BEFESA

Remuneration policy of Befesa S.A. (Version 2020)

Introduction

The following remuneration policy of Befesa S.A. discloses all relevant information according to Article 7bis of the Luxembourg law of 24 May 2011 on Shareholders Rights, as amended, effective per 24 August 2019.

The remuneration policy shall be effective as of 1 January 2020 and is presented for its review and advisory vote by the AGM held in Luxembourg on 18 June 2020.

Members of the Board of Directors of Befesa S.A.

Our remuneration policy forms a key element to supporting the implementation of Befesa's strategy and the short-, mid- and long-term successful development of the Company. The remuneration policy is based on transparent, performance-related parameters that promote the Company's success. The variable compensation is measured short term on a one-year basis, as well as long term on a multi-year basis. It supports the implementation of Befesa's strategy and provides incentives to align the interests of Befesa's shareholders and other stakeholders with the interests of the members of the Board of Directors.

Our remuneration policy follows best practices among corporations listed in Germany as Befesa is listed in the SDAX. As part of preparing for the Initial Public Offering (IPO), Befesa conducted, with the help of one of the "big-four" independent auditing and advisory service providers, a compensation study and benchmark of the listed companies in the SDAX and MDAX stock indices covering, including others, the positions of the three executive directors. Befesa's remuneration structure and levels are aligned with this market benchmark. In 2019, Befesa expanded this study with the help of the external advisor to cover also the non-executive directors (NED).

The main objectives of the remuneration policy for the Board of Directors of Befesa S.A. can be summarised as follows:

- Define a framework of challenging targets to encourage sustainable profitable growth of Befesa
- Variable compensation targets are set on a forward-looking basis and performance is measured accordingly
- Alignment of interests between shareholders as well as other stakeholders and Board of Directors

- Consideration of financial, ESG and strategic performance

Process for determining, implementing and reviewing the remuneration system

The Nomination and Remuneration Committee develops the remuneration system as well as the compensation levels of the members of the Board of Directors.

The appropriateness of the compensation of the Board of Directors is assessed in detail at least once per year. On the one hand side Befesa compares itself with companies of similar size and structure. Since Befesa S.A. is listed in the SDAX, companies of the SDAX as well as MDAX are suitable for comparisons of compensation practices in the market.

On the other hand, a comparison of the compensation of the members of the Board of Directors of Befesa S.A. with that of senior management and other employees of the Company ensures appropriate compensation.

Avoidance of conflicts of interest

The members of the Board of Directors are obliged to disclose conflicts of interest to the Board of Directors in accordance with the rules of procedure for the Board of Directors and its committees. In the event that a member of the Board of Directors has, directly or indirectly, an interest which is in conflict to the interest of Befesa in any transaction of the Company that is submitted to the approval of the Board of Directors, such member shall make known to the Board of Directors such conflict of interest at that meeting and shall ensure a record of his statement to be included in the minutes of the meeting. The member of the Board of Directors may not take part in the deliberations relating to that transaction and may not vote on the resolutions relating to that transaction. Such conflict of interest shall be reported to the next following General Meeting.

Elements of the remuneration policy and the total target compensation of the three executive directors of the Board of Directors

The remuneration policy consists of fixed and variable compensation components, as well as extraordinary items and social security/pension expense components, the total of which determines the total compensation of the executive directors of the Board of Directors.

The fixed compensation comprises the base salary, fees and fringe benefits. The variable, performance-related compensation comprises two elements: a one-year variable remuneration in the form of an annual bonus and a multi-year variable remuneration program (Long-term Incentive Plan) based on virtual shares of Befesa S.A. and consisting of four plan tranches, each of three-year duration.

Structure of the compensation

For the three executive directors of the Board of Directors –CEO, CFO and vice-president of the Steel Dust Recycling Services segment– the fixed compensation (base salary, fees and fringe benefits) accounts for approximately 20-35% of the total compensation while the variable compensation (one- and multi- year variable remuneration) accounts for approximately 65-80 of the total compensation. The target amount of the long-term incentive focuses on the long-term and sustainable success of Befesa. The target amount of the short-term incentive, the annual bonus, focuses on achieving the annual objectives.

I. Fixed remuneration

a. Base salary

The base salary is a fixed gross compensation per fiscal year, based on the area of responsibility and experience of the respective executive director of the Board of Directors and is paid out in twelve equal monthly instalments.

b. Fees

Fees for the participation in the administrative, management or board bodies of Befesa S.A. are not remunerated and as such not applicable.

c. Fringe benefits

Under the so-called fringe benefits, Befesa captures mainly the provision of a company car which can also be used for private purposes.

II. Variable remuneration

a. One-year variable

One-year variable remuneration represents the value of the annual bonus paid out awarded for the performance achieved in the previous year. The predetermined performance targets cover four criteria:

1. Environmental, health & safety and corporate governance;
2. EBIT and EBITDA;
3. Net debt and cash flow;
4. Execution of strategic initiatives and return on growth projects.

The performance level for each performance target ranges from 0% to 200%. The weighting of the four targets is also predetermined. The performance level for each performance target as well as the overall weighted performance level is subject to review and recommendation of the nomination and remuneration committee and subsequently to the review and approval of the Board of Directors.

b. Multi-year variable

Multi-year variable remuneration is computed using an illustrative valuation method to conceptually approximate the potential market value of the multi-year variable program. The method uses one-third of the number of shares granted in tranche I (vesting over 2018 to 2020) as well as one-third of the number of shares granted in tranche II (vesting over 2019 to 2021), multiplied by the closing stock price at year-end 2019 of €38.00 per share. The number of performance stocks granted for tranche I are: 21,429 shares for Mr. Javier Molina, CEO; 15,179 shares for Mr. Wolf Uwe Lehmann, CFO and 14,286 shares for Mr. Asier Zarraonandia, vice-president of the Steel Dust Recycling Services segment. The number of performance stocks granted for tranche II are on the same level. The actual remuneration is depending on the share price at the respective year of vesting as well as the performance level cumulative over the three-year vesting period of the respective tranches.

The performance targets will be determined and measured over a three-year performance period (e.g. tranche I: 1 January 2018 to 31 December 2020).

The predetermined performance criteria cover three performance targets:

1. Cumulative EBIT
2. Cumulative cash flow
3. Return on strategic projects

For each performance target, the determination of values between 80% and 160% of target achievement is required. The performance scale has a hurdle at 80% target achievement and a maximum target achievement of 160%, in between on a straight-line basis.

Once a performance period has ended, the definitive number of performance stocks is derived by multiplying the number of performance stocks granted by the total target achievement, rounded to the nearest integer.

The two options for the settlement, at the Company's discretion, are:

a) transfer of Befesa S.A. shares
b) cash pay-out of the value of the Befesa S.A. shares

The following table illustrates how the performance targets are linked to Befesa's strategy:

	Performance targets	Connection to Befesa's strategy
One-year variable remuneration	1. Environmental, health & safety and corporate governance	▪ Vital part of Befesa's mission and values ▪ Core business is for Befesa to provide sustainable solutions to the steel and aluminium industries through servicing and recycling hazardous residues

	2. EBIT and EBITDA	▪ Supports target of sustainable profitable growth
	3. Net debt and cash flow	Supports the dividend policy - distribute as a dividend approximately 40 to 50% of the previous year's net reported profit - target dividend stability over the years - ensure that all key growth initiatives are funded - manage leverage at a moderate level
	4. Execution of strategic initiatives and return on growth projects	▪ Supports target of sustainable profitable growth
Multi-year variable remuneration	1. Cumulative EBIT	▪ Supports target of sustainable profitable growth
	2. Cumulative cash flow	▪ Supports the dividend strategy, see above
	3. Return on strategic projects	▪ Supports target of sustainable profitable growth

III. Extraordinary items

Befesa S.A. reserves the right to grant compensation to reward e.g. for extraordinary circumstances or performance aligned with market best practices.

As an example, on 17 October 2017, the Board of Directors of Befesa S.A. granted *interalia* the executive directors of the Company with 66,697 stock rights to reward their loyalty to Befesa S.A. The number of stock rights granted are: 26,518 shares for Mr. Javier Molina, CEO; 21,429 shares for Mr. Wolf Uwe Lehmann, CFO and 18,750 shares for Mr. Asier Zarraonandia, vice-president of the Steel Dust Recycling Services segment.

The granted stock rights vest at the end of 2 November 2020, subject to ongoing employment by the beneficiaries with Befesa S.A. throughout the vesting period. After vesting, Befesa S.A. has the following two options for settling the vested stock rights:

a) Transfer of Befesa S.A.'s ordinary shares to the executive director's account
b) Cash pay-out of the value of the Befesa S.A. ordinary shares

The extraordinary items are estimated using an illustrative valuation method to conceptually approximate its potential market value. It is computed as one-third of the granted number of stock rights, multiplied with the closing stock price at year-end 2019 of €38.00 per share. Actual remuneration will depend on the share price on 2 November 2020.

IV. Social security / pension expense

With regards to the social security / pension expense, Befesa provides the mandatory or statutory social security and pension coverage per the respective jurisdiction.

Befesa S.A. reserves the right to provide additional pension benefits to its executive directors aligned with market best practices.

Other contractual details

I. Term of office and service agreement

All the members of the Board of Directors are elected for a term of up to four years. The AGM of the shareholders of Befesa S.A. has the right to remove the members of the Board of Directors prior to the expiration of the term, at any time in accordance with the law. The term of the service agreement of the members of the Board of Directors coincides with their respective term of office and terminates automatically after the expiry of the term of office without notice of termination unless the agreement is extended. Furthermore, the term of agreement terminates on the date on which a resolution adopted by the Board of Directors of the Company removing the Board member becomes effective and is, in any event, terminated simultaneously when the members of the Board of Directors are removed for cause.

II. Severance payment

Payments made to the members of the Board of Directors on the occasion of a premature termination of their agreements other than for cause, if any, do not exceed the value of 2.5 times the total annual remuneration ("Severance Payment Cap"). For this purpose, the value of the annual compensation is the sum of the fixed base salary, the annual short-term variable compensation and the annual long-term variable compensation both assessed at their target amounts (100% target achievement). In case of termination for cause, no severance payment is due.

III. Change of control

In case of a takeover of more than 50% of the voting rights in the Company, each member of the Board of Directors has the right to terminate his agreement within six months after the effectiveness of the takeover. If a member terminates her/his agreement, any payments made to her/him, if any, shall not exceed the Severance Payment Cap.

IV. **Post-contractual non-compete obligation**

For a period of one year following the effective date of termination of the agreement of a member of the Board of Directors, the member shall neither directly nor indirectly work for a competitor of Befesa S.A.. During the term of a post-contractual non-compete obligation, the member receives a compensation amounting to 20% of her/his last base salary.

Exceptional circumstances

In exceptional circumstances, Befesa S.A. can temporarily deviate from the remuneration policy. Exceptional circumstances are situations in which the deviation from the remuneration policy is necessary to serve the long-term interest and the sustainability of the Company or to assure its viability.

A deviation from the remuneration policy in the aforementioned exceptional circumstances is only possible through a resolution by the Board of Directors assessing the exceptional circumstances and the necessity of a deviation.

Non-executive directors (NED) of the Board of Directors of Befesa S.A.

In accordance with their role and function the non-executive directors (NED) of the Board of Directors receive a fixed annual compensation aligned with market best practices. The Chairman of the Board of Directors receives additional compensation in the amount of approximately 1.5 times of this fixed annual compensation per annum for the performance of his office. The chairman of the Audit Committee receives additional compensation in the amount of approximately one third of this fixed annual compensation per annum for the performance of his office.

Additionally, Befesa S.A. reimburses the NED their expenses related to the Board of Directors mandate.

NED are not remunerated through further fixed compensation such as meeting fees, fringe benefits, pension contribution or an additional compensation for their work in a committee.

Based on the above mentioned NED compensation benchmarking, it is proposed to the General Meeting of 18 June 2020 that the NED of the Board of Directors are granted a multi-year variable remuneration program (Long-term Incentive Plan) based on phantom shares of Befesa S.A. and consisting of one tranche, of three-year duration, covering the years 2019, 2020, 2021, in the amount of 25% of the respective fixed compensation.

The multi-year variable remuneration is computed using an illustrative valuation method to conceptually approximate the potential market value of the multi-year variable program. The method uses one-third of the number of phantom shares granted at €35.34 per share, the approx. average share price in 2019 (vesting over 2019, 2020, 2021) multiplied by the closing stock price at year-end 2019 of €38.00 per share. As a result, the number of phantom shares per year is computed by taking 25% of the annual fixed compensation of the NEDs of €117,500 (25% of €470,000) divided by €35.34 per share equal to 3,325 phantom shares per year. At an illustrative valuation of €38.00 per share, this would translate into a value of €126,344 per year. The actual remuneration is depending on the share price after vesting and the average closing price of the last 20 days ahead of payout, as well as the performance level cumulative over the three-year vesting period.

The performance targets are determined and measured over a three-year performance period (1 January 2019 to 31 December 2021).

The predetermined performance criteria cover three performance targets:

1. Cumulative EBIT
2. Cumulative cash flow
3. Return on strategic projects

For each performance target, the determination of values between 80% and 160% of target achievement is required. The performance scale has a hurdle at 80% target achievement and a maximum target achievement of 160%, in between on a straight-line basis.

Once a performance period has ended, the definitive number of phantom shares is derived by multiplying the number of phantom shares granted by the total target achievement, rounded to the nearest integer.

The settlement is a cash pay-out of the value of the Befesa S.A. phantom shares.

As a growing company, it is vital that the NED of the Board of Directors are incentivized also on a variable basis to better align their compensation scheme with the interest of the shareholders.

Additionally, Befesa provides a group D&O insurance policy for all directors and officers of the Company including the members of the Board of Directors. The policy is taken out for one year at a time or renewed annually. It covers the personal liability of the insured in cases of financial loss associated with their activities on behalf of the Company.

Luxembourg, 25 March 2020

Board of Directors of Befesa S.A.