

# Corporate Governance Report

## Commitment to the Austrian Corporate Governance Code

The Austrian Corporate Governance Code provides Austrian stock corporations with a framework for managing and monitoring their company. The Code aims to establish a system of management and control of companies and Groups that is accountable and geared to creating sustainable, long-term value. It is designed to increase the degree of transparency for all stakeholders of a company.

The Code is based on the provisions of Austrian stock corporation, stock exchange, and capital market law, the EU recommendations regarding the responsibilities of members of Supervisory Boards and the compensation of company directors as well as the OECD Principles of Corporate Governance. Since 2002, the Code has undergone a number of revisions. The present Corporate Governance Report is based on the most recent amendment of the Code, which was adopted in January 2012. The Code can be accessed by the public at [www.corporate-governance.at](http://www.corporate-governance.at).

The Code achieves validity when companies voluntarily undertake to adhere to it. The Management Board and the Supervisory Board of voestalpine AG recognized the Corporate Governance Code in 2003 and have also accepted and implemented the amendments introduced since that date. voestalpine AG has thus committed itself to comply with the most recent version, as amended, of the Austrian Corporate Governance Code.

In addition to the mandatory “L rules,” the Company also complies with all of the “C rules” and “R rules” of the Code.<sup>1</sup>

With reference to Rule 49 of the Code, it is noted herewith that the law firm of Binder Grösswang Rechtsanwälte GmbH, where Supervisory Board member Dr. Michael Kutschera is a partner, has served as legal counsel to voestalpine AG in the business year 2011/12 in matters relating to questions associated with the squeeze-out procedure for minority shareholders of BÖHLER-UDDEHOLM Aktiengesellschaft. Fees for this engagement were invoiced at the normal hourly rates of the law firm of Binder Grösswang Rechtsanwälte GmbH applicable at the time. Total net fees of EUR 89,791 were incurred for services provided by the law firm of Binder Grösswang Rechtsanwälte GmbH in the business year 2011/12.

As of July 1, 2011, as a new member of the Management Board, Dipl.-Ing. Dr. Franz Kainersdorfer took over as head of the Metal Engineering Division (until March 31, 2012 Railway Systems Division) and has also taken on the area of responsibility of procurement strategy. He is succeeding Dipl.-Ing. Josef Mülner who retired as of June 30, 2011. From April 1, 2012 on, also as a member of the Management Board, Dipl.-Ing. Herbert Eibensteiner is the head of the Metal Forming Division, which was created retroactively as of this date by combining the Automotive and Profilform Divisions. Dipl.-Ing. Franz Hirschmanner (previous head of the Automotive Division) and Mag. Wolfgang Spreitzer (previous head of the Profilform Division) retired from the Management Board as of the end of the business year, however, they will continue to be active on behalf of the Group. Mag. Wolfgang Spreitzer will hold various Supervisory Board functions for a period of twelve months and will retire as of April 1, 2013. Dipl.-Ing. Franz Hirschmanner will continue to make his expertise available to the Management Board for another three years and will retire as of June 1, 2015.

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<sup>1</sup> The Corporate Governance Code contains the following rules: “L rules” (= Legal) are measures prescribed by law; “C rules” (= Comply or Explain) must be justified in the event of non-compliance; “R rules” (= Recommendations) are recommendations only.

## Composition of the Management Board

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<b>■ Dr. Wolfgang Eder</b> Born 1952	Member of the Management Board since 1995; Chairman of the Management Board since 2004; End of the current term of office: March 31, 2014; Member of the Supervisory Board of Oberbank AG, Linz; Member of the Supervisory Board of Allianz Elementar Versicherungs-AG, Vienna	<b>Head of the Steel Division</b> <i>Assigned areas of responsibility:</i> Corporate Development, including Raw Materials Strategy; R&D and Innovation Strategy (from April 1, 2012); Corporate Human Resources; Corporate Communications and Corporate Image; Legal Department; Compliance; M&A; Strategic Environmental Management; Investor Relations; Internal Auditing
<b>■ Dipl.-Ing. Herbert Eibensteiner</b> Born 1963	Member of the Management Board since April 1, 2012; End of the current term of office: March 31, 2014	<b>Head of the Metal Forming Division (until March 31, 2012 Profilform and Automotive Divisions)</b> <i>Assigned area of responsibility:</i> Information Technology
<b>■ Dipl.-Ing. Franz Hirschmanner</b> Born 1953	Member of the Management Board since 2003 (until March 31, 2012)	<b>Head of the Automotive Division</b> <i>Assigned area of responsibility:</i> R&D and Innovation Strategy
<b>■ Dipl.-Ing. Dr. Franz Kainersdorfer</b> Born 1967	Member of the Management Board since July 1, 2011; End of the current term of office: March 31, 2014	<b>Head of the Metal Engineering Division (until March 31, 2012 Railway Systems Division)</b> <i>Assigned area of responsibility:</i> Procurement Strategy
<b>■ Dipl.-Ing. Josef Mülner</b> Born 1947	Member of the Management Board since 2003 (until June 30, 2011); Chairman of the Supervisory Board of VA Intertrading Aktiengesellschaft (until June 9, 2011); Member of the Supervisory Board of VA Erzberg GmbH	<b>Head of the Railway Systems Division</b> <i>Assigned area of responsibility:</i> Procurement Strategy, including Raw Materials Strategy
<b>■ Mag. Dipl.-Ing. Robert Ottel, MBA</b> Born 1967	Member of the Management Board since 2004; End of the current term of office: March 31, 2014; Chairman of the Supervisory Board of VA Intertrading Aktiengesellschaft, Linz (from June 30, 2011); Deputy Chairman of the Supervisory Board of APK-Pensionskasse AG, Vienna; Member of the Supervisory Board of Josef Manner & Comp. AG, Vienna	<b>CFO</b> <i>Assigned areas of responsibility:</i> Corporate Accounting and Reporting; Controlling, including Investment Controlling; Group Treasury; Taxes; Management Information Systems; Risk Management
<b>■ Dipl.-Ing. Franz Rotter</b> Born 1957	Member of the Management Board since January 1, 2011; End of the current term of office: March 31, 2014	<b>Head of the Special Steel Division</b> <i>Assigned area of responsibility:</i> Long-term development of new products and markets
<b>■ Mag. Wolfgang Spreitzer</b> Born 1951	Member of the Management Board since 2001 (until March 31, 2012)	<b>Head of the Profilform Division</b> <i>Assigned area of responsibility:</i> Information Technology

## Composition of the Supervisory Board

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<b>■ Dr. Joachim Lemppenau</b> Born 1942	<b>Chairman of the Supervisory Board</b> (since July 1, 2004) Initial appointment: July 7, 1999 Former Chairman of the Management Board of Volksfürsorge Versicherungsgruppe, Hamburg
<b>■ KR Mag. Dr. Ludwig Scharinger</b> Born 1942	<b>Deputy Chairman of the Supervisory Board</b> (since July 1, 2004) Initial appointment: January 20, 1994 Former CEO of Raiffeisenlandesbank Oberösterreich AG, Linz Deputy Chairman of the Supervisory Board of Raiffeisen Bank International AG, Vienna
<b>■ KR Dr. Franz Gasselsberger, MBA</b> Born 1959	<b>Member of the Supervisory Board</b> Initial appointment: July 1, 2004 Managing Director of Oberbank AG, Linz Chairman of the Supervisory Board of Bank für Tirol und Vorarlberg Aktiengesellschaft, Innsbruck Deputy Chairman of the Supervisory Board of BKS Bank AG, Klagenfurt Member of the Supervisory Board of AMAG Austria Metall AG, Braunau-Ranshofen
<b>■ Dr. Hans-Peter Hagen</b> Born 1959	<b>Member of the Supervisory Board</b> Initial appointment: July 4, 2007 CEO of VIENNA INSURANCE GROUP AG Wiener Versicherung Gruppe, Vienna
<b>■ Dr. Josef Krenner</b> Born 1952	<b>Member of the Supervisory Board</b> Initial appointment: July 1, 2004 Head of the Directorate of Finance of the Federal State of Upper Austria, Linz Member of the Supervisory Board of Lenzing AG, Lenzing Chairman of the Supervisory Board of AMAG Austria Metall AG, Braunau-Ranshofen
<b>■ Dr. Michael Kutschera, MCJ (NYU)</b> Born 1957	<b>Member of the Supervisory Board</b> Initial appointment: July 1, 2004 Attorney at law; partner at Binder Grösswang Rechtsanwälte GmbH, Vienna
<b>■ Mag. Dr. Josef Peischer</b> Born 1946	<b>Member of the Supervisory Board</b> Initial appointment: July 1, 2004 Former Director of the Chamber of Workers and Employees for Upper Austria, Linz
<b>■ Dipl.-Ing. Dr. Michael Schwarzkopf</b> Born 1961	<b>Member of the Supervisory Board</b> Initial appointment: July 1, 2004 CEO of Plansee Holding AG, Reutte Member of the Supervisory Board of Mayr-Melnhof Karton AG, Vienna Member of the Board of Directors of Molibdenos y Metales S.A., Santiago, Chile
Delegated by the Works Council:	
<b>■ Josef Gritz</b> Born 1959	<b>Member of the Supervisory Board</b> Initially delegated: January 1, 2000 Chairman of the Works Council for Wage Earners of voestalpine Stahl Donawitz GmbH & Co KG, Donawitz
<b>■ Johann Helligbrunner</b> Born 1948	<b>Member of the Supervisory Board</b> Initially delegated: March 24, 2000 Chairman of the Works Council for Salaried Employees of voestalpine AG, Linz
<b>■ Johann Prettenhofer</b> Born 1949	<b>Member of the Supervisory Board</b> (until December 31, 2011) Initially delegated: January 1, 2008 Former Chairman of the Works Council for Wage Earners of BÖHLER Edelstahl GmbH & Co KG, Kapfenberg
<b>■ Gerhard Scheidreiter</b> Born 1964	<b>Member of the Supervisory Board</b> (from January 1, 2012) Initially delegated: January 1, 2012 Chairman of the Works Council for Wage Earners of BÖHLER Edelstahl GmbH & Co KG, Kapfenberg
<b>■ Hans-Karl Schaller</b> Born 1960	<b>Member of the Supervisory Board</b> Initially delegated: September 1, 2005 Chairman of the Group Works Council voestalpine AG, Linz Chairman of the European Works Council of voestalpine AG, Linz

All Supervisory Board positions held by shareholders' representatives terminate as of the close of the Annual General Shareholders' Meeting of voestalpine AG, which adopts resolutions relative to the business year 2013/14.

None of the members of the Supervisory Board attended fewer than half of the Supervisory Board meetings during the last business year.

## **Compensation report for Management Board and Supervisory Board**

### **Management Board**

The fixed compensation of the Management Board is determined by the General Committee of the Supervisory Board pursuant to the Austrian legal situation and is reviewed periodically.

The award of a bonus is subject to a target agreement to be concluded with the General Committee of the Supervisory Board and consisting of quantitative and qualitative targets. The maximum bonus is limited to 135% of the annual gross salary for members of the Management Board and to 175% of the annual gross salary for the Chairman of the Management Board. If the agreed target values for quantitative targets are achieved exactly, 60% of the maximum bonus applies; if the agreed target values for qualitative targets are achieved, 20% of the maximum bonus applies. The over-achievement of the targets is taken into consideration proportionately until the maximum bonus is reached. The target amounts for the quantitative targets are the profit from operations (EBIT) and return on capital employed (ROCE). Specific target amounts are determined periodically (generally for a period of three years) by the General Committee of the Supervisory Board in consultation with the Management Board. Its basis of calculation is independent of the respective budget and the three-year medium-term business plan, i.e., budget compliance does not mean achieving a bonus. In addition to submitting a long-term strategy concept for the voestalpine Group, in the business year 2011/12, an explicit, precisely quantified reduction of the gearing was agreed as the qualitative target.

The amount of the contractually approved company pension depends on the length of service for members of the Management Board Dr. Eder, Dipl.-Ing. Hirschmanner, Dipl.-Ing. Mülner, Dipl.-Ing. Mag. Ottel, and Mag. Spreitzer. The amount of the annual pension equals 1.2% of the last annual gross salary for each year of service. The pension benefit cannot exceed 40% of the last annual gross salary (without variable compensation). A defined contribution arrangement was made with Dipl.-Ing. Rotter and Dipl.-Ing. Dr. Kainersdorfer; thereby 15% of his annual gross salary (without bonuses) is paid by the Company into the pension fund.

The members of the Management Board receive severance benefits at the time of termination of their employment by way of analogous application of the Salaried Employees Act (Angestelltengesetz).

For the members of the Management Board (as well as for executives) and for the members of the Supervisory Board there is a D&O insurance, the costs of which amounting to EUR 0.2 million (2010/11: EUR 0.2 million) are borne by the entity.

The compensation paid to the members of the Management Board of voestalpine AG is comprised as follows for the reporting period:

	Current fixed compensation	Current variable compensation	Compensation payments	Share-based payments	Total
Dr. Wolfgang Eder	0.8	1.0		1.1	2.9
Dipl.-Ing. Franz Hirschmanner (until 03/31/2012)	0.6	0.6	3.5	1.1	5.8
Dipl.-Ing. Josef Mülner (until 06/30/2011)	0.2	0.2	1.2	0.9	2.5
Dipl.-Ing. Dr. Franz Kainersdorfer (as from 07/01/2011)	0.3	0.4			0.7
Mag. Dipl.-Ing. Robert Ottel	0.6	0.6		1.2	2.4
Dipl.-Ing. Franz Rotter	0.6	0.5			1.1
Mag. Wolfgang Spreitzer (until 03/31/2012)	0.6	0.6	2.6	0.9	4.7
<b>2011/12</b>	<b>3.7</b>	<b>3.9</b>	<b>7.3</b>	<b>5.2</b>	<b>20.1</b>
2010/11	3.7	5.1	1.3	0.0	10.1

In millions of euros

The current compensation of the Management Board of voestalpine AG in the reporting period fell compared to the business year 2010/11 due to a decline of the variable salary components from a total of EUR 8.8 million to EUR 7.6 million.

In the reporting period, three members of the Management Board retired. Compensation payments in the amount of EUR 7.3 million were made for severance payments, applying the Salaried Employees Act mutatis mutandis, and as compensation for early contract termination.

Within the scope of a five-year stock option program, which ended as of June 30, 2011, all eligible members of the Management Board exercised all the options in the business year 2011/12. The share-based compensation resulted in payments totaling EUR 5.2 million. Regarding information on the share-based payment (stock option program), we refer to Item 27.

Defined benefit (current service costs) and defined contribution pension expense for members of the Management Board amounted to EUR 0.3 million (2010/11: EUR 0.3 million) in the reporting period.

At the reporting date, the outstanding balance of the variable compensation was EUR 2.9 million. No advances or loans were granted to the members of the Management Board of voestalpine AG.

Directors' dealings notices of the members of the Management Board are published on the website of the Austrian Financial Market Authority at [www.fma.gv.at](http://www.fma.gv.at).

## **Supervisory Board**

Under Sec. 15 of the Articles of Incorporation, the members of the Supervisory Board of voestalpine AG receive 0.1% of the profit for the period reported in the approved consolidated financial statements as compensation. The total amount is divided in proportion to the assigned fractions of 100% for the Chairman, 75% for the Vice-Chairman, and 50% for all other members, with a minimum compensation of EUR 20,000 for the Chairman, EUR 15,000 for the Vice-Chairman, and EUR 10,000 for all other members of the Supervisory Board. Compensation is limited to a multiple of four times the stated amounts. Additionally, members of the Supervisory Board receive an attendance honorarium amounting to EUR 500 per Supervisory Board meeting.

According to this regulation, the shareholders' representatives in the Supervisory Board received the following compensation for the business year 2011/12: Dr. Joachim Lemppenau (Chairman): EUR 80,000 (2010/11: EUR 80,000); Dr. Ludwig Scharinger (Vice-Chairman): EUR 60,000 (2010/11: EUR 60,000); all other shareholders' representatives: EUR 40,000 (2010/11: EUR 40,000). The members of the Supervisory Board nominated by the Works Council do not receive any compensation.

The annual compensation of members of the Supervisory Board and the mode of calculation are conclusively regulated by the Articles of Incorporation and do not require an Annual General Meeting's resolution.

The compensation of the Supervisory Board (incl. attendance honorarium) totaled EUR 0.4 million (2010/11: EUR 0.4 million) in the business year 2011/12. Payment of the compensation of the Supervisory Board for the business year 2011/12 is carried out at the latest 14 days after the Annual General Meeting on July 4, 2012. No advances or loans were granted to members of the Supervisory Board of voestalpine AG.

Directors' dealings notices of the members of the Supervisory Board are published on the website of the Austrian Financial Market Authority at [www.fma.gv.at](http://www.fma.gv.at).

As legal counsel to voestalpine AG, the law firm Binder Grösswang Rechtsanwälte GmbH, of which Dr. Michael Kutschera (member of the Supervisory Board) is partner, provided legal advisory services relative to the minority shareholder squeeze-out procedure related to BÖHLER-UDDEHOLM Aktiengesellschaft in the reporting period 2011/12. Fees for this matter are invoiced at the general hourly rates of the law firm of Binder Grösswang Rechtsanwälte GmbH applicable at the time.

For the business year 2011/12, total net fees of EUR 89,791.00 (2010/11: EUR 59,410.84) were incurred for services provided by the law firm of Binder Grösswang Rechtsanwälte GmbH.

## **Information regarding the independence of the members of the Supervisory Board**

All of the members elected to the Supervisory Board by the Annual General Shareholders' Meeting have confirmed that they consider themselves to be independent based on the criteria defined by the Supervisory Board (Corporate Governance Code, Rule 53). The criteria for independence defined by the Supervisory Board may be viewed on the website [www.voestalpine.com](http://www.voestalpine.com) and correspond largely to Appendix 1 of the Corporate Governance Code. Furthermore, with the exception of Dr. Scharinger, who represents the shareholder Raiffeisenlandesbank Oberösterreich Invest GmbH & Co OG, and Dr. Peischer, who represents the voestalpine Mitarbeiterbeteiligung Privatstiftung, none of the members elected to the Supervisory Board by the Annual General Shareholders' Meeting are shareholders with an investment of more than 10% or represent the interests of such shareholders (Rule 54).

## Committees of the Supervisory Board

The Articles of Incorporation authorize the Supervisory Board to appoint committees from among its ranks and to define their rights and responsibilities. The committees can also be given the right to make decisions. In accordance with the ratio defined in Sec. 110 (1) of the Labor Constitution Act (Arbeitsverfassungsgesetz, ArbVG), the employee representatives on the Supervisory Board have the right to nominate members with a seat and a vote for Supervisory Board committees. This does not apply to committees that handle relations between the Company and the members of the Management Board.

The following Supervisory Board committees have been established:

### General Committee

The General Committee is both the Nomination and Compensation Committee as defined by the Corporate Governance Code.

As the Nomination Committee, the General Committee submits recommendations to the Supervisory Board regarding filling Management Board positions that become vacant and handles issues regarding succession planning. As the Compensation Committee, the General Committee is also responsible for executing, amending, and dissolving employment agreements with members of the Management Board as well as for all matters associated with the management of Management Board members' stock option plans. Furthermore, the General Committee has the right to make decisions in urgent cases. It also makes decisions regarding whether members of the Management Board are permitted to take on ancillary activities.

Members of the General Committee of the Supervisory Board:

- Dr. Joachim Lemppenau (Chairman)
- KR Mag. Dr. Ludwig Scharinger (Deputy Chairman)
- Hans-Karl Schaller

### Audit Committee

The Audit Committee is responsible for monitoring the financial reporting process, the work undertaken by the auditor, reviewing and preparing approval of the annual financial statements, the recommendation for the appropriation of earnings, and the Management Report. It is also this committee's responsibility to review the Group's Consolidated Financial Statements and to submit a recommendation for the selection of an auditor and to report to the Supervisory Board in this matter. Furthermore, the Audit Committee is responsible for monitoring the effectiveness of the company-wide internal control system, the internal audit system, and the risk management system.

Members of the Audit Committee of the Supervisory Board:

- Dr. Joachim Lemppenau (Chairman)
- KR Mag. Dr. Ludwig Scharinger (Deputy Chairman)
- KR Dr. Franz Gasselsberger, MBA
- Dr. Josef Krenner (Financial expert)
- Hans-Karl Schaller
- Josef Gritz

## **Number of Supervisory Board meetings and significant matters raised during Supervisory Board meetings and meetings of the committees during the business year 2011/12**

During the business year 2011/12, the Supervisory Board fulfilled its responsibilities under the law and the Articles of Incorporation, holding five plenary sessions, two meetings of the Audit Committee, and four meetings of the General Committee. In addition to ongoing reports on the Group's current economic and financial situation, these meetings dealt in particular with issues surrounding the Group's strategic development and the realignment of the Group's structure, matters dealing with antitrust law, measures involving risk management and securing the Group's liquidity as well as changes on the Management Board. The Audit Committee dealt with the review and preparation of the approval of the Company's consolidated financial statements and the individual financial statements, preparation of the recommendation for the appointment of an auditor as well as topics relative to the internal control system, the risk management system, and Internal Auditing. The General Committee focused on questions regarding the Group's strategy and its structure as well as matters relevant to antitrust law. Furthermore, in its function as Compensation Committee, it dealt with questions concerning the compensation of the members of the Management Board; in its function as the Nomination Committee, a focal point of its activity was the preparation of changes in the composition of the Management Board.

In the last meeting of the business year, the Supervisory Board carried out the self-evaluation stipulated under Rule 36 of the Corporate Governance Code and, utilizing a list of questions, dealt with the general cooperation between Management Board and Supervisory Board, quality and scope of the documents made available to the Supervisory Board as well as organizational questions.

## **External evaluation of compliance with the Corporate Governance Code**

The Corporate Governance Code provides for a regular external evaluation of the Company's compliance with the Code. This evaluation was carried out by the Group's auditor during the audit of the 2011/12 financial statements (audit pursuant to Rule 62 of the Corporate Governance Code). As a result of this evaluation, the auditor has determined that the declaration given by voestalpine AG with regard to compliance with the 2012 version of the Corporate Governance Code conforms to the actual conditions and/or facts.

- The external review report may be viewed on the website at [www.voestalpine.com](http://www.voestalpine.com).

## **Measures to advance women on the Management Board, the Supervisory Board, and other leadership positions**

In the business year 2011/12, the percentage of female executives was at 10.2%. Within the scope of internal leadership development efforts, great importance is being placed on accelerating the expansion of the percentage of female participants. Therefore, the relative resolution by the Management Board stipulates that women must be represented at each level of training. In the business year 2011/12, there were 16 women of a total of 121 participants (13.2%).

Overall, the percentage of women in the voestalpine Group in the business year 2011/12 was about 12.4%. This percentage is still low compared to other sectors of the economy, and this has industry-specific, historical, and cultural reasons. In the consciousness of the public, the image of a steel and processing company is still the image of heavy industry and, therefore, broad-based recruitment of female employees is a challenging undertaking.



None of the Group companies have explicit "female quotas." Rather, the Group is striving to implement appropriate measures in order to sustainably increase the percentage of women at all levels. This includes a number of activities, some of which are country-specific, such as participation in Girl's Day, specifically targeted advancement of women in technical professions, and fast-tracking the recruitment of female graduates of technical schools and universities. As a result of these efforts, women are now employed in top leadership positions in traditionally male-dominated, technical areas of the Company (e.g., hot-dip galvanizing plants, wire production facilities) and are in executive positions in financial and legal departments of a number of Group companies, both in Austria and abroad.

In periodic human resources reporting, data on the percentage of women in executive positions is collected and analyzed regularly according to their qualifications and their status in the training programs in order to monitor the sustainability of the implemented measures.

Linz, May 16, 2012

The Management Board



Wolfgang Eder



Herbert Eibensteiner



Franz Kainersdorfer



Robert Ottel



Franz Rotter