Board of Directors are paid a meeting fee of EUR 600 (EUR 1,200 for Board members residing outside Finland). The meeting fee is also payable for the meetings of the Board committees.

### Leadership Team

#### Shareholdings of Leadership Team members on December 31, 2017

Roeland Baan	774,869
Christoph de la Camp	171,720
Liam Bates	70,752
Maciej Gwozdz	101,324
Jan Hofmann	74,657
Reeta Kaukiainen	0
Olli-Matti Saksi	148,256
Johann Steiner	84,079
Kari Tuutti	98,946
Michael S. Williams	160,637
<b>Total</b>	<b>1,685,240</b>

### Remuneration in 2017 and shareholdings of the Board of Directors

2017	Annual remuneration, EUR <sup>1)</sup>	Meeting fees, EUR	Total, EUR	Shareholdings on Dec 31, 2017
Chairman of the Board, Ollila	140000	7800	147800	60,505
Vice Chairman of the Board, Vaartimo	80000	9000	89000	32,777
Board member, Akermann	60000	14400	74400	40,929
Board member, Gualdoni	60000	18000	78000	50,617
Board member, ter Horst	60000	9000	69000	9,169
Board member, Malinen	60000	7800	67800	28,617
Board member, Sipilä	60000	6600	66600	7,981
Board member, Miettinen-Lähde	13315	4200	17515	
Board member, Gustafsson		2400	2400	
Board member, Nilsson		4800	4800	

<sup>1)</sup> 40 % of the annual fee was paid in Outokumpu shares purchased from the market and 60% in money.

### Remuneration of the Leadership Team members in 2017

2017	Salaries and employee benefits, EUR	Performance/project-related bonuses, EUR	Share rewards, EUR <sup>2)</sup>	Total, EUR
CEO Baan	1,073,219	947,629	2,083,469	4,104,317
Deputy to the CEO	440,000	168,000	491,835	1,099,835
Other Leadership Team members <sup>1)</sup>	2,724,872	2,988,248	2,759,509	8,472,628

<sup>1)</sup> Erkkilä January 1–31, 2017, Tahvanainen January 1–February 28, 2017, Kaukiainen March 1–December 31, 2017, other members January 1–December 31, 2017.

<sup>2)</sup> Gross, including the value of the shares on the day of delivery and taxes.