Frequently Asked Questions (FAQ)

The following questions and answers have been prepared in order to provide further clarification and details on certain items on the agenda of the upcoming AGM of Befesa to be held on 18 June, as additional background for voting.

- **Do Executive Directors of Befesa have a minimum shareholding commitment of Befesa shares?**

  Yes, there is a minimum shareholding commitment in place since the IPO. The stock ownership requirement applies to Executive Directors and is anchored in the multi-year variable plan.

  While the Remuneration Policy is the framework for all Board of Directors, with subsections on executive and non-executive directors, the shareholding commitment is applicable to Executive Directors only. As such, the three executive directors of the Board of Directors - CEO, CFO and Vice-President of the Steel Dust Recycling Services segment- have a shareholding commitment. Non-executive directors (NEDs) do not have a shareholding commitment.

  The Stockownership Requirement per Executive Directors is as follows:

  CEO: 300% of annual gross base remuneration worth of shares to be owned
  CFO: 200% of annual gross base remuneration worth of shares to be owned
  Steel Dust Recycling Services Business VP: 100% of annual gross base remuneration worth of shares to be owned

- **What is the severance policy of Befesa for its Executive Directors?**

  Under "Severance Payment" in the Remuneration Policy, there is a specification of the maximum possible severance payment. The maximum is based on market practices which does not specify Befesa's intention to pay severance at a level of 2.5x the total annual compensation. The actual amount would depend on the individual contractual agreement in place, local rules and regulations and in general would be less than 2.5 times.

- **What is the relative weight of each of the metric used for the variable compensation?**

  The weighting of the metrics for the one-year variable compensation is as follows:

  1. Environmental, Health & Safety, Compliance: 20%
  2. EBITDA: 30% - 45%
  3. Net debt: 15% - 30%
  4. Strategic projects: 20% - 30%

  The weighting of the metrics for the multi-year variable compensation is as follows:

  1. Cumulative EBIT: 50%
  2. Cumulative Cash Flow: 30%
  3. Return on Strategic projects: 20%

- **Does Befesa provide the financial targets agreed for the multi-year variable compensation plan?**

  Befesa does not provide multiple year financial guidance. As such Befesa does not disclose the detailed targets for each of its defined performance metrics it uses in its variable compensation plans.

  However, Befesa provides significant information regarding the future development of the company and, specifically information regarding growth projects, timing for each project, investments, expected returns, EBITDA contribution, sensitivities to metal prices, sensitivities to treatment charges, the zinc price hedging book, etc. With all that relevant information any investor may produce a simple model and estimate financial projections.

- **Why does Befesa include a variable compensation component to Non-Executive Directors?**

  Befesa is a Luxembourg incorporated company listed on the German stock exchange. The board is comprised of 9 directors: three executive and six Non-Executive Directors (NEDs).

  The six NEDs have been carefully selected to fulfil their governance function -as well as- support successfully the strategic initiatives of Befesa. To the benefit of Befesa and its shareholders, each NED brings very valuable background and experience – whether on Befesa's ESG, growth, financial or other strategic initiatives.

Befesa targets to pay its Directors, including its NEDs, a competitive compensation aligned with the market. In 2019 Befesa conducted, with the help of one of the "big 4" consultancy service providers, a detailed market study referring to the compensation of NEDs in the German S- & M-DAX indices. This study highlighted that Befesa remunerates on average its NEDs a total compensation below the market median. Especially considering that Befesa provided only a fixed base salary and no further participation fees, other fringe benefits nor variable compensation.

To a) improve the competitiveness of the NED compensation and bridge the identified gap and b) incentivize the NEDs to continue to support Befesa's performance on strategic, financial and growth initiatives (in addition to the governance function) and c) better align NED compensation with shareholder goals & interest in sustainable profitable growth – the proposal is to provide a variable performance based incentive plan to the NEDs vesting over 3 years at ~25% of the NEDs base salary per year.

Befesa prefers to bridge the identified gap and align with the market compensation study results through the proposed 3 year vesting variable performance-based plan versus a similar increase in annual base salary for the NEDs.

Befesa understands that only a minority of companies listed on the Frankfurt stock exchange grant variable compensation to their NEDs -on the other hand- Befesa has a challenging growth & strategic initiative roadmap which shall be reflected in its compensation scheme.

The variable component for all 6 NEDs combined is targeted at ~25% of €470,000 base salary = €117,500 per year at 100% performance. Befesa considers this as not material.

The fact that the variable plan for NEDs is based on the same performance criteria as the one for Executive Directors makes sense. The variable plan for the Executive Director was also structured based on a detailed market study by one of the "big 4" consultancy service providers, already pre-IPO in 2017, to ensure alignment with market and best practices. The performance criteria and weighting are carefully designed to ensure alignment with shareholders interest. The amounts are not material and Befesa does not see this as a conflict of interest.

The target is to provide 80% of the compensation of the NEDs as fixed compensation and 20% as variable, performance based, compensation. Example: NED fix annual salary of €60,000. At 100% performance fulfilment an additional €15,000 (25% of €60,000) as part of the 3-year vesting variable plan. For a total compensation of €75,000, 80% would be fix and 20% variable.

Likewise, the target is to provide 80% of the compensation short term as fixed annual compensation and 20% as long-term compensation through a plan vesting over 3 years.