BEFESA

Annual Report

2021

Preserving natural systems

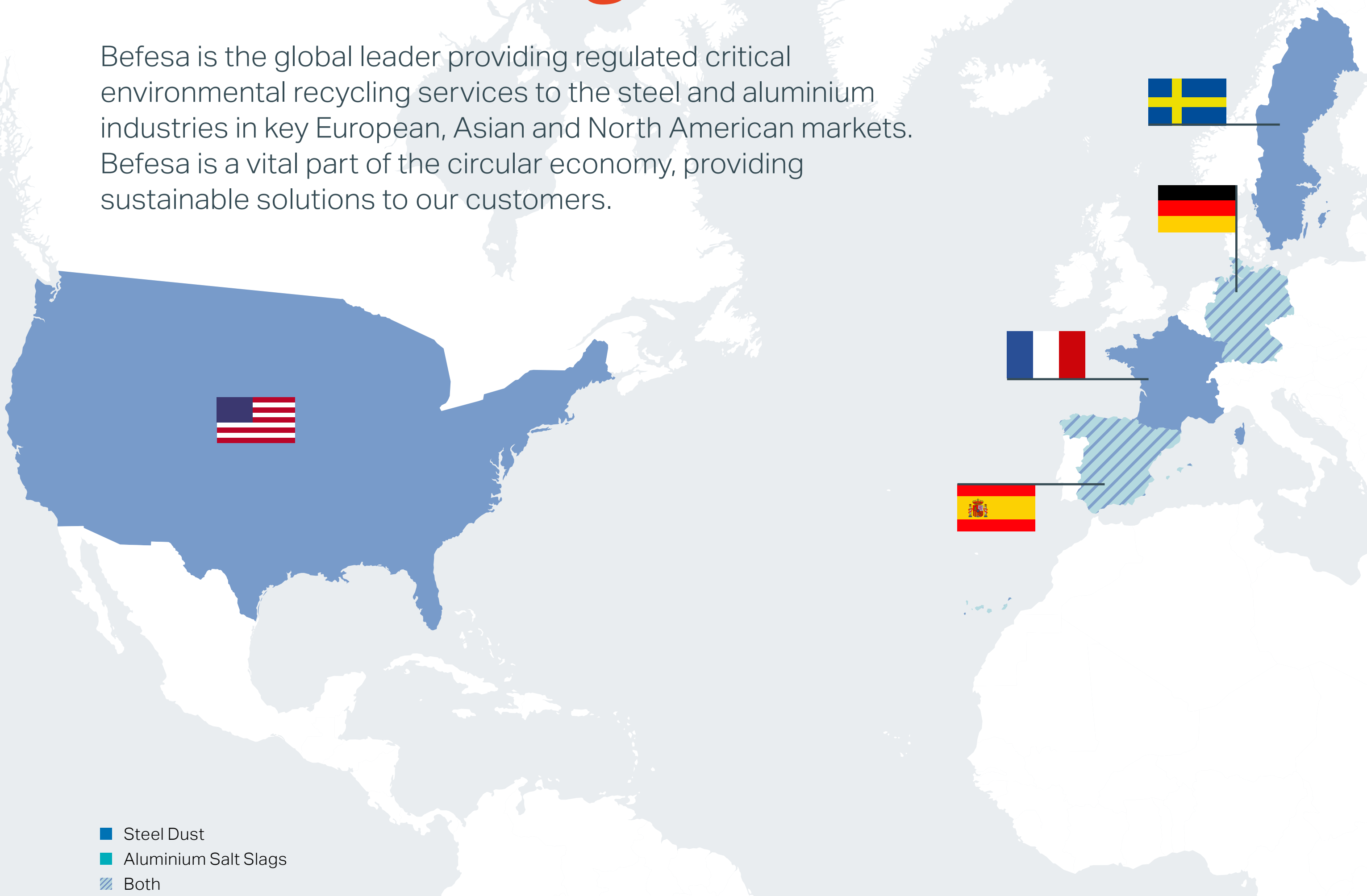

BEFESA

Befesa has been a vital player in the circular economy for more than three decades through reducing the environmental impact of industrial waste, recovering valuable materials and reintroducing them into the production process, and reducing the cost of primary production.

Contents

Befesa at a glance

Befesa is the global leader providing regulated critical environmental recycling services to the steel and aluminium industries in key European, Asian and North American markets. Befesa is a vital part of the circular economy, providing sustainable solutions to our customers.



For more than three decades, Befesa has been part of the circular economy and has continuously demonstrated strong commitment to recycling.

1.6m

TONNES OF RESIDUES RECYCLED IN 2021

1.4m

TONNES OF RECOVERED NEW MATERIALS IN 2021 REINTRODUCED INTO THE MARKET

Close proximity to major customers

Befesa's recycling plants are positioned in attractive markets that are strategically located across Europe, Asia and the US.

2,494,300 tonnes

TOTAL ANNUALLY INSTALLED CAPACITY TO RECYCLE EAF STEEL DUST (CRUDE AND STAINLESS), SALT SLAGS & SPL AND SECONDARY ALUMINIUM

1,839,300 TONNES[1]	450,000 TONNES[2]	205,000 TONNES[3]
Steel dust (crude and stainless) from electric arc furnaces (EAF)	Aluminium salt slags & spent pot linings (SPL)	Secondary aluminium alloys

23	1,550	€822m	€198m
RECYCLING PLANTS	EMPLOYEES[6]	REVENUE IN 2021	ADJUSTED EBITDA IN 2021[5]
17 / 6	1,054 / 457	€456M / €368M[4]	€148M / €49M

[1] Total annually installed capacity to recycle 1,839,300 tonnes of EAFD (crude and stainless steel), including c. 620,000 tonnes from the acquired US recycling plants and 220,000 tonnes from the first two Chinese plants. [2] Total annually installed capacity to recycle 450,000 tonnes of salt slags and SPL, excluding 80,000 tonnes from the UK plant, which was permanently closed in Q4 2020. [3] Total annually installed capacity of 205,000 tonnes is based on secondary aluminium alloys produced. [4] Revenue of the Aluminium Salt Slags segment is after €38.8m of intersegment eliminations. [5] €127.5m 2021 reported total EBIT + €62.2m depreciation and amortisation = €189.6 2021 reported total EBITDA + €14.0 one-time AZR acquisition costs – €6.0m Hanover plant fire impact = €197.6 2021 adjusted total EBITDA. [6] Includes 39 employees in Corporate.

Reduce

The consumption of natural resources prevents more than 1.6 million tonnes of residue from reaching landfills each year.

To Befesa's shareholders

Letter from the CEO

24.0%

ADJUSTED EBITDA MARGIN IN 2021
(21.0% IN 2020)

€99.7m

NET PROFIT IN 2021
(€47.6M IN 2020)

DEAR SHAREHOLDERS,

The year 2021 has certainly been an extraordinary year for Befesa. We have delivered the strongest results in the history of Befesa and achieved great progress in the execution of our growth strategy, which positions us to grow our earnings at a double-digit rate in the coming years.

It is even more remarkable considering the challenging circumstances the entire world has faced during 2021, caused by the global COVID-19 pandemic, which has imposed severe restrictions around the world.

I would like to express my gratitude, once again, to the entire team of Befesa for all their efforts and commitment to pursuing and fulfilling the ambitious objectives that we set at the beginning of the year.

In 2021, we achieved revenues of €822 million and an adjusted EBITDA of €198 million, which represents an increase of 56% over the last year. The main drivers of this growth have been a combination of a strong increase in volumes and positive metal price developments through the year.

The volume of steel dust recycled increased in 2021 by nearly 30%. This was driven mainly by the volume from the acquisition of American Zinc Recycling (AZR) in August, supported by a recovery in the plant utilisation in the rest of the business.

The average zinc price for the year was €2,544 per tonne, which represents an increase of 29% compared to the previous year.

Similarly, the average aluminium price in 2021 was €2,112 per tonne, which is 48% higher than the prior year. Also, the significantly lower zinc treatment charge (TC) in 2021 contributed positively to the earnings growth last year ($300 per tonne in 2020 against $159 per tonne in 2021).

During 2021 and Q1 2022, we have taken advantage of the strong zinc price to extend our hedging book up to January 2025 at increased prices and today we enjoy around three years of hedging going forward. This provides high visibility and predictability for our shareholders.

From the market environment point of view, the main industries and markets where we operate have seen a gradual recovery in their levels of activity during 2021. As a result, the production of steel in Europe in 2021 increased by 15% compared to 2020, with a strong production level from EAF steelmakers. Steel production in the US increased by 18%, whereas it decreased by 3% in China in 2021.

The automotive industry in Europe, meanwhile, ended 2021 with a small decrease of 2% on car sales compared to the previous year. This compares with China, where car sales increased by 7% in 2021; and with the US, with a 3% increase.

In the second part of the year, energy prices in Europe increased significantly, especially natural gas and electricity. This had a negative impact, especially on our aluminium business, which uses natural gas and electricity as the main energy sources. This impact in 2021 was very limited and was offset by higher metal prices.

The year 2021 has truly been an inflection point for Befesa, delivering the strongest results in our history: Although we continued operating at all-time highs, we made significant strategic progress, especially in Asia and the US, which will enable us to grow our earnings at a double-digit rate again in 2022.

From the strategy execution point of view, 2021 has been an extraordinary year. We entered one of the most important markets of electric arc furnace steel dust (EAFD) recycling in the world, like the North American market, and we now cover approximately 50% of the market.

Also in 2021, we have been able to complete and start operations at our first plant in China, in the province of Jiangsu, in addition to making great progress at our second plant in the province of Henan. Our achievements in the US and China will set the foundation for double-digit earnings growth in the coming years.

From the capital markets point of view, 2021 has also been a very positive year. We successfully carried out a sizeable capital increase in June to fund the acquisition of AZR, which was greatly welcomed by our investors.

The market cap increase following the transaction as well as the share price increase itself enabled Befesa to enter the important German stock index MDAX in September.

The generation of cash during 2021 has been very strong, enabling us to finish the year with more than €220 million of cash on hand and a net leverage below x2.2.

Looking ahead, in 2021 we set the foundation for future growth in the years to come and 2022 will clearly be a year of strong growth for Befesa. This will be driven mainly by strong volume growth in our Steel Dust recycling business and supported by strong metal prices.

For 2022, we expect double-digit EBITDA growth. From the volume point of view, we will deliver strong growth in our Steel Dust recycling business, driven by the contribution of the two plants in China as well as the full year of operations in the US.

In China, the largest steel producing country in the world, 2022 will mark the first year of commercial operations for Befesa. In Jiangsu, after the successful commissioning and ramp-up of the plant, we expect 12 months of production at almost full capacity utilisation. In Henan, we expect to complete the commissioning and the ramp-up of the plant during H1 2022 and to start commercial operations during H2 2022.

In the US, the integration of AZR into Befesa is progressing well. We are working very closely across all different aspects of the business, from the operational to the

Letter from the CEO continued

Following the successful completion of the acquisition of AZR in August 2021, we are driving progress on the integration of our US operations, which are delivering as expected.

commercial side. The team at AZR is working well with the rest of the organisation, and we can confirm that we expect to capture the announced synergies of approximately $20 million over 2022 and 2023.

In 2022, we will benefit from the full year of operations in the US, which will represent a significant EBITDA growth, driven by better hedging prices and the contribution of synergies. This will be partially offset by slightly lower volumes of steel dust compared to the previous year, which we will recover over the next years.

From the metal prices point of view, we also expect a positive contribution in 2022. The hedging price for 2022 is around €2,275 per tonne, which is €125 per tonne higher compared to 2021. In addition, so far in the year, we are enjoying zinc prices higher than in 2021. It seems that these have the potential to stay high for the rest of 2022.

We are living in times of volatility and very high energy prices in Europe, which have an impact on our European operations and especially on our aluminium business. Our Steel Dust business is well diversified from a geographic point of view and the main energy cost is coke, with most of the contracts having a limited impact. However, our aluminium business is affected by the high energy prices, especially gas prices, which represent around two-thirds of the total energy cost in the Aluminium Salt Slags Recycling business.

In China, we have ahead of us a great growth opportunity and we are very confident and positive about how matters are developing in the country. The environmental authorities are committed to enforcing and fulfilling the environmental regulations, with steelmakers seeing recycling as a real solution. We are starting to see real possibilities of new additional plants in China. We will announce our next steps in China later in 2022.

At Befesa, we are very proud to have actively contributed to the circular economy for more than three decades by recycling more hazardous residues for our customers year after year. This produces more valuable new materials and prevents the extraction of virgin resources, even as we keep delivering attractive returns for our shareholders.

In the next ESG Report, which we will publish during Q2 2022, we will include a detailed chapter about climate change and how Befesa is committed to doing our part to combat it. Befesa clearly avoids CO_2 emissions, preferring an alternative to mining finite resources from the earth. Nevertheless, we are going further by defining a plan to reduce our CO_2 emissions by 20% by 2030, with the ambition of achieving net zero by 2050.

Unfortunately, the world is living a very dark period caused by the invasion of Ukraine by Russia. This is causing a terrible humanitarian catastrophe of gigantic dimensions which is not yet possible to quantify. Beyond the humanitarian crisis, which is the most important issue, this sad conflict is creating great instability in the global economy. Although Befesa as a company, our operations and our clients are not being directly affected, the developments there concern us very much and we hope that this conflict ends very soon.

Yours sincerely,

Javier Molina
CEO


SAXONIA
CTP

Befesa in the capital markets

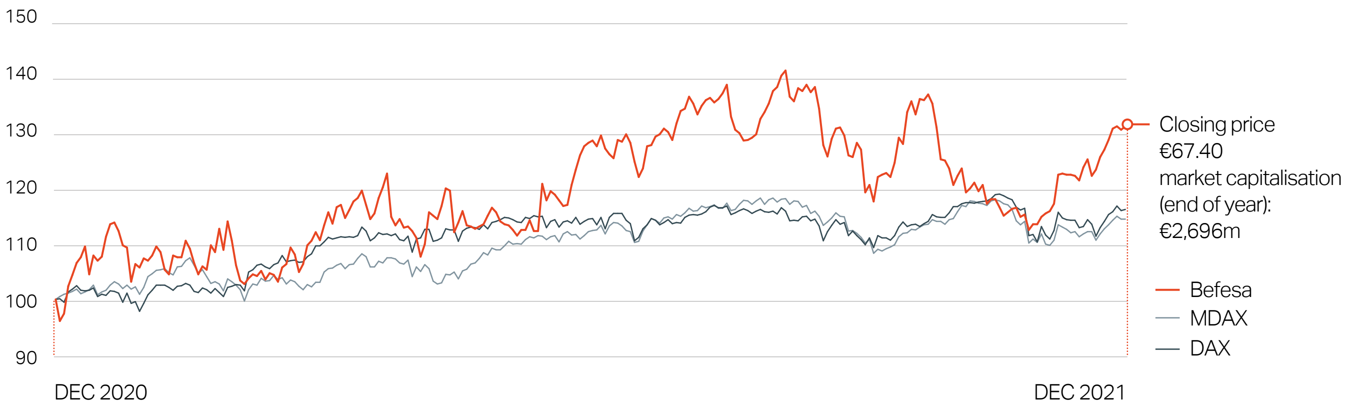
Share data

Ticker symbol	BFSA
ISIN	LU1704650164
German securities code (WKN)	A2H5Z1
Bloomberg code	BFSA:GR
Reuters code	BFSA.DE
Stock exchange	Frankfurt Stock Exchange, XETRA
Market segment	Prime Standard
Index	MDAX
Number of shares	39,999,998

In €	2021	2020
Free-float (end of year)	100.0%	100.0%
Closing price	67.40	51.70
Highest price	72.50	51.70
Lowest price	49.75	23.25
Dividends	1.25[1]	1.17
Dividend yield (based on closing price)	1.9%[1]	2.3%
Market capitalisation (end of year)	2,695,999,865	1,761,248,649

[1] Proposal – subject to AGM resolution
Data source: Bloomberg XETRA closing prices

Befesa share development vs DAX and MDAX in 2021



Share performance in 2021

	Befesa	DAX	MDAX
30 December 2020	51.70	13,718.78	30,796.26
30 December 2021	67.40	15,884.86	35,123.25
Change	**30.4%**	**15.8%**	**14.1%**

The Befesa share started 2021 at a price of €49.75 on 4 January 2021. Until the beginning of March, the Befesa share was able to outperform both the DAX and the MDAX indices. This happened despite increasing COVID-19 infections and continued lockdowns in many countries. Shortly after the preliminary figures were released at the end of February 2021, the share price showed a correction, but was able to outperform the indices again afterwards. Momentum continued and softened later in the spring. In mid-May, one major shareholder announced they had sold their entire position below the current share price. This resulted in a decrease of the Befesa share price, but was partly compensated within a few days.

The most important event for Befesa and for the market in 2021 was the announcement of the acquisition of American Zinc Recycling (AZR) on 16 June, followed by a capital increase. A total of 5,933,293 new Befesa shares were issued and increased the number of total shares to 39,999,998. The message about the well-priced acquisition and the potential growth resulted in a rally which brought about new all-time highs in July. The rally stopped when the H1 figures were published, but it continued in August followed by a break. The all-time high of €72.50 was reached on 7 September 2021, shortly after the inclusion of Befesa in the MDAX was announced. Since the acquisition in mid-June, Befesa was able to outperform the indices.

In September a correction started, paused by another increase at the end of October, which ended with the reporting of the Q3 figures. Befesa's consolidation was later supported by decreasing indices in November. Although indices recovered slightly in December, the Befesa share was again able to considerably outperform the indices.

In summary, over the course of the year 2021, Befesa's share price increased by 30.4% after the Befesa share had already gained 36.1% in 2020. In addition, shareholders received a dividend of €1.17 per share which was paid in July. Befesa was able to show a performance twice as high as the DAX and MDAX. The DAX index grew in 2021 by 15.8% and the MDAX closed 14.1% higher. Befesa's daily average volume traded on XETRA increased significantly to 62,124 shares (2020: 48,332 Befesa shares were traded daily). This was due to the higher number of total shares as well as the MDAX inclusion in September 2021.

Based on additional figures, Befesa estimates that the XETRA trading volumes represents less than 50% of the real daily trades of Befesa shares. Alternative trading platforms were again important trading places in 2021, as already in 2020.

The market capitalisation of Befesa increased by 53.1% to €2,696 million (end of 2020: €1,761 million).

Befesa in the capital markets continued

SHAREHOLDER STRUCTURE

Befesa's shares are owned by a large number of international investors and by retail shareholders. After Befesa's former major shareholder sold its remaining stake, 100% of shares in Befesa S.A. have been free-floating since 6 June 2019.

According to voting rights notifications received, as of 31 December 2021, the following shareholders held (or were attributed to) 5% or more of the total voting rights attached to Befesa shares:

Name of shareholder (direct or indirect)	% of voting rights in the share capital of Befesa	Date on which the threshold was crossed or reached
Alba Europe S.à r.l., Luxembourg, Grand Duchy of Luxembourg	5.10% attached to shares	21 June 2021
Global Portfolio Investments, S.L., Madrid, Spain	5.41% attached to shares	17 June 2021
Allianz Global Investors GmbH, Frankfurt, Germany	10.07% attached to shares	18 March 2020

Based on voting rights notifications, other publicly available data sources (especially public filings) and own research, German investors account for the largest share of institutional investors (27%), followed by investors from the UK (16%) and Spain (16%). Additional important shareholders are based in the US (13%) and France (8%). The 10 largest investors own almost 42% and the 25 largest investors own approximately 62% of Befesa.

DIVIDEND

Within its dividend policy, Befesa balances primarily four aspects:

1. Distribute as a dividend 40% to 50% of net reported profit
2. Target dividend stability over the years
3. Ensure that all key growth initiatives are funded
4. Manage leverage at a moderate level

Reviewing these aspects, the Board of Directors of Befesa will propose to the Annual General Meeting (AGM) of 2022 to distribute a total dividend of €50 million or €1.25 per share (2021: €1.17). This would result in a dividend payout ratio of 50.1% of the 2021 reported net profit. Based on the 2021 closing price, the proposed dividend payment would result in a dividend yield of 1.9%.

On 16 June 2022, the Befesa shareholders will decide on the dividend proposal as part of the AGM agenda.

INDICES

Befesa was listed in the **SDAX** as of September 2018. In September 2021, the Befesa share joined the **MDAX**, one of Germany's leading and most closely watched stock indices. The **MDAX** index comprises the 50 largest companies below Germany's DAX, which, as of September 2021, contains the 40 largest stocks in terms of market capitalisation.

The composition of these indices of Deutsche Börse is based on the free-float market capitalisation and some additional conditions Befesa has fully met (e.g. free-float of at least 10% and the existence of an audit committee). According to the definitions of Deutsche Börse, the index-relevant free-float for Befesa is 89.48%.

In the Deutsche Börse ranking list with all corporations listed in Frankfurt in Prime and General Standard fulfilling the rules, Befesa improved its ranking in December 2021 to rank #73 in terms of market capitalisation. This is a significant improvement compared to rank #88 in December 2020.

Since May 2019, Befesa has been included in the **MSCI Europe Small Cap Index** and in the **MSCI Germany Small Cap Index**. These inclusions increased the demand for the Befesa share because index trackers (ETFs) have to include the index members.

Befesa was promoted into the **Global Challenges Index (GCX)** in September 2020. The GCX comprises a total of 50 international shares selected according to strict criteria from a total number of around 6,000 companies worldwide. In 2021, the inclusion of Befesa was confirmed.

The GCX was initiated by Boersen AG, the parent company of the Hamburg and Hannover stock exchanges, and it was developed in 2007 in cooperation with today's ISS ESG. The GCX only includes shares of companies that make pioneering contributions to the seven global challenges of climate change, the supply of clean drinking water, deforestation, biodiversity, population development, poverty,

Analysts' recommendations

Institution	Analyst	Recommendation	Target price (€)
Bank of America	Kevin Kerdoudi	Buy	73.00
Berenberg	Benjamin Pfannes-Varrow	Buy	79.00
Citi	Paul L. Bradley	Neutral	70.00
Commerzbank	Ingo-Martin Schachel	Buy	75.00
Goldman Sachs	Jack O'Brien	Buy	85.00
JP Morgan	Sylvia P. Barker	Neutral	67.00
Kepler Cheuvreux	Olivier Calvet	Hold	77.00
Santander	Jaime Escribano	Buy	73.70
Stifel	Michael E. Hoffman	Buy	74.00

As of 31 December 2021

and global governance.

The decision to include Befesa was based on the Company's current performance in the ISS ESG Sustainability Rating (Prime Status) and, in particular, on its contribution to the achievement of sustainable development objectives, as reflected in the Sustainable Development Goals Assessment (SDGA). The GCX advisory board includes representatives from the Federal Association of German Foundations, the Protestant and Catholic Churches and the World Wide Fund for Nature (WWF).

Befesa was honoured for the contribution made to increasing the overall efficiency of raw material use in the metals industry and the development of recycling solutions that promote the transition to a more sustainable recycling economy. At the same time, the safety measures taken to adequately manage social and environmental risks have been recognised.

In September 2021, the **Zero Plastic Index** was created and includes eight European companies. Befesa is part of this index with a weight of around 13%.

ANALYSTS' COVERAGE

In 2021, nine equity analysts published regular reports and recommendations on the Befesa shares (2020: eight).

As of the end of 2021, 67% of the analysts recommended buying the Befesa share and 33% had a hold (neutral) view on Befesa. None of the analysts recommended selling the Befesa share. The median of the price targets was €74.00 (2020: €48.60) per share.

ESG RATINGS

Since 2019, four of the most important international environmental, social and governance (ESG) rating agencies have been publishing research on Befesa. This underlines the importance of ESG, for which Befesa is well suited. This is in particular because of its vital position in the circular economy value chain and its core business focus on hazardous waste management and recycling.

ESG topics are now mainstream, driven by discussion around climate action and the introduction of the EU taxonomy. Befesa, as part of the circular economy, can fulfil the needs of investors and is also qualifying for impact investing.

ESG ratings are very important, but their approach differs greatly, and investors have to decide how to deal with the data they receive from the providers. Befesa answered to the high information needs of rating agencies and investors with the ESG Progress Update 2020. The dialogue with the ESG rating

Befesa in the capital markets continued

agencies continued and helped to explain the business model and Befesa's role for the environment.

In total, the ESG view on Befesa is very positive and the ESG rating results are encouraging, even resulting in the Company being placed in the Top 3 or Top 5 of the industry sectors globally.

Updated information on ESG at Befesa will be provided in the Befesa ESG Report 2021, which will be issued in Q2 2022 and will be made available on Befesa's updated website (www.befesa.com).

INVESTOR RELATIONS ACTIVITIES

Befesa's investor relations provides comprehensive information for the capital markets. Fixed dates with regular reporting forms the basis for capital market communication, with Befesa's quarterly and annual results. This includes conference calls for analysts and investors, and investor news with the relevant information about Befesa.

A calendar with the upcoming reporting dates, investor conferences and current presentations is available on Befesa's website (www.befesa.com), which was relaunched in December 2021.

Befesa has continued the direct and intensive dialogue with existing shareholders, potential investors and analysts. The circumstances in 2021 were still challenging owing to the COVID-19 pandemic, and roadshows and conferences continued virtually. After this significant and rapid change in 2020, investors have become used to virtual meetings and see advantages such as the possibility of holding more meetings at the same time since travel time and costs can be avoided. This also helped to significantly reduce the carbon footprint of the investor relations activities.

During 2021, Befesa attended 24 investor conferences and completed six roadshows. In total, 430 institutional investors from the relevant financial markets in Europe and North America were met (2020: 420). This high level and the fact that it even increased again in 2021 shows the large interest in the Befesa share, also driven by the acquisition of AZR in the US.

Retail investors can obtain relevant information on request, by being added to the distribution list or from Befesa's website. They are one pillar of Befesa's shareholder base. Also in 2021, several financial magazines for retail investors continued to follow the Befesa share and published buy recommendations. According to a shareholder identification, in 2021 the number of retail investors who are new shareholders in Befesa increased strongly.

Befesa is committed to the principles of open and continuous communication, which is expressed in the Company's support and membership in the German Investor Relations Association (DIRK – Deutscher Investor Relations Verband e.V., Frankfurt).

As of 31 December 2021, ESG rating agencies following Befesa and their respective ESG ratings assigned to Befesa were:

ISS ESG
Metals Processing & Production
Prime Status
Top 3 of 69

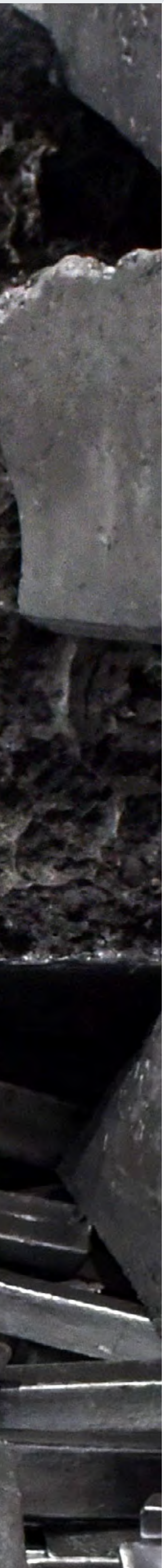
SUSTAINALYTICS
Commercial Services,
Facilities Maintenance
Rank #5 of 63

V.E
Business Support Services
60/100 points: Advanced
Rank #7 of 103

MSCI
Commercial Services & Supplies
Rating: BBB

Recycle

Hazardous residues from secondary steel and aluminium producers



Management report

About the Company

GENERAL INFORMATION

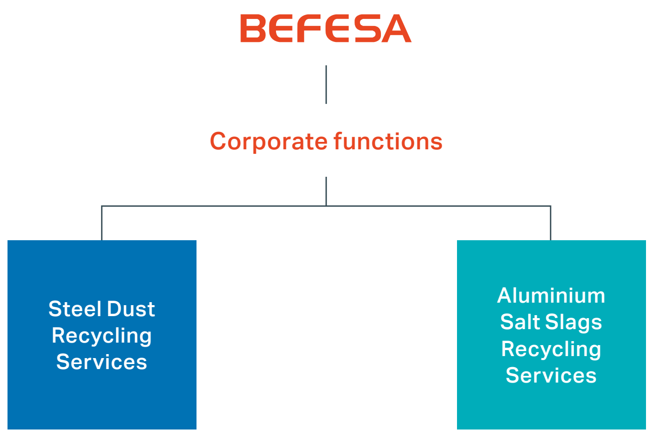
Befesa S.A. is a public limited company (*société anonyme*) incorporated in Luxembourg and governed by Luxembourg law. The registered office is located at 68-70, Boulevard de la Pétrusse, L-2320, Luxembourg, Grand Duchy of Luxembourg. Befesa S.A. is the Parent Company of the Befesa Group. Befesa's financial year starts on 1 January and ends on 31 December.

ORGANISATION OF BEFESA

Befesa organises its activities into two business segments: Steel Dust Recycling Services and Aluminium Salt Slags Recycling Services.

Befesa has a corporate structure with selected functions to coordinate and support both business segments while promoting a common management philosophy and mission.

In 2021, the Steel Dust Recycling Services segment represented 75% of Befesa's total adjusted EBITDA. The remaining 25% was contributed by the Aluminium Salt Slags Recycling Services segment.



BEFESA'S VISION

Befesa aims to be the global leader in the management and recycling of hazardous residues for the steel and aluminium industries by continuing to play a growing role in a more sustainable world and the circular economy.

BEFESA'S STRATEGY

Befesa focuses on achieving its goals by developing improvements in existing technologies, optimising operations and product quality, and increasing efficiency while investing in organic growth and scaling up its proven business model into new and emerging markets.

BEFESA'S BUSINESS

Befesa's business is to provide sustainable solutions to the steel and aluminium industries through servicing and recycling hazardous residues generated in the value chains of secondary steel and aluminium producers. Befesa focuses its core efforts on recycling hazardous residues: crude steel dust, salt slags and SPL. Befesa has been a part of the circular economy for more than three decades.

BEFESA'S PRINCIPLES

Befesa places a strong emphasis on its social responsibility and helps to create a sustainable world.

Befesa focuses on the following principles:

Health & safety

Environmental protection

Client focus

Operational excellence

Compliance

Integrity & transparency

Highly qualified employees

Business model

Befesa's business model is based on a full-service approach to offering residue management solutions to its customers in the steel and aluminium industries.

The services cover the timely and efficient collection and treatment of hazardous residues – mainly steel dust and salt slags – from customers' facilities. This enables the management of the environmental and regulatory obligations that Befesa's customers have: to recycle the hazardous residues generated in their operations.

In the **Steel Dust Recycling Services** segment, Befesa collects and recycles steel dust and other steel residues generated in the production of crude, stainless and galvanised steel in EAF. The majority of the revenue generated in the Steel Dust Recycling Services segment comes from selling Waelz oxide (WOX). This is produced from the recycling of crude steel dust to zinc smelters, and the service fees charged for the collection and especially the treatment of crude steel dust.

In addition, a small portion of revenue is generated by tolling fees. These fees consist of a service fee charged for collecting and treating stainless-steel residues and a fee for returning the metals – mainly nickel, chromium and molybdenum recovered in the recycling process – to stainless-steel dust customers.

In the **Salt Slags** operations of the Aluminium Salt Slags Recycling Services segment, Befesa recycles salt slags that are collected from customers for a service fee. Further salt slags are generated during the production of secondary aluminium at Befesa's plants. In addition, Befesa recycles SPL, a hazardous residue generated by primary aluminium producers. During the recycling process, melting salt, aluminium concentrates and aluminium oxides are recovered. Revenues from the Salt Slags operations are mainly derived from the sale of aluminium concentrates and melting salt obtained from recycling salt slags and SPL as well as fees charged for recycling these materials. A large amount of the recovered aluminium concentrates is sold and used within Befesa to produce aluminium alloys.

In the **Secondary Aluminium** operations of the Aluminium Salt Slags Recycling Services segment, Befesa collects and recycles aluminium scrap and other aluminium residues such as aluminium drosses, shavings and cuttings and aluminium concentrates from, among others, aluminium foundries, scrap dealers and collectors, and primary aluminium producers. Befesa also generates aluminium concentrates itself during the salt slags recycling operations and produces secondary aluminium alloys from these aluminium residues. These are mainly sold to customers in the automotive and construction industries. Revenues from the Secondary Aluminium operations are mainly derived from the sale of secondary aluminium alloys.

Inputs

Financial rigour
Befesa's focus is on securing volumes in its plants and maintaining resilient and solid margin levels while focusing on strong cash-flow generation. This is achieved by managing capital expenditures, working capital and operating earnings to continue to fund its growth initiatives and to distribute dividends to its shareholders.

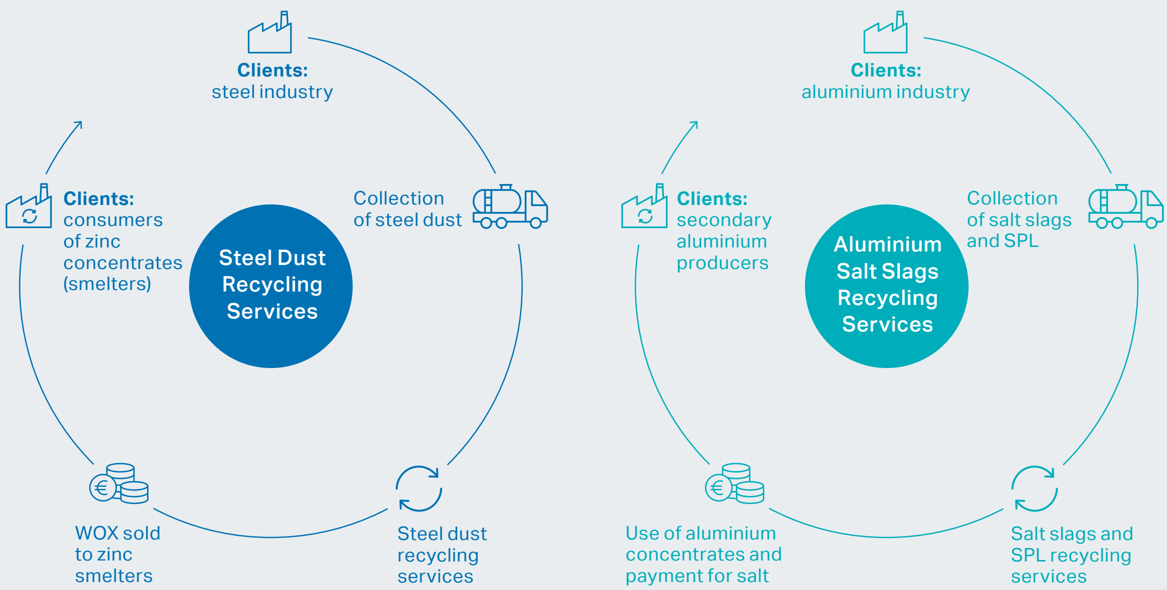
Leading technology & innovation
Befesa's R&D strategy is designed to create value by developing sustainable improvements in the existing technologies, optimising operations and product quality, and developing new processes. This achieves greater recycling efficiency, reduced costs and improved environmental conditions, such as environmental regulations and higher residue generation.

Macro trends
Befesa continues to execute its organic growth project pipeline and focuses on growing its core environmental service activities, which are benefiting from the positive underlying macro trends.

Highly qualified employees
In striving to be the leading global recycling service provider, Befesa relies on a large team of highly qualified employees worldwide.

Activities

Activities
Befesa has been a part of the circular economy for more than three decades and contributes by reintroducing valuable materials into the production process.



Outputs

Shareholder value
Befesa aims to create value for shareholders owing to management's ability to increase revenues, earnings and free cash flows, which leads to an increase in dividends and capital gains for shareholders.

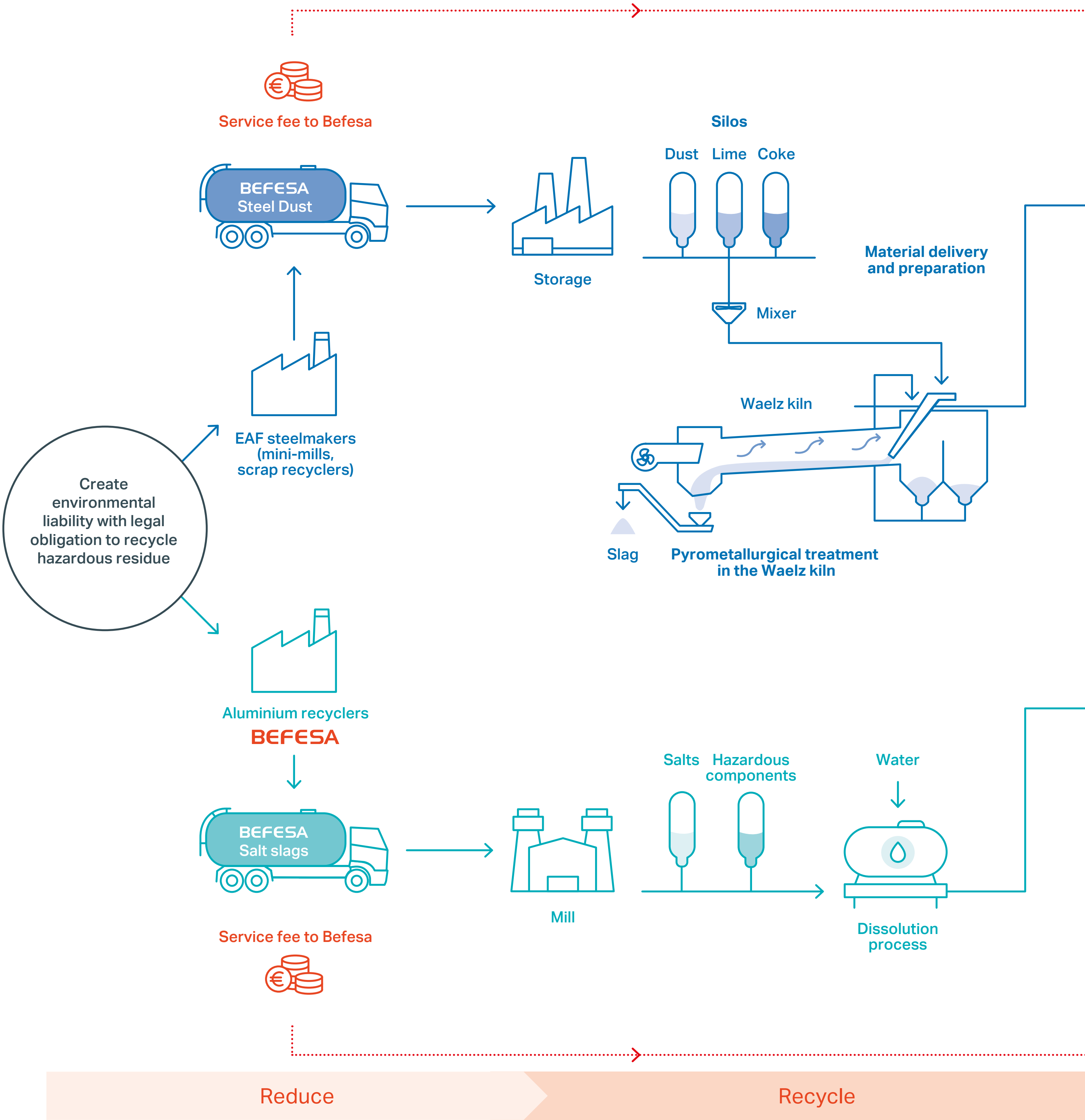
Customer satisfaction
Improvements in sustainable technology optimise operations and product quality, contributing to sustainable development and enhanced customer service.

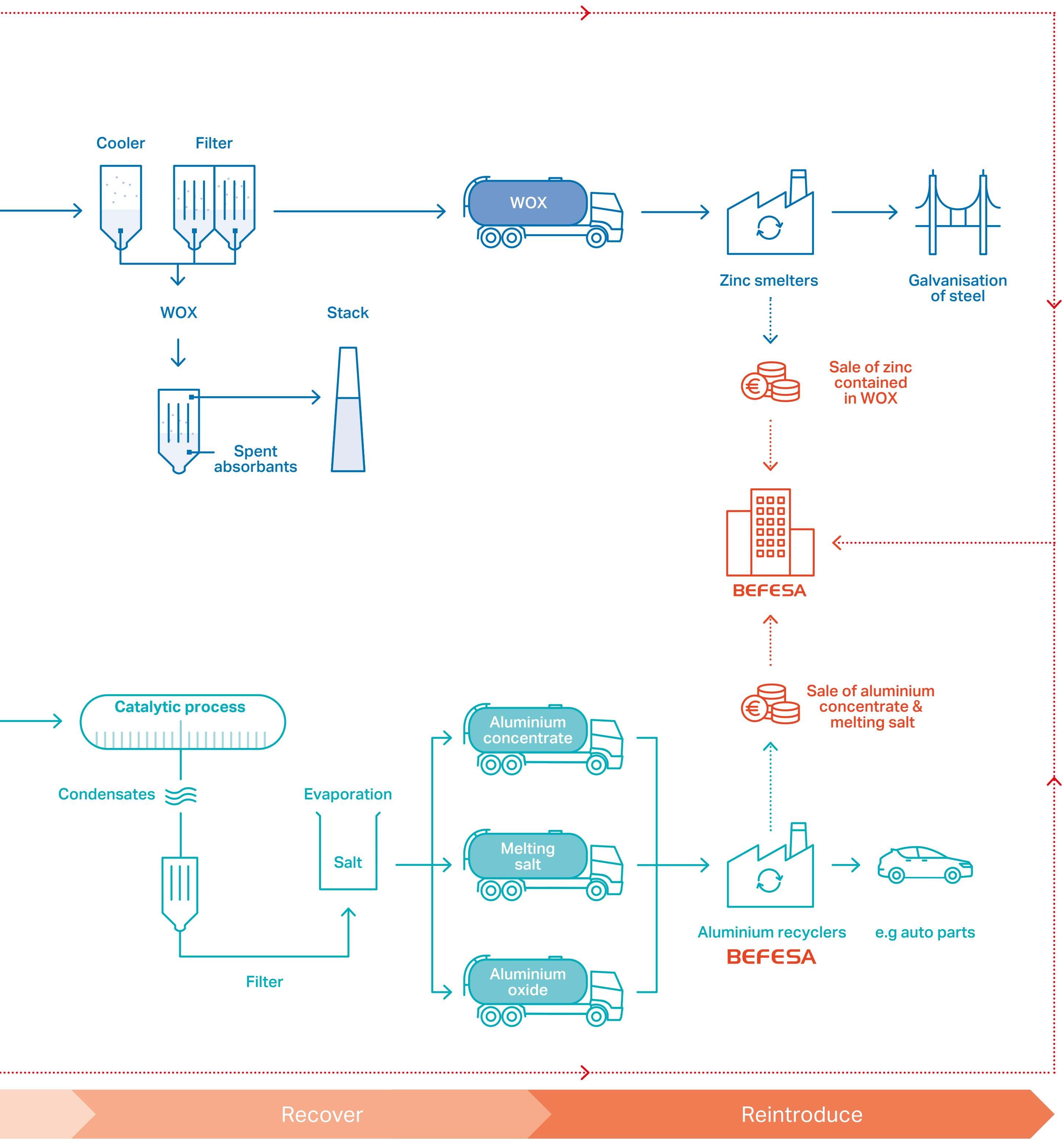
Benefits to the environment
Befesa is continuously looking for new processes and services to help its customers make their businesses more sustainable. Befesa prevents the landfilling of more than 1.6 million tonnes of residues each year, reducing the extraction of natural resources from the earth.

Employee satisfaction
Although the Company faces a competitive labour market, Befesa manages a low turnover of staff.

Business model / Value chain

Critical services for steel and aluminium producers

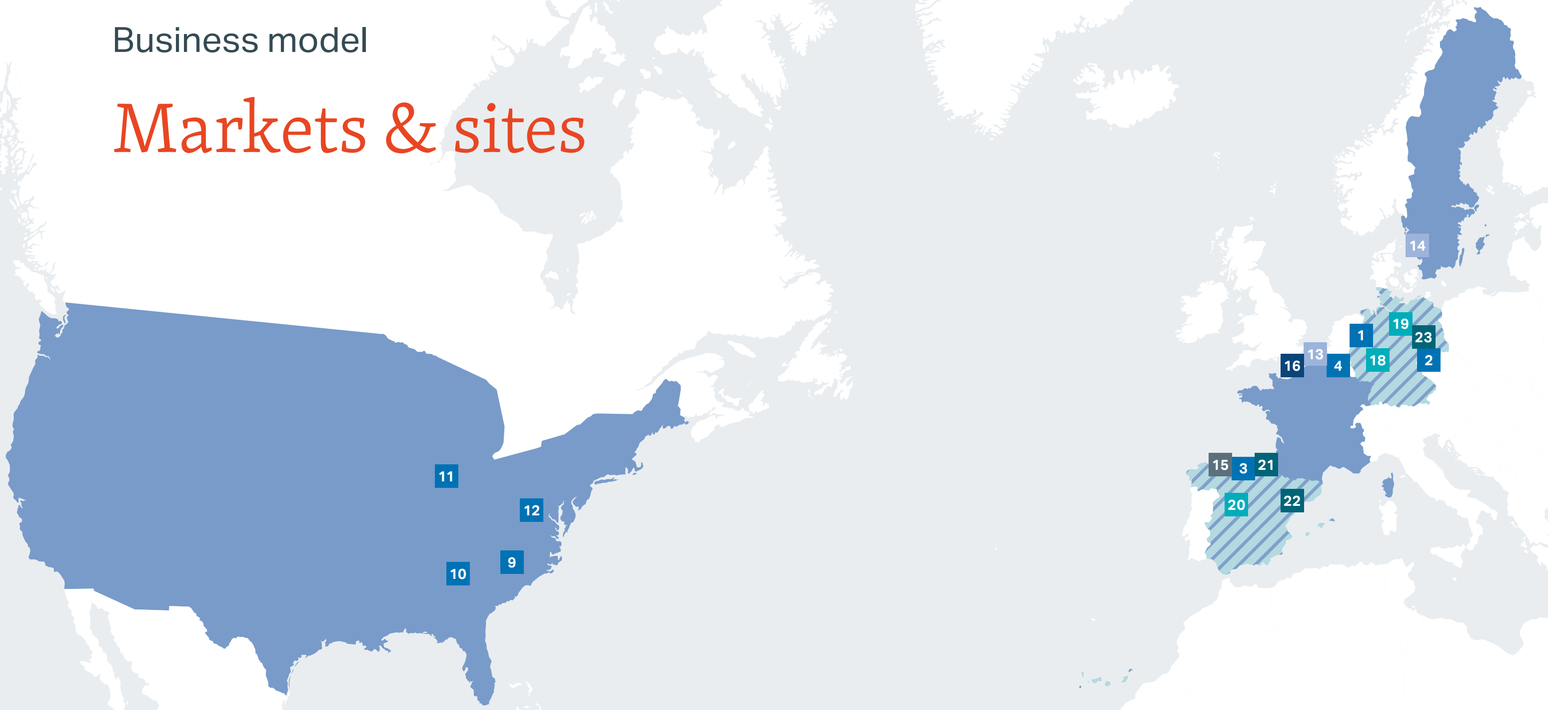




Cooler
Filter
WOX
WOX
Stack
Spent absorbants
Zinc smelters
Galvanisation of steel
Sale of zinc contained in WOX
BEFESA
Sale of aluminium concentrate & melting salt
Catalytic process
Condensates
Evaporation
Salt
Filter
Aluminium concentrate
Melting salt
Aluminium oxide
Aluminium recyclers
BEFESA
e.g auto parts
Recover
Reintroduce

Business model

Markets & sites



Steel dust recycling plants

1,839 kt

ANNUALLY INSTALLED CAPACITY TO RECYCLE STEEL DUST (CRUDE AND STAINLESS)[5]

Installed capacity by plant

1	Duisburg	Germany	Crude steel dust	87 kt
2	Freiberg	Germany	Crude steel dust	194 kt
3	Asúa – Erandio	Spain	Crude steel dust	160 kt
4	Fouquières-lès-Lens[1]	France	Crude steel dust	55 kt
5	Iskenderun[2]	Turkey	Crude steel dust	110 kt
6	Gyeongju	South Korea	Crude steel dust	220 kt
7	Changzhou[3]	China	Crude steel dust	110 kt
8	Xuchang[4]	China	Crude steel dust	110 kt
9	Barnwell, SC	US	Crude steel dust	165 kt
10	Rockwood, TN	US	Crude steel dust	147 kt
11	Calumet, IL	US	Crude steel dust	142 kt
12	Palmerton, PA	US	Crude steel dust	163 kt
13	Gravelines	France	Stainless-steel dust	110 kt
14	Landskrona	Sweden	Stainless-steel dust	64 kt
15	Sondika/Amorebieta	Spain	Oxide	16 kt
16	Gravelines	France	WOX washing	100 kt
17	Pohang	South Korea	WOX washing	60 kt

1 50/50 joint venture with Recylex; 55 kt of the total 110 kt installed capacity corresponds to Befesa
2 Befesa owns, either directly or indirectly, 53.60% of the Turkish operations; therefore, 110 kt installed capacity is fully consolidated
3 Plant started commercial production in December 2021
4 Plant construction completed in December 2021; commissioning started and ramp-up is expected in Q2 2022, with commercial output in H2 2022
5 Total annually installed capacity does not include the capacity of the oxide and WOX washing plants

Aluminium salt slags recycling plants

450 kt

ANNUALLY INSTALLED CAPACITY TO RECYCLE SALT SLAGS AND SPL

205 kt

ANNUALLY INSTALLED CAPACITY TO PRODUCE SECONDARY ALUMINIUM

Installed capacity by plant

18	Lünen	Germany	Salt slags & SPL	170 kt
19	Hanover	Germany	Salt slags & SPL	130 kt
20	Valladolid	Spain	Salt slags & SPL	150 kt
21	Erandio	Spain	Secondary aluminium	64 kt
22	Les Franqueses del Vallès	Spain	Secondary aluminium	66 kt
23	Bernburg	Germany	Secondary aluminium	75 kt

Market environment

The recycling markets for steel dust, salt slags and SPL are particularly influenced by the industrial markets for steel and aluminium production.

FAVOURABLE GLOBAL MACRO TRENDS

The key mega trends influencing the secondary steel and aluminium markets are expected to continue developing favourably in the long-term. First, an increasing population, a growing middle class more environmentally conscious, and advancing industrialisation are all expected to drive economic growth, leading to increased steel and aluminium production. Second, greenhouse gas (GHG) emission controls are becoming stricter, and challenging CO_2-reduction targets are urging steel and aluminium producers to further innovate their processes with low-carbon technology deployment and resource efficiency. Consequently, these trends are expected to drive the need for further recycling and, therefore, Befesa's services.

The global population is expected to increase at an annual growth rate of 1% between 2021 and 2050. Furthermore, the urban population is envisioned to grow from 57% of the global population in 2021 to 69% by 2050.

Moreover, the environmentally conscious middle class is expected to grow from about 51% of the total population in 2021 to around 62% by 2030 (3% CAGR). A total of 85% of the people who are moving into the middle class through 2030 are expected to be from Asia. The middle-class segment is likely to become a driver of demand for products requiring steel and aluminium – such as vehicles – ultimately driving the demand for recycling services. Increased industrialisation also supports the increased use of higher quality steel and galvanised materials carrying a higher zinc content to protect against corrosion, among others. This potentially allows recyclers to

The estimated growing trend in global steel production, and particularly through EAF, is likely to lead to an increase in the generation of EAFD, and therefore to a higher demand for Befesa's recycling services.

compete with landfills in markets where regulation is unenforced or does not yet exist.

CRUDE STEEL PRODUCTION & DEMAND

Global crude steel production amounted to 1.91 billion tonnes in 2021, up 4% YOY (2020: 1.83 billion tonnes).

China's crude steel production in 2021 was muted because of power curtailments and the COVID-19 pandemic resurgence in certain areas, which dragged down demand. However, China continued to lead the crude steel production globally with a 53% share of the global steel output, consolidating its one billion tonnes level of annual output (–3% YOY). The 2021 year-end saw a YOY rebounding trend.

All the remaining steel markets currently served by Befesa – the EU, Turkey, South Korea and the US – rebounded strongly in 2021 and mostly delivered double-digit YOY growth in crude steel production.

The year 2022 is likely to see a slow recovery versus 2021, which saw a rapid recovery from the COVID-19 pandemic. The global demand for crude steel is expected to be solid and grow by around 2% over 2021. As a result, the global steel output produced in 2021 would not be sufficient to satisfy the increasing steel demand expected for 2022, driving growth in global crude steel production and EAFD generation in 2022. This would therefore continue to support the demand for Befesa's steel dust recycling services in the markets it serves.

In China, the government is set to continue to control crude steel production to reduce CO_2 emissions, and steel exports from China are expected to remain low during 2022. Chinese demand for crude steel in 2022 is expected to remain flat YOY on the back of moderate measures to stimulate the economy. The volume of Chinese crude steel production is also expected to hold flattish YOY at around 1–1.1 million tonnes of output in 2022. This would consolidate the one-billion tonnes mark reached for the first time in 2020, keeping supply and demand largely in balance.

The positive trend of crude steel global output favours the steel dust recycling operations of Befesa. The increased galvanisation of steel to protect against corrosion is expected to lead to a higher zinc demand and higher zinc content in scrap material. This will result in a higher zinc content in the steel dust collected in the future. This will enable Befesa to continue to utilise its plants more efficiently in the medium-term.

Over the long-term, some structural changes are expected to affect the global steel markets as part of the decarbonisation trend which will favour the steel production through EAF:

- An increase in global EAF capacity as the global steel industry decarbonises, with higher EAF penetration in China, the largest steel-producing country globally, over the next decade, from c. 10% in 2021 to min. 15% by 2025; and
- Higher demand from green capex and infrastructure: the International Energy Agency's (IEA) Iron Ore and Steel Technology Roadmap for the industry forecasts a c. 40% increase in global steel production from 2019 to 2050. This would be driven by an increase in infrastructure, buildings and machinery, and green capex.

The estimated growing trend in global steel production, and particularly through EAF, is likely to lead to an increase in the generation of EAFD, and therefore to a higher demand for Befesa's recycling

Market environment continued

services. The impact of the Russian war against Ukraine may result in macroeconomic consequences, which cannot be adequately forecasted at the time of finalising this Annual Report.

SECONDARY ALUMINIUM PRODUCTION & DEMAND

The trend in secondary aluminium production – which is driven primarily by vehicle manufacture – improved in western Europe. Automotive production rebounded in 2021 after the severe decrease witnessed in 2020 because of the COVID-19 pandemic. The rebound underway since Q3 2020 has led to sharp quarter-on-quarter rises in output, but still around historically low levels.

The global auto sector's road to recovery was extended in 2021 due to pandemic-related supply disruptions, most prominently the semiconductor shortage. This in turn led to a significant inventory destocking as demand rebounded.

The ongoing disruptions in the supply chain are expected to persist up to H1 2022 or even longer.

In addition, the global energy crisis that started in China in Q3 2021 and spread to Europe during the winter of 2021 has scarred metals supply, with European smelter cuts in aluminium and zinc during Q4 2021. This is expected to restart progressively through Q2 2022 before returning to full capacity from mid-2022.

For 2022, a reversal in the automotive trend and the related metals demand is expected, with double-digit production growth in major auto markets (Europe: 19%; US: 20%; Japan: 12%; India: 23%). This is on the back of accelerating EV demand, inventory restocking and normalising semiconductor production. The impact of the Russian war against Ukraine may result in macroeconomic consequences, which cannot be adequately forecasted at the time of finalising this Annual Report.

In the mid-term, the demand and production of secondary aluminium in the EU is expected to further recover and grow on the back of the political commitment at EU level towards the full adoption of EV by 2035. In addition, the expanded production of light passenger vehicles in the European automotive industry is expected, in an effort to meet legislative requirements for improved vehicle emissions and fuel efficiency.

This estimate is also based on the assumption that the aluminium content per passenger vehicle will grow by around 70%, from the current 180 kg of aluminium per passenger vehicle to about 250 kg by 2030. In the Aluminium Salt Slags Recycling business, the positive trend of using higher quantities of aluminium in the construction of light vehicles is also expected to continue into the future. This is expected to result in a higher demand for aluminium and increase the availability of scrap in the long run.

The estimated growing trend in secondary aluminium production in Europe is likely to lead to an increase in the generation of salt slags, and therefore to a higher demand for Befesa's recycling services.

TREND TOWARDS RECYCLING & REGULATION TO PROTECT THE ENVIRONMENT

In the EU and North America, crude steel dust is categorised as a hazardous residue by the regulatory bodies. In addition, in the EU, salt slags are also categorised as a hazardous residue. As a result, these regions have strict rules and procedures for the handling, transportation and treatment of these residues. This level of regulation and its enforcement across geographical locations supports the need for Befesa's recycling services.

Driven by these regulations, landfilled residues in OECD countries have decreased over the past decade. These countries have also seen increases in recycled residues, especially hazardous residues containing valuable metals, supported mainly by favourable and strictly enforced environmental regulations.

In contrast to regions like the EU or North America, the regulation of steel dust is currently less pronounced in emerging markets. Nonetheless, regulation in these markets is expected to converge towards a regulatory framework similar to the ones seen in the EU and North America, as those markets become more industrialised and environmentally conscious.

Recent examples of these favourable environmental regulation developments are Turkey, South Korea and China. In Turkey, the environmental regulation for hazardous residues was changed in 2010, in South Korea in 2012 and more recently in China during 2016 and 2017. In Turkey and South Korea, Befesa has been offering its EAFD recycling services since 2010 and 2013, respectively. In China, supported by the regulations, Befesa started offering its EAFD recycling services at the end of 2021.

Further information on Befesa's projects in China is available in the "Strategy" section of this Annual Report (pages 32 to 35).

In summary, in the mid- to long-term, favourable macro- and megatrends, and positive sustainability and recycling trends, combined with favourable and strictly enforced environmental regulations, are expected to further enhance the global demand for steel and aluminium production and subsequent residue recycling.

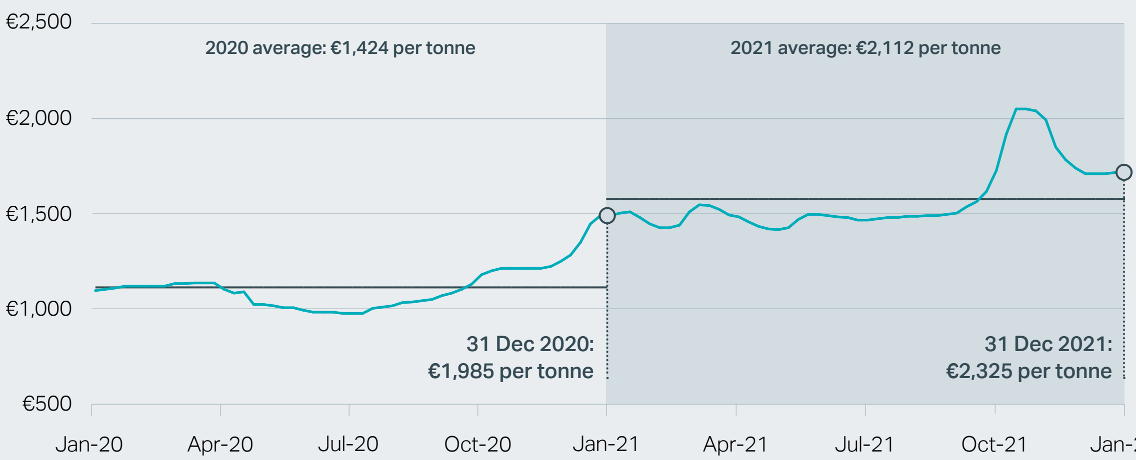
Establishing a circular economy is a new and relevant trend across the world, but metal recycling is one of the processes where the circular economy has already been present for many years.

Befesa has, for more than three decades, continuously demonstrated its strong commitment to this circular economy and has based its sustainable business model on this. By recycling metals from residues and other sources and reintroducing the recovered materials into the market, Befesa uses less energy than extracting the metals mined as raw materials and limited natural resources from the earth. For example, in the case of aluminium, energy savings can reach up to 95%.

Aluminium alloy FMB average prices
€ per tonne

	2021	2020	Change	Change
Q1	**€1,982**	€1,435	€547	38%
Q2	**€1,947**	€1,283	€664	52%
Q3	**€2,012**	€1,317	€695	53%
Q4	**€2,506**	€1,661	€845	51%
Full year	**€2,112**	€1,424	€688	48%

Aluminium alloy FMB prices
(€ per tonne)

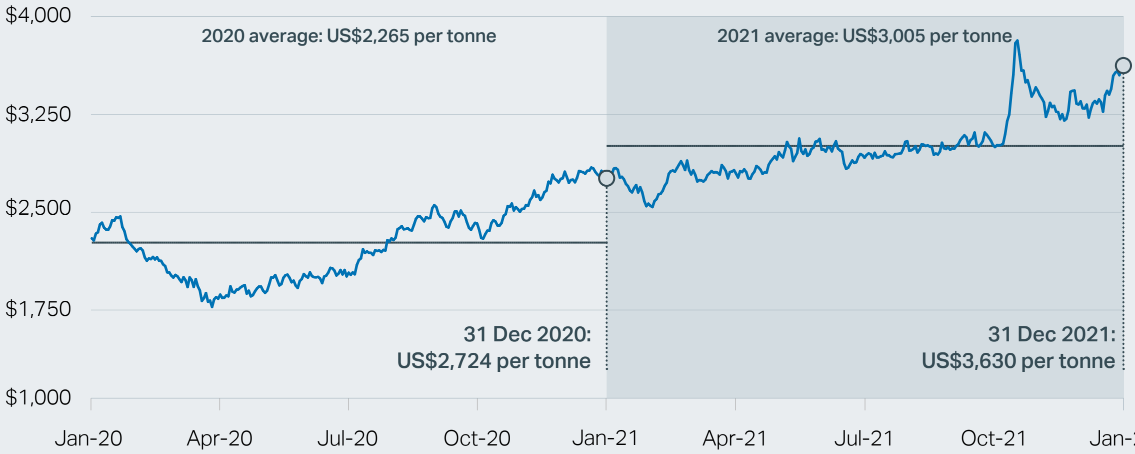


Source: Free Metal Bulletin (FMB), weekly average prices

Market environment continued

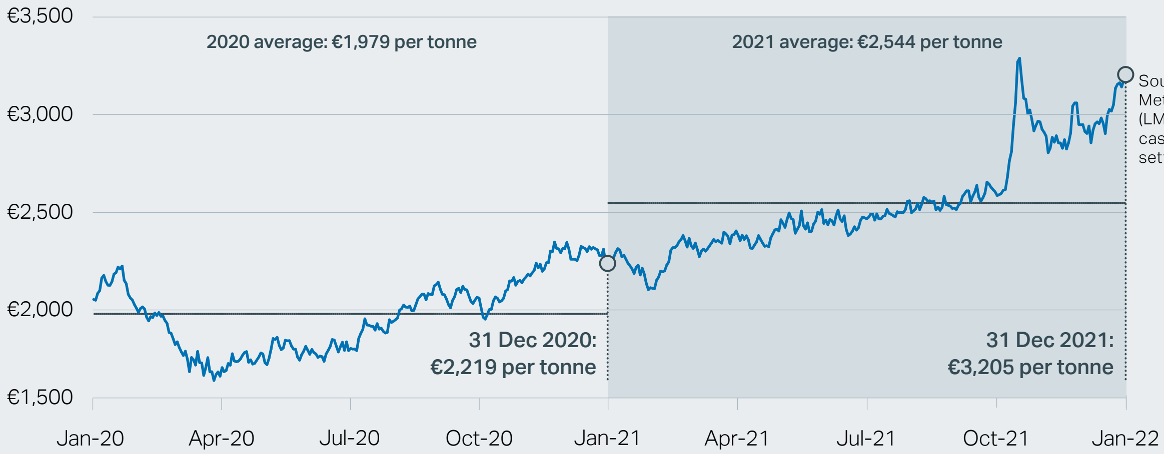
	Zinc LME average prices							
	US$ per tonne				€ per tonne			
	2021	2020	Change		2021	2020	Change	
Q1	**$2,748**	$2,128	$620	29%	**€2,279**	€1,930	€349	18%
Q2	**$2,916**	$1,959	$957	49%	**€2,418**	€1,780	€638	36%
Q3	**$2,991**	$2,340	$651	28%	**€2,538**	€2,000	€538	27%
Q4	**$3,365**	$2,631	$734	28%	**€2,942**	€2,205	€737	33%
Full year	**$3,005**	$2,265	$740	33%	**€2,544**	€1,979	€566	29%

Zinc LME prices
(US$ per tonne)



Source: London Metal Exchange (LME), daily cash seller and settlement prices

Zinc LME prices
(€ per tonne)



Source: London Metal Exchange (LME), daily seller and settlement prices

DEVELOPMENT OF ZINC TREATMENT CHARGES

The zinc treatment charge (TC) represents or can be seen as the fees that miners pay smelters to refine zinc concentrate into zinc metal. The benchmark TC is negotiated annually between major zinc concentrate producers and smelters, with the agreed benchmark TC usually published around March/April. The benchmark TC is linked to the LME price for zinc through the so-called escalators/de-escalators. As a result, the higher the zinc LME price is over the base reference price, the larger the TC deducted will be, and vice versa. Befesa's zinc smelter customers deduct the TC from the amount of zinc contained in WOX (typically 85% of the zinc LME price), which is payable to Befesa.

For 2021, the benchmark TC was settled at $159 per tonne, $141 per tonne lower YOY (2020: $300 per tonne). This represents the second-lowest level over the last decade. As a result, the significantly lower TC of $159 per tonne drove around 35% of the €71 million YOY higher adjusted EBITDA in 2021.

As of the date of this Annual Report, the benchmark TC for 2022 has not yet been published in the zinc industry. Once available, Befesa will provide detailed earnings guidance for the full 2022 year – most likely with the Q1 2022 earnings release on 26 April 2022.

DEVELOPMENT OF COMMODITY PRICES

The products and services offered by Befesa's steel dust recycling and aluminium salt slags recycling businesses are partially influenced by the development of the supply and demand dynamics of certain commodities.

Zinc market prices peaked in mid-October 2021 alongside other base metals as some of the metals and mining global major players reduced run rates at their European smelters, on the back of higher power prices. Since then, zinc market prices lowered but still remained at high levels versus H1 2021, as inventories drew and further disruptions came through.

Zinc market prices ended the year at US$3,630 per tonne of zinc as of 31 December 2021, US$906 per tonne or 33% above the price of US$2,724 per tonne of zinc as of 31 December 2020. Applying the US dollar/euro exchange rates for the respective dates, zinc market prices closed at €3,205 per tonne as of 31 December 2021, €986 per tonne or 44% above the price of €2,219 per tonne of zinc as of 31 December 2020.

The average cash seller daily price per tonne quoted on the LME for 2021 was US$3,005 per tonne of zinc, representing a 33% or $740 per tonne increase YOY (2020 average: US$2,265 per tonne). Applying the US dollar/euro exchange rates for the respective periods, the average daily price in 2021 was €2,544 per tonne of zinc, representing a 29% or €566 per tonne increase YOY (2020 average: €1,979 per tonne).

Befesa's hedging strategy is aimed at managing and reducing the variability of the financial results arising from changes in the zinc price. Further information on the hedging strategy is available in the "Strategy" section of this Annual Report (pages 32 to 35).

The aluminium alloy prices referenced by the Free Metal Bulletin (FMB) – an average independent quotation based on prices provided by the major secondary aluminium players in the European market – traded sideways at around €2,000 per tonne during the first three quarters of 2021. In October, prices surged to a 15-year high of €2,900 per tonne on the back of the deepening global power crisis, moderately reducing throughout the last two months of the year.

Prices closed at €2,325 per tonne of aluminium alloy as of 31 December 2021, €340 per tonne or 17% above the price of €1,985 per tonne of aluminium alloy as of 31 December 2020.

The average weekly price per tonne of aluminium alloy FMB for 2021 was €2,112 per tonne, representing a 48% or €688 per tonne increase YOY (2020 average: €1,424 per tonne).

Strategy

Befesa has the ambition of being the global leader in the circular economy, providing steel dust and aluminium salt slags recycling services to steel and aluminium recyclers. Befesa is *the* recycler of the steel and aluminium recyclers.

Befesa's strategy focuses on two main objectives:

1. Maintain the leadership position in the markets where Befesa currently operates.

2. Expand Befesa's position in Steel Dust and Salt Slags recycling services by replicating its business model in new markets that present attractive dynamics, with a combination of environmental regulation and hazardous residue generation (crude steel dust, aluminium salt slags and SPL).

IN ORDER TO ACHIEVE THIS, BEFESA BASES ITS BUSINESS STRATEGY ON THREE MAIN PILLARS:

- Hedging strategy
- Organic growth
- Greenfield in new geographies

In 2021, Befesa made significant progress in the execution of its business strategy across all the dimensions, setting a solid foundation for future growth going forward. Befesa transformed from a purely European leader to the global leader in steel dust recycling with a presence in the three main markets in the world: Europe, North America and Asia. This global transformation will provide Befesa with market diversification and exposure to different market trends, accelerated volume and earnings growth.

As a result, 2021 represents an inflection point in the history of Befesa with the entry into the two major markets: China and the US.

HEDGING STRATEGY

Befesa's hedging strategy has proven to be a key element of its business model to manage zinc price volatility and increase the visibility of its earnings and the stability of cash flows going forward. Hedging has been part of Befesa's business model for the last 20 years.

The main goal of the hedging is not to grow Befesa's earnings but to stabilise them over time versus zinc price fluctuations. This improves Befesa's visibility on earnings and cash flows, enabling the Company to fund its organic growth.

Befesa's strategy is to hedge 60% to 75% of the expected volume of zinc contained in the WOX and paid for by zinc smelters for a period of one to three years going forward.

The majority of the zinc hedges are denominated in euro terms, which also provides a hedging on the FX fluctuation, as the zinc price on the LME is quoted in US dollars.

In 2021, Befesa's hedges were "out the money" and locked in at €2,151 per tonne on average (2020: €2,239 per tonne). This partly offset the zinc LME price increase and negatively affected Befesa's total earnings by about €8 million. Combined, the effective zinc average price (monthly blended rate between hedged volume and non-hedged volume) resulted in €2,275 per tonne in 2021, up €139 per tonne or 6.5% YOY (2020: €2,136 per tonne).

The acquired AZR operations came with some fixed price forward contracts closed, with one partner for part of the zinc payable output. These contracts were and are in place up to and including Q1 2023, at fixed prices of around $2,500 per tonne for 2021 and around $2,750 per tonne for the full year 2022 and Q1 2023.

Following the closing of the acquisition in August 2021, and under Befesa's more competitive hedging programme, the Company extended the hedge book for the US operations to be fully synchronised with that of the non-US operations, up to and including October 2024. This locked in 15,000 tonnes of zinc equivalent output per quarter at $2,925 per tonne for Q2 2023, $2,950 per tonne for Q3 and Q4 2023, and $2,975 per tonne for the first three quarters of 2024.

After having completely synchronised the hedge book of the US operations with that of the non-US operations, Befesa's new target volume is to hedge 38,100 tonnes of zinc output per quarter or 152,400 tonnes per year. During Q1 2022, Befesa partially hedged 5,250 tonnes of zinc output of the 38,100 tonnes new target hedged volume for Q4 2024 (November and December 2024 and January 2025) at attractive price levels.

The combined global hedge book in place as of the date of this Annual Report provides Befesa with improved pricing visibility up to January 2025, therefore for the following c. three years.

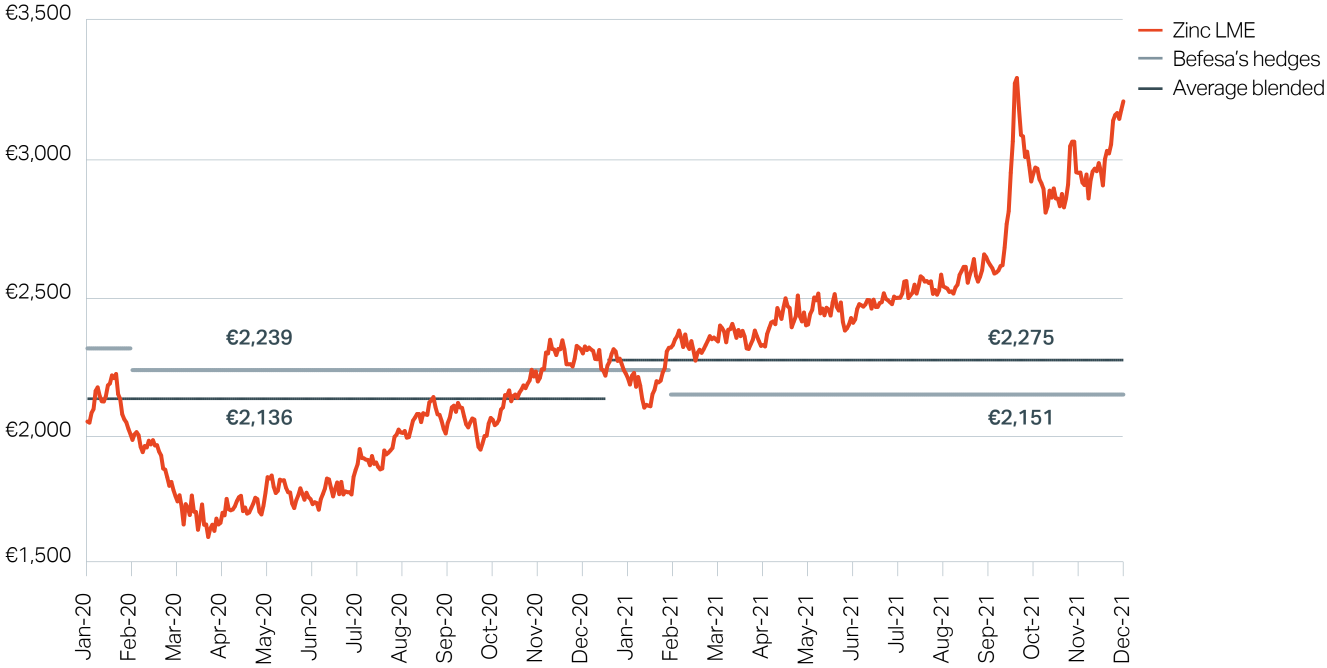
Period	Average hedged price (€/tonne)	Zinc content in WOX hedged (tonnes)
2021	€2,151	120,013
2022	c. €2,275[1]	155,818
2023	c. €2,375[1]	150,955
2024	c. €2,425[1]	119,550[2]

[1] FX US dollar/euro forward rates assumed are 1.15 for 2022 and 2023, and 1.16 for 2024

[2] As of 31 December 2021, 84,300 tonnes of zinc equivalent output were hedged for 2024 at c. €2,425 per tonne on average; subsequently, in Q1 2022, additional 35,250 tonnes of zinc equivalent output were hedged to fully hedge Q2 and Q3 2024, and partially hedge Q4 2024 up to January 2025 at c. €2,425 per tonne on average.

Strategy continued

Zinc LME prices vs Befesa's hedging prices
(€ per tonne)



ORGANIC GROWTH

The second pillar of Befesa's strategy is focused on organic growth opportunities in markets where Befesa is already present. This includes the expansion of existing plants, debottlenecking or significant operational improvements associated with relevant capital investments. This enables Befesa to consolidate its market position.

During 2021, Befesa completed the ramp-up of the operations in the two main growth investments carried out in the Steel Dust Recycling business in Turkey and South Korea during the previous years. These organic growth projects consisting of the enlargement of the recycling capacity in Iskenderun (Turkey), from 65 to 110 thousand tonnes, and the WOX washing plant in Pohang (South Korea), which strengthened Befesa's position in these two markets.

In addition, in the Secondary Aluminium subsegment, the plants in Spain (Erandio and Les Franqueses del Vallès) were successfully upgraded. This resulted in higher efficiencies, which were captured in 2020 and 2021.

Befesa is constantly evaluating organic growth opportunities across all its business that will deliver growth and profitability improvements.

GREENFIELD IN NEW GEOGRAPHIES

The third element of Befesa's strategy is to replicate its business model in those geographies that show attractive market dynamics. Befesa's core environmental service activities in the recycling of steel dust and aluminium salt slags benefit from two positive underlying macrotrends, among others.

On the one hand, recycling regulations are increasing globally, driven by a growing concern about environmental protection. Across the world, regulatory framework trends are moving towards stricter regulations to protect the environment. On the other hand, there is a higher generation of industrial residues, specifically crude steel dust, aluminium salt slags and SPL, driven by more steel and aluminium scrap being recycled globally. These two macrotrends will drive future needs for Befesa's environmental services. Further information on macrotrends is available in the "Market environment" section of this Annual Report (pages 26 to 31).

Despite the challenging conditions that the global COVID-19 pandemic represented, during 2021, Befesa continued to make significant progress in the expansion of the Steel Dust Recycling Services operations in China in both provinces – Jiangsu and Henan.

China is the largest steel producer in the world, with an annual output of more than one billion tonnes of crude steel. This represents more than 50% of global production. By 2030, China is expected to produce more than 200 million tonnes of EAF steel. In addition, environmental protection has become a key priority for China's government, and steel dust was officially classified as a hazardous waste material in 2016. Befesa is looking forward to supporting the steel industry in China by providing state-of-the-art sustainable solutions for recycling hazardous waste, which contributes to environmental protection in China.

In April 2019, Befesa started building its first EAFD recycling plant in the Chinese city of Changzhou, Jiangsu province. The construction of the plant, with the commissioning including the ramp-up phase, was successfully completed in Q4 2021. This marked the start of commercial operations for the first time in China at the end of 2021.

Also, in November 2019, Befesa started the construction work of its second EAFD recycling plant in China, at Xuchang, Henan province. This plant was successfully constructed at the end of 2021, with commissioning and ramp-up taking place in H1 2022. Commercial operations are expected to begin in H2 2022.

With the construction of these first two plants, Befesa reaffirms its commitment to China by deploying its Best Available Technology (BAT) and providing solutions for a more sustainable world.

The two plants in Jiangsu and Henan are designed to each recycle 110 thousand tonnes of EAFD per year and represent Befesa's 11th and 12th EAFD recycling sites globally, along with existing sites in Europe, Turkey, South Korea and the US.

Finally, in addition to the organic growth and greenfields growth drivers, Befesa always monitors the market for strategic M&A opportunities to accelerate growth and generate value for Befesa's shareholders.

Consequently, in 2021 Befesa acquired 100% of AZR, the market leader in EAFD recycling in the US. It has an installed capacity of 620 thousand tonnes across four plants located in the eastern part of the US.

With this acquisition, Befesa becomes the global leader in EAFD recycling, with around 1.7 million tonnes of total EAFD recycling capacity. But, more importantly, this achieves a geographically diversified and balanced footprint across the three main steel-dust recycling markets in the world (Europe, Asia and North America), with 12 EAFD recycling facilities.

The clear near-term synergies and the increase in capacity utilisation will drive future earnings growth in North America in the coming years.

Despite the challenging conditions that the global COVID-19 pandemic represented, during 2021, Befesa continued to make remarkable progress in the expansion of the Steel Dust Recycling Services operations in China in both provinces – Jiangsu and Henan.

Results of operations

This section includes consolidated financial information of Befesa S.A. from its existing operations, Steel Dust Recycling Services and Aluminium Salt Slags Recycling Services.

Befesa successfully closed the acquisition of AZR and consolidated financials in accordance with the requirements of the International Financial Reporting Standards (IFRS) since 17 August 2021.

AZR was rebranded to Befesa Zinc US and Mr Rodrigo Daud was appointed as CEO/President.

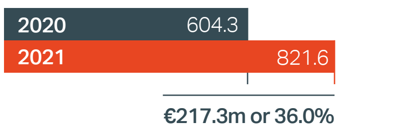
Financial year 2021 EBITDA and EBIT have been adjusted for the non-recurring acquisition costs of €14.0 million.

More detailed information on the consolidated financial statements is available on pages 98 to 171 of this Annual Report.

REVENUE

Total **revenue** increased by 36.0% YOY to €821.6 million in 2021 (2020: €604.3 million). The improvement was primarily driven by the stronger zinc and aluminium alloy market prices, the significantly lower zinc TC reference, the higher volumes in Steel Dust and Secondary Aluminium, and the contribution from the acquired US operations. These positive effects were partially offset by the lower volumes of salt slags and SPL that were treated. Also, the unfavourable zinc hedging prices partially offset the positive effect of the zinc LME price increase YOY.

Revenue
(€ million):



EBITDA & EBIT

Total 2021 EBITDA increased by 53.5% YOY to €189.6 million (2020: €123.5 million). The €66.1 million EBITDA improvement YOY was driven mainly by strong base metal prices and good volume performance, the main components being the following:

- Favourable metal prices: Zinc TC (€24 million); aluminium alloy FMB and metal margins (€25 million);
- Zinc blended prices: Zinc LME price increase (€25 million), partially offset by lower zinc hedging prices (–€8 million);
- Higher volumes: EAFD throughput and contribution from the acquired US operations (€14 million), and higher aluminium alloys partially offset by lower salt slags and SPL volumes (€0.5 million);
- Higher inflation including energy and China expansion costs, partially offset by operational excellence (–€8 million); and
- Once-off EBITDA impacts: Non-recurring AZR acquisition costs (–€14 million); impact from the fire occurred at the Hanover plant in November 2021 (€6 million).

Total 2021 **adjusted EBITDA** increased by 55.6% YOY to €197.6 million (2020: €127.0 million). EBITDA was adjusted for the non-recurring AZR acquisition costs (€14.0 million) and for the fire impact at the Hanover plant (–€6.0 million). Total 2021 adjusted EBITDA margin improved YOY to 24.0% (2020: 21.0%).

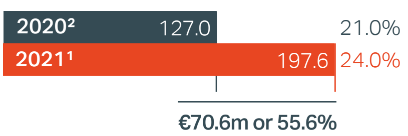
Similarly, total 2021 EBIT increased by 87.6% YOY to €127.5 million (2020: €67.9 million), following the same drivers explained, referring to the EBITDA development. EBIT was adjusted for the non-recurring AZR acquisition costs (€14.0 million) and the write-off of the “other receivables” related to the insurance litigation at the Scandust plant,

Sweden (€7.8 million). Total 2021 adjusted EBIT increased by 66.8% to €149.3 million (2020: €89.5 million). Further information regarding these adjustments is available in notes 6 and 21 of the "Consolidated financial statements" section of this Annual Report.

The reconciliation of EBITDA to IFRS operating results (EBIT) is available in the "Consolidated financial statements" section on pages 109 to 110.

Adjusted EBITDA & margin

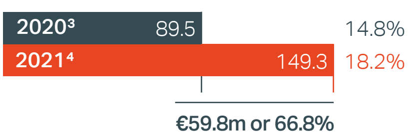
(€ million, % margin of revenue):



[1] €189.6m total reported EBITDA 2021 + €14.0m one-time AZR acquisition costs – €6.0m Hanover Salt Slags plant fire impact = €197.6m total adjusted EBITDA 2021
[2] €123.5m total reported EBITDA 2020 + €3.5m UK Salt Slags plant closure = €127.0m total adjusted EBITDA 2020

Adjusted EBIT & margin

(€ million, % margin of revenue):



[3] €127.5m total reported EBIT 2021 + €14.0m one-time AZR acquisition costs + €7.8m write-off of the "other receivables" related to the insurance litigation at Scandust = €149.3m total adjusted EBIT 2021
[4] €67.9m total reported EBIT 2020 + €13.4m UK Salt Slags asset write-off due to plant closure + €4.7m Scandust asset impairment + €3.5m UK Salt Slags plant closure EBITDA impact = €89.5m total adjusted EBIT 2020

FINANCIAL RESULT & NET PROFIT

Total **net financial result** in 2021 came in at –€15.6 million (2020: –€9.3 million). The year 2021 was mainly driven by the €10.5 million positive impact from the contingent foreign exchange hedging in relation to the $460 million AZR acquisition in August 2021. The year 2020 was primarily driven by the €15.5 million one-time positive impact from the Term Loan B (TLB) repricing in February 2020.

Total **net profit** attributable to the shareholders in 2021 more than doubled YOY to €99.7 million (2020: €47.6 million). This was primarily due to the positive drivers that had an impact on EBITDA and EBIT.

Correspondingly, earnings per share (EPS) in 2021 also improved YOY to €2.68 (2020: €1.40) despite the fact that the number of shares increased by 17.4% to 39,999,998.

24.0%

ADJUSTED EBITDA MARGIN IN 2021 (21.0% IN 2020)

€99.7m

NET PROFIT IN 2021 (€47.6M IN 2020)

€2.68

EARNINGS PER SHARE IN 2021 (€1.40 IN 2020)

Financial position & liquidity

Net debt increased to €470.6 million at year-end 2021 (€393.6 million at year-end 2020), mainly due to the €100 million add-on raised to partly fund the AZR acquisition. Net leverage improved to x2.16 at year end 2021 (vs x3.10 at year-end 2020), because of the underlying higher LTM adjusted EBITDA of €217.8 million, which incorporates a full-12 rolling months of the US operations. Befesa continues to be compliant with all debt covenants.

Net debt
(€ million)

	31 December 2021	31 December 2020
Non-current financial indebtedness	669.3	531.5
+ Current financial indebtedness	25.4	16.8
Financial indebtedness	**694.7**	**548.2**
– Cash and cash equivalents	-224.1	-154.6
– Other current financial assets[1]	-0.1	-0.1
Net debt	**470.6**	**393.6**
LTM adjusted EBITDA[2]	217.8	127.0
Net leverage ratio	**x2.16**	**x3.10**

[1] Other current financial assets adjusted by hedging valuation
[2] LTM adjusted EBITDA of €217.8 million incorporates a full-12 rolling months of US operations

During 2021, Moody's and Standard & Poor's reviewed their corporate credit ratings assigned to Befesa. In Q2 2021, Standard & Poor's upgraded Befesa's credit rating to 'BB+, outlook stable' (from 'BB, outlook stable'), while Moody's reaffirmed its 'Ba2' rating, but improved its outlook on Befesa from negative to stable.

€224.1m

CASH ON HAND AT YEAR-END 2021
(€154.6M AT YEAR-END 2020)

€470.6m

NET DEBT AT YEAR-END 2021
(€393.6M AT YEAR-END 2020)

x2.16

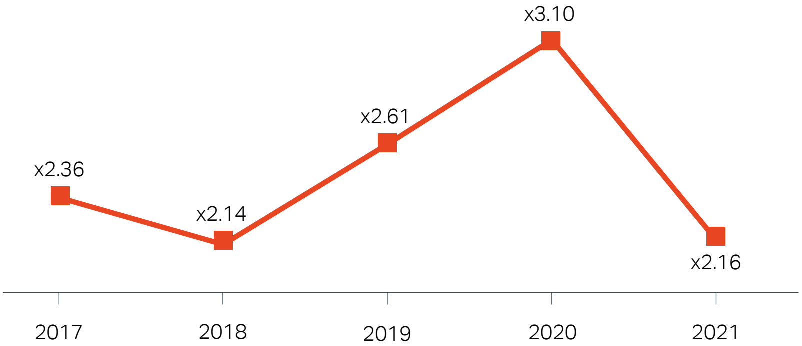
NET LEVERAGE AT YEAR-END 2021
(X3.10 AT YEAR-END 2020)

Credit ratings for Befesa S.A.

	Year-end 2021	Year-end 2020
Moody's	Ba2 (outlook stable)	Ba2 (outlook negative)
Standard & Poor's	BB+ (outlook stable)	BB (outlook stable)

Net leverage ratio evolution

(Net deb/LTM adjusted EBITDA)



OPERATING CASH FLOW

In 2021, the operating cash flow increased by 27.4% to €117.9 million (2020: €92.5 million). This improvement was driven mainly by the earnings increase explained.

Working capital was up by –€43 million YOY, very much driven by the one-time impact of the AZR acquisition: €14 million non-recurring AZR acquisition costs, and about €34 million working capital for the acquired AZR operations. Interests and taxes paid in 2021 amounted to €16.9 million and €15.2 million, respectively.

In 2021, Befesa invested €77.7 million (2020: €54.8 million) to fund growth investments – mainly related to the first two plants in China partly funded through €27 million local loans – as well as to fund regular maintenance capex.

Following the €46.8 million dividend distributed in July 2021 (2020: €24.9 million), the funding of the China expansion and the AZR acquisition, total cash flow generated in 2021 amounted to €69.5 million, closing the year with a new high and record cash position of €224.1 million (€154.6 million at year-end 2020).

The €224.1 million cash balance together with the €75.0 million Revolving Credit Facility (RCF), entirely undrawn, secures Befesa with around €300 million liquidity.

Segment information

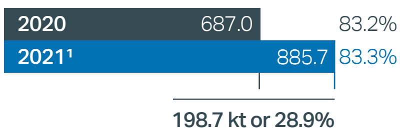
Befesa organises its activities into two business segments: Steel Dust Recycling Services and Aluminium Salt Slags Recycling Services.

STEEL DUST RECYCLING SERVICES

The **EAFD volumes recycled** in 2021 amounted to 885,724 tonnes, a 28.9% increase YOY (2020: 686,981 tonnes). The volume improvement was driven primarily by the contribution from the acquired US recycling plants but also by the better utilisation of existing operations YOY. On average, Befesa's EAFD recycling plants ran at 83% load factor of the latest installed annual recycling capacity of c. 1,555,300 tonnes, including c. 620,000 tonnes from the acquired US recycling plants and 110,000 tonnes from the Chinese plant at Jiangsu. The 2021 average load factor of 83% is flat YOY, and it considers the proportional installed capacity of the Chinese and US sites based on the actual days these sites were operational in 2021. The volume of WOX sold in 2021 increased by 21.7% to 290,975 tonnes (2020: 239,173 tonnes).

EAFD throughput & load factor

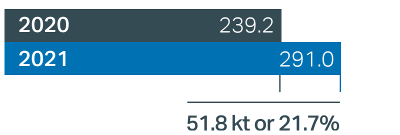
(Thousand tonnes, % of annual capacity)



[1] 2021 load factor considers the proportional installed capacity of the Chinese and US sites based on the actual days these sites were operational in 2021

Waelz oxide (WOX) sold

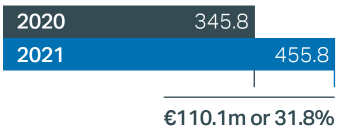
(Thousand tonnes)



Revenues in Steel Dust Recycling Services increased by 31.8% in 2021 to €455.8 million (2020: €345.8 million).

Adjusted EBITDA in Steel Dust Recycling Services increased in 2021 by 51.8% to €148.3 million, representing a 32.5% margin of revenues.

Revenue – Steel Dust Recycling Services
(€ million)



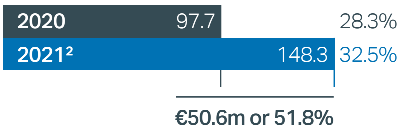
Blended zinc average price
(€/tonne)

EBITDA in Steel Dust Recycling Services increased by 37.8% in 2021 to €134.6 million (2020: €97.7 million), driven primarily by the higher market prices and the significantly lower zinc TC. In 2021, zinc LME prices were stronger YOY and averaged at €2,544 per tonne, up 28.6% YOY (2020: €1,979 per tonne). Zinc TC was referenced at $159 per tonne for the full year 2021 (2020: $300 per tonne). Combined, the net price effect (zinc LME and TC) was up 51% YOY in 2021. Zinc hedging average prices in 2021 were also lower YOY when compared to spot average prices in the year. Combined, the zinc effective average prices (blended rate between hedged volume and non-hedged volume) amounted to €2,275 per tonne in 2021, up 6.5% YOY (2020: €2,136 per tonne). In addition, the YOY EBITDA increase was also driven by higher EAFD throughput and the positive contribution from the acquired US operations.

Similarly, EBIT increased by 32.0% in 2021 to €97.0 million (2020: €73.5 million) following the same drivers explained (referring to the EBITDA development).

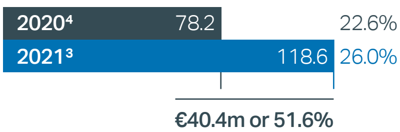
In 2021, EBITDA and EBIT in Steel Dust Recycling Services were adjusted for the €14.0 million non-recurring AZR acquisition costs. In addition, EBIT was adjusted for €7.8 million due to the write-off of the "other receivables" related to the insurance litigation at the Scandust plant, Sweden. As a result, **adjusted EBITDA** increased by 51.8% in 2021 to €148.3 million (2020: €97.7 million), and adjusted EBIT increased by 51.6% to €118.6 million (2020: €78.2 million).

Adjusted EBITDA & margin – Steel Dust Recycling Services
(€ million, % margin of revenue)



[2] €134.6m Steel Dust reported EBITDA 2021 + €13.7m one-time AZR acquisition costs = €148.3m Steel Dust adjusted EBITDA 2021

Adjusted EBIT & margin – Steel Dust Recycling Services
(€ million, % margin of revenue)



[3] €97.0m Steel Dust reported EBIT 2021 + €13.7m one-time AZR acquisition costs + €7.8m write-off of the "other receivables" related to the insurance litigation at Scandust = €118.6m Steel Dust adjusted EBIT 2021
[4] €73.5m Steel Dust reported EBIT 2020 + €4.7m Scandust asset impairment = €78.2m Steel Dust adjusted EBIT 2020

Segment information continued

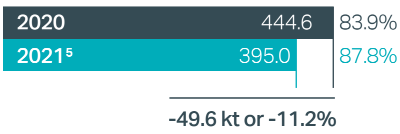
ALUMINIUM SALT SLAGS RECYCLING SERVICES

Salt Slags subsegment

Salt slags and SPL recycled volumes decreased by 11.2% in 2021 to 395,025 tonnes (2020: 444,607 tonnes). The YOY volume decrease was primarily due to the plant in the UK, which was permanently closed at year-end 2020. Overall, Salt Slags recycling plants operated at 88% load factor in 2021 (2020: 84%) of the latest installed annual recycling capacity of 450,000 tonnes, back at solid pre-pandemic levels.

Salt slags & SPL volumes & load factor

(Thousand tonnes recycled, % of annual capacity)

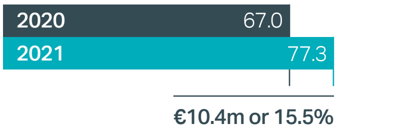


[5] 2021 load factor based on the latest installed annual recycling capacity of 450,000 tonnes

Revenues in the Salt Slags subsegment increased by 15.5% in 2021 to €77.3 million (2020: €67.0 million). This improvement was primarily driven by the higher aluminium alloy FMB prices, which averaged at €2,112 per tonne in 2021, up 48.3% YOY (2020: €1,424 per tonne). This was partially offset by the volume decrease driven by the closure of the UK plant.

Revenue – Salt Slags subsegment

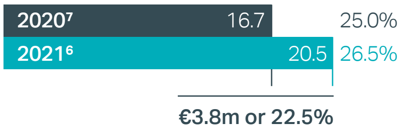
(€ million)



EBITDA in the Salt Slags subsegment approximately doubled in 2021 to €26.5 million (2020: €13.3 million). In 2021, EBITDA in the Salt Slags subsegment was adjusted for the –€6.0 million impact from the fire that occurred at the Hanover plant in November 2021. As a result, adjusted EBITDA increased by 22.5% in 2021 to €20.5 million (2020: €16.7 million, adjusted for the €3.5 million impact from the UK plant's permanent closure at year-end 2020). EBIT in 2021 reversed from the low level in 2020, to €11.3 million (2020: –€9.4 million). Earnings in the Salt Slags subsegment were influenced by the same drivers that explain the YOY revenue improvement.

Adjusted EBITDA & margin – Salt Slags subsegment

(€ million, % margin of revenue)

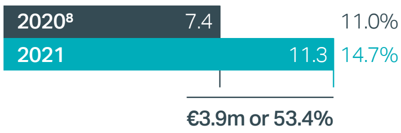


[6] €26.5m Salt Slags reported EBITDA 2021 – €6.0m Hanover Salt Slags plant fire impact = €20.5m Salt Slags adjusted EBITDA 2021

[7] €13.3m Salt Slags reported EBITDA 2020 + €3.5m UK Salt Slags plant closure = €16.7m Salt Slags adjusted EBITDA 2020

Adjusted EBIT & margin – Salt Slags subsegment

(€ million, % margin of revenue)



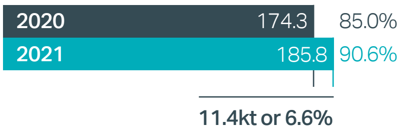
[8] –€9.4m Salt Slags reported EBIT 2020 + €13.4m UK Salt Slags asset write-off due to plant closure + €3.5m UK Salt Slags plant closure EBITDA impact = €7.4m Salt Slags adjusted EBIT 2020

Secondary Aluminium subsegment

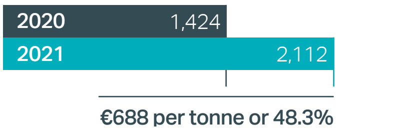
Aluminium alloy production volumes increased by 6.6% in 2021 to 185,777 tonnes (2020: 174,334 tonnes), which represents an all-time-high level. Overall, Secondary Aluminium production plants operated at 91% load factor in 2021 (2020: 85%), demonstrating a recovery to pre-pandemic levels.

Adjusted EBITDA in Aluminium Salt Slags Recycling Services increased in 2021 by 69.4% to €48.8 million.

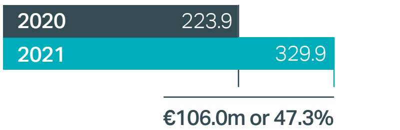
Secondary aluminium alloy volumes & load factor
(Thousand tonnes produced, % of annual capacity)



Aluminium alloy average market price
(€/tonne)



Revenue – Secondary Aluminium subsegment
(€ million)

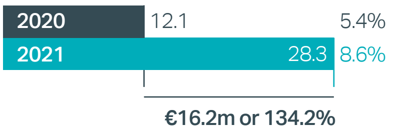


Revenues in the Secondary Aluminium subsegment increased by 47.3% in 2021 to €329.9 million (2020: €223.9 million), mainly due to the volume improvement and the favourable aluminium alloy FMB prices.

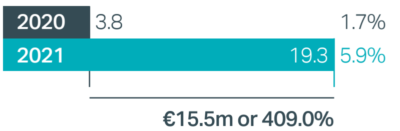
EBITDA in the Secondary Aluminium subsegment more than doubled in 2021 to €28.3 million (2020: €12.1 million). This positive development is primarily because of the improvement in volumes, the strong market prices and aluminium metal margins.

EBIT improved fivefold in 2021 to €19.3 million (2020: €3.8 million), following the same drivers that affected the EBITDA development.

EBITDA & margin – Secondary Aluminium subsegment
(€ million, % margin of revenue)



EBIT & margin – Secondary Aluminium subsegment
(€ million, % margin of revenue)



Sustainability

Sustainability is about acting today and thinking in terms of years and decades by building a business model that reduces one's carbon footprint and does not compromise the biosphere and the future of generations to come.

Sustainability is part of Befesa's DNA. Economic, environmental and social standards are considered in all business decisions. This is key to being successful in the long-term.

Befesa's business model is predicated on sustainability and a circular economy approach. Befesa uses sophisticated recycling technology to manage hazardous residues, helping customers to comply with environmental regulations. Contributing to the creation of a more sustainable world is at the core of Befesa's business.

For Befesa, environmental protection is not new and has been the backbone of the business since Befesa began its operations. This philosophy has been the main driver for growth for more than three decades.

In the following sections, topics related to sustainability, such as the environment, employees, diversity, inclusion, human rights, health and safety, and corporate citizenship, are described to provide a general overview of how these subjects are managed at Befesa. The governance part is presented separately, in the sections "Corporate governance" (pages 72 to 86) and "Compliance" (pages 88 to 94). Further information about sustainability will be available in the Befesa ESG Report 2021, which will be published in Q2 2022.

Befesa will disclose the eligibility reporting requirements for its activities, in accordance with the EU Taxonomy Regulation in the Befesa ESG Report 2021. Befesa's activities are a vital part of the circular economy, and the Company is awaiting the publication of the technical criteria for the "Transition to Circular Economy" goal by the EU authorities.

Environmental

In most cases, today's waste is not waste but a resource that, with the right technology and business model, can be reprocessed to generate new products which can be used many times.

For this reason, at Befesa, the word "residue" is used instead of "waste", meaning that Befesa believes in and strives to give second and multiple lives to products and materials that have been used.

In 2021, Befesa managed and recycled over 1.6 million tonnes of residues and produced about 1.4 million tonnes of new materials. As a vital player in the circular economy for more than three decades, Befesa reintroduces these new materials into the market, reducing the consumption of natural resources.

The circular economy looks beyond the traditional "take-make-dispose" extractive industrial model and aims to redefine growth, focusing on positive, society-wide benefits. It entails gradually decoupling economic activity from the consumption of finite resources and reusing waste out of the system.

Metal recycling is one of the most significant processes in the circular economy. It enables multiple lives for materials and reduces the consumption of natural resources. Through the recycling of materials and its reintroduction into the market, the long-term value added to residue material is high and sustainable.

Befesa contributes significantly to the circular economy with a model that closely resembles what the visionaries and authorities describe when they speak about the concept of a "circular economy".

In the Steel Dust Recycling Services segment, Befesa takes residues containing zinc from EAF steel-manufacturing plants and recovers from them zinc oxides that can be reused to manufacture pure zinc. This zinc is then reintroduced into the market for galvanisation and other processes and can be reused almost endlessly. Similar processes allow the recovery of nickel, chromium and other metals from the recycling of stainless-steel dust.

In addition, in the Aluminium Salt Slags Recycling Services segment, Befesa contributes by recycling and reintroducing close to 100% of the aluminium smelting residues (salt slags), bringing it back into the production chain in the form of aluminium concentrates, aluminium oxides and melting salt.

Without the actions undertaken by Befesa, a much higher amount of energy, carbon dioxide emissions and negative environmental impacts would have to be incurred to produce the same amount of zinc, aluminium and melting salts. And what is worse, the alternative would be limited since the resources on earth are finite.

As in the Steel Dust Recycling Services segment, through the processes and services provided by Befesa, the Aluminium Salt Slags Recycling Services segment also makes a significant contribution to the circular economy for society.

Sustainability is at the heart of Befesa's business model. The Company's research, development and innovation is continuously focused on looking for new processes and services that can help customers to make their businesses more sustainable. Detailed information on R&D and innovation is available in the "R&D and innovation" section (pages 58 to 60) of this Annual Report.

Befesa's contribution to the environment:

- Reducing the consumption of natural resources and preventing over 1.6 million tonnes of residue from reaching landfills each year;
- Recycling hazardous residues from secondary steel and aluminium producers;
- Recovering zinc oxides, metal alloys, steel slags, aluminium concentrates and oxides (secondary minerals commercially marketed as Paval® or Serox®, which have a high content of alumina) and melting salts;
- Reintroducing the recovered materials into the market; and
- Using BAT to minimise the environmental impacts.

CO_2 emission reduction

Befesa is defining a plan to reduce its CO_2 emissions by 20% by 2030, with the ambition of achieving net zero by 2050. The detailed plan will be provided as part of the Befesa ESG Report 2021 scheduled for Q2 2022.

KEY PERFORMANCE INDICATORS (KPIs)

Over the last six years, Befesa has developed key performance indicators (KPIs) that measure environmental performance. These KPIs are collected on a quarterly basis and reported internally.

These indicators cover various aspects of environmental management, sustainability, health and safety, and social aspects.

Indicators and their evolution are analysed at the environmental, health and safety (EHS) managers' quarterly conferences and by the corporate EHS Committee. The analysis includes the necessary actions to improve these parameters and achieve Befesa's goals.

INVESTMENTS

Befesa analyses the needs for the improvement of its plants to fulfil incoming legislation or to attain efficiency improvements and includes these investments in its capex budget. A list of capex projects is developed, prioritised and approved by the Board of Directors of Befesa, according to approval procedures.

In 2021, Befesa spent €27 million in environment-related investments (2020: €23 million). This was with the aim of renewing equipment that increases efficiency and reduces energy consumption and emissions.

Environmental continued

The most relevant investments carried out during 2021 were the following:

- Filter replacements and optimisation to reduce emissions;
- New filter press to reduce natural gas consumption and reduce CO_2 emissions;
- Improvements in reducing and capturing fugitive emissions such as building isolations, equipment enclosure and baghouse replacement;
- Improvements at gas treatment plants;
- The use of rainwater to reduce the industrial water consumption and to improve storm water management;
- The replacement of chemicals with more environmentally friendly products;
- Repair of roads to prevent soil and groundwater contamination;
- The replacement of several equipment with more energy efficient ones;
- Noise-reduction projects at many Befesa sites; and
- Many energy-reduction initiatives such as the optimisation of the shutdowns, elimination of compressed air leakages, replacement of lighting with LED technology, thermal insulation, material recovery optimisation to reduce the consumption of resources and cooling tower improvements.

AIR PROTECTION

Air emissions generated from metal recycling could have an impact on human health and the environment and may be subject to regulations and permissions.

Befesa regularly engages with industry bodies to remain aware of forthcoming regulations and environmental legislation. During the past few years, detailed work has been done to ensure compliance with the regulations of the Industrial Emissions Directive (IED). In addition, the implementation of ISO 14001 and the EU Eco-Management Auditing Scheme (EMAS) ensure that Befesa proactively reviews regulations that may be applicable to each site.

Befesa has updated its plants with equipment according to BAT for operations and emission control to minimise the negative effects on the air and to ensure compliance with current and forthcoming legislation.

SOIL PROTECTION

The processing of metal residues has the potential to cause soil damage and contamination if not managed with the right installations and procedures.

Befesa's installations are designed and maintained with solid protections through concrete and paved operating surfaces, rainwater collection systems and other engineering solutions to protect the soil. Adequate soil and underground-water monitoring is provided where required and according to local legislation.

ENERGY SAVING

As mentioned, many environmental investments were carried out in 2021 across the Befesa sites to reduce energy consumption and increase energy efficiency.

WATER CONSUMPTION & EFFLUENTS

The processing of metal residues can require substantial quantities of water, which can represent a potential risk to production and to the local environment, particularly in regions of water scarcity. Befesa monitors its water consumption as a KPI. Each site submits reports that are consolidated at a Group level. Trends are analysed and good practices shared to promote individual projects in an effort to reduce water consumption.

In 2021, certain locations, such as Duisburg (Germany), Gravelines (France) and Palmerton, PA (US), improved their storm water retention to reduce industrial water consumption and potential storm water contamination.

WASTE-REDUCTION EFFORTS

Befesa's inherent business of recycling and reusing hazardous residues from metal processing prevents those residues from reaching landfills. Befesa's process for treating aluminium foundry salt slags offers an example of leading technology in recovering all components of the slags and converting them into reusable materials. The high recovery level results in minimal potential risk of contamination and environmental degradation through the disposal or landfilling of these slags.

The KPIs related to residue generation, including both hazardous and non-hazardous residues (disposed of or recycled) are reported by site periodically (at least on a quarterly basis) and consolidated at a Group level.

GREENHOUSE GAS EMISSIONS

Steel production and metal recycling generates emissions of direct greenhouse gases (GHG), primarily carbon dioxide and methane from the production processes, smelting activities and on-site fuel combustion. These emissions contribute to climate change and create risks for companies as regulations are developed and implemented on a regional and global scale.

Befesa's primary business is to recycle hazardous residues from the metals industry and to extract or recycle the valuable content of those hazardous residues. Befesa contributes to the overall reduction of GHG emissions by applying BAT on industry practices for operations and emission controls to minimise these emissions in the recycling process.

Through EHS management systems and other internal protocols, Befesa monitors carbon emissions and reports on a Company-wide basis annually. In addition, Kyoto Scope 1 and Scope 2 emissions are reported.

EHS CERTIFICATIONS

As of 31 December 2021, all Befesa's sites are ISO 14001 certified, an internationally recognised environmental management system. Also, 76% of Befesa's sites are ISO 50001 certified, which develops an energy management system. A total of 81% are ISO 14064 certified for the management of GHG emissions, and 81% are also certified according to the ISO 45001 occupational health and safety norm.

Almost 50% of Befesa's plants located in the EU are registered according to EMAS, one of the most demanding environmental management systems. This includes the need for public communication, transparency and recognition by environmental authorities.

The staff at Befesa's new facilities is working towards their pending certifications.

EHS AUDITING

Internal and third-party external auditing processes are conducted as part of the ISO 14001, 50001, 14064 and 45001 certification processes, ensuring they comply with ISO requirements.

During 2021, all certifications were maintained, and audits did not result in any major nonconformity. In the case of minor nonconformance and observations, these were analysed to identify the root causes and the necessary improvements defined.

Further information about environmental issues at Befesa will be shown in the Befesa ESG Report 2021, which will be published in Q2 2022 on Befesa's website (www.befesa.com).

ENVIRONMENTAL AWARD

In 2021, Befesa launched its first Environmental Initiative Award to promote the engagement and commitment of the Company's employees towards environmental issues. Many very good environmental initiatives were presented in the contest. The awarded initiative was the project "Befesa Forest", which is dedicated to the recovery of a local forest and the improvement of biodiversity in Urdaibai (Spain), which qualified as a UNESCO biosphere reserve. The awarded foundation will plant over 1,400 trees on two hectares of forest which will compensate for 466 tonnes of CO_2 over 40 years.

Befesa's contribution to the environment:

Reduce
the consumption of natural resources and prevent more than 1.6 million tonnes of residue from reaching landfills each year.

Recycle
hazardous residues from secondary steel and aluminium producers.

Recover
zinc oxides, metal alloys, steel slags, aluminium concentrates and oxides (secondary minerals commercially marketed as Paval® or Serox® which have a high content of alumina) and melting salts.

Reintroduce
the recovered materials into the market.

Using BAT to minimise the environmental impacts.

Social, health & safety

People

The year 2021 has once again been an extraordinary year for Befesa's employees, as the entire world has faced a very volatile and dynamic period. The COVID-19 pandemic continues to have worldwide and unforeseeable impacts on economies, society, business practices and financial markets.

Through all the challenges, Befesa's employees have gone above and beyond, rising to every challenge and showing their commitment to the Befesa Strategic Business Plan and goals. Befesa has been working on measures to ensure compliance with local rules and regulations to protect all employees. These measures include, among many others, ensuring social distancing by physical and organisational means, increasing the frequency of cleaning and disinfecting, and providing personal protective equipment (PPE).

Befesa knows that basic safety protocols work; that is why the Company has been able to continue its activity during this period and was prepared to respond to the current situation.

Following the growth plan, Befesa is proud to welcome our new colleagues in China and the US. In China, Befesa tripled its headcount by the end of 2021. In the US, because of the successful acquisition of AZR (today Befesa Zinc US), Befesa welcomed 345 employees distributed across the four recycling plants located in the eastern part of the US.

As of 31 December 2021, Befesa increased the number of employees by 26.7% from 1,137 to 1,550 people across eight countries. Around 75% of these employees work in operations and maintenance, a figure that demonstrates Befesa's productive nature. In 2021, Befesa continued to have above 85% of employees with open-ended contracts.

Befesa fully commits to its employees' right to freedom of association and collective bargaining in all its operations. This is not only in accordance with the laws and regulations of the countries in which Befesa operates, but also in accordance with the plentiful work agreements of each Befesa location, which noticeably improves the minimum legal conditions. Therefore, Befesa's turnover rate is driven mainly by voluntary resignations, which amounted to 2.40% of the global average headcount in 2021 (2.13% in 2020).

For Befesa, training has crucial importance for the professional development of its employees. Accordingly, Befesa collaborates with different training entities, including universities and business schools.

During 2021, 38 apprentices and students participated in traineeships or internships with Befesa (2020: 38).

Befesa also launched the Young Professionals Programme 2021, focusing on employees under 35 years of age. The programme aims to develop intercultural communication and networking skills, and provide Company insights. The programme was divided into three sections: a virtual meeting with Befesa's executives (CEO, CFO, business VPs), a virtual meeting with the corporate directors, and more than seven hours of activities on intercultural communication. The communication course consisted of four 90-minute live meetings and six webinars. The live meetings were designed as stand-alone training units on designated topics, which allowed the participants to schedule their participation in a flexible manner. In each session, participants were able to see different group settings and get to know other colleagues from the Befesa community, whether they were in Spain, Germany, France, Turkey, China or South Korea. In total, 38 employees participated in this initiative.

Following the training initiatives, as Befesa grows around the world, one focus in 2021 was language courses, where Befesa doubled the number of hours compared to 2020. It is crucial that Befesa grows cohesively and together, and for this, communication is a key factor. Being able to connect people and exchange experiences, best practices and knowledge is what makes Befesa strong. As a result, Befesa partnered with the language platform Busuu, which provides language learning in a very flexible and interactive way.

Despite the pandemic, training in 2021 increased by 25.7% to 23,512 training hours (2020: 17,473). Even under the circumstances and restrictive measures, Befesa has strived to offer trainings in all locations.

Trainings in health and safety amounted to 11,284 hours. This represents 48% of the total training hours in 2021 (2020: 10,234 training hours or 59% of the total training). This shows that this field continues to be a key priority at Befesa.

Further information on employees is available on pages 162 and 163 of this Annual Report and in the Befesa ESG Report 2021, which will be available in Q2 2022 on Befesa's website (www.befesa.com).

DIVERSITY & INCLUSION

Diversity and inclusion are at the heart of Befesa. With employees from various ethnic backgrounds, who are spread around the world, the Company always seeks to ensure that everyone is treated with respect.

Following the creation of the Diversity, equality and inclusion (DE&I) policy in 2020, in 2021 Befesa continued to work for a better and equal society. In this sense, Befesa launched a video for its employees about stereotypes, which explains positive and negative stereotypes and how the brain processes the information it receives. By paying attention to the stereotypes that people themselves create, everyone can act in a more objective way without letting prejudice affect their work and social life and, more importantly, without affecting decisions that can offend others.

Furthermore, in celebrating important dates such as the World Day for Cultural Diversity for dialogue and development on 21 May 2021, Befesa's employees created a recipe book, where they shared their favourite local and/or family recipes. To reach everyone, the book was translated into eight languages: Chinese, English, French, German, Korean, Spanish, Swedish and Turkish. It is available to all employees on the Befesa intranet.

Furthermore, on 3 December 2021, Befesa celebrated the International Day of People with Disabilities. Befesa's human resources community from all locations participated in a virtual escape room with autistic people.

Befesa is also looking for different KPIs to ensure a diverse workforce, one of which is composition by age. The age chart (page 52) gives a clear picture of how the generational handover follows a natural rhythm. Befesa's human capital is experienced – as of 31 December 2021 the average employee age was 44.5 years old with 11.6 years of experience at Befesa.

Regarding Befesa's top management gender diversity, the Board of Directors has nine directors, consisting of one woman and eight men. Also, the Secretary to the Board of Directors – the Group's General Counsel – is female.

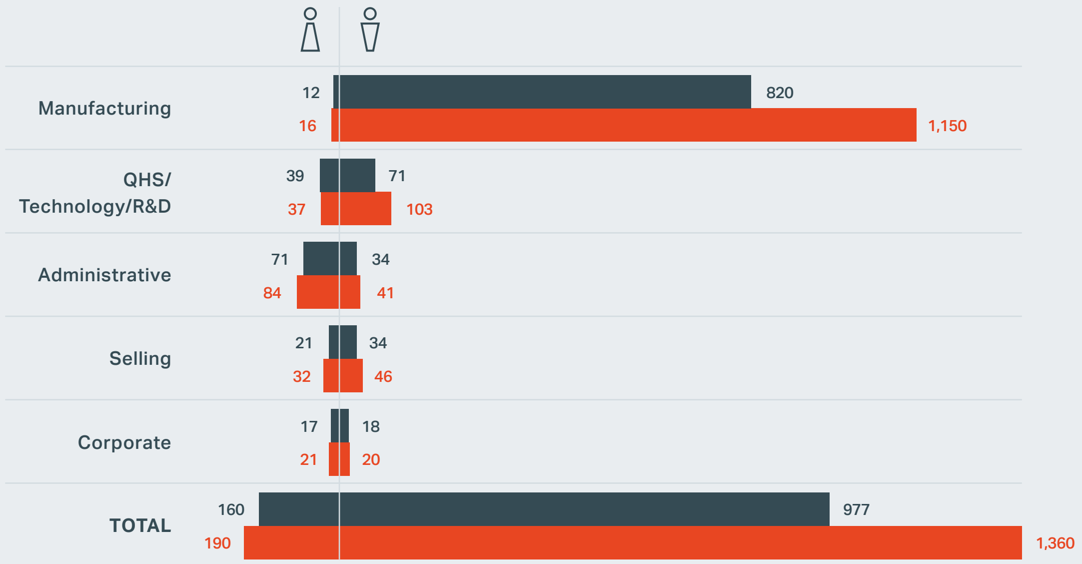
HUMAN RIGHTS

Befesa respects the rights of all employees and those associated with Befesa, including customers, suppliers and their employees. Befesa complies with universal principles regarding human rights and labour practices, including the United Nations' Universal Declaration of Human Rights. Befesa's code of conduct applies to all staff members, who are required to accept and accommodate different values; respect the character and personality of others; observe the right to privacy and human rights; and avoid any violation of human rights based on race, religion, sex, national origin, disability, age or sexual orientation.

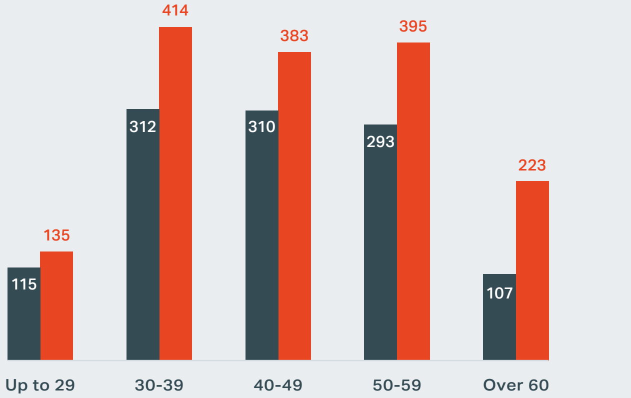
In addition, Befesa prohibits physical abuse, sexual harassment, power harassment or the violation of the human rights of others. Befesa promotes and expects business integrity, compliance with applicable laws and adherence to internationally recognised environmental, social and corporate governance standards. This is not only within the organisation, but also among Befesa's business partners. For this reason, Befesa has introduced a code of conduct for suppliers that must be accepted and signed by all suppliers. Further information about Befesa's code of conduct for suppliers is available in the "Compliance" section (pages 88 to 94) of this Annual Report.

Social, health & safety continued

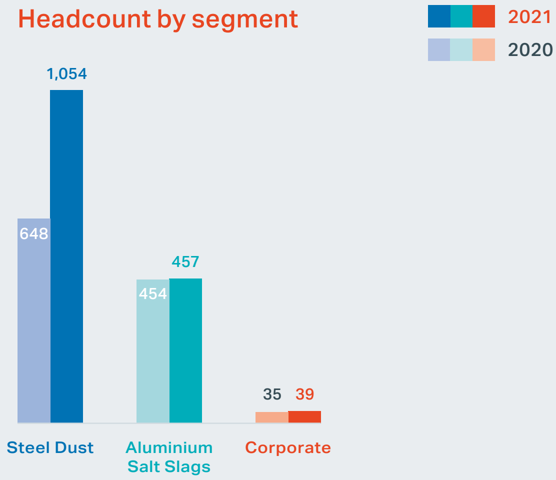
Headcount by function and gender



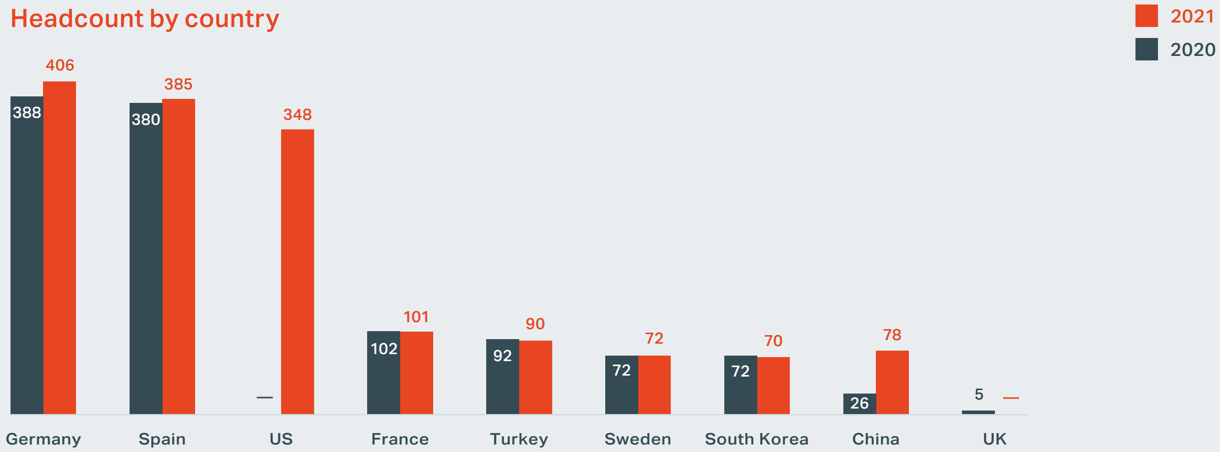
Headcount by age group



Headcount by segment



Headcount by country



Health & safety

Health and safety is an integral part of Befesa's business. Befesa is committed to the continuous improvement of its health and safety performance and is convinced that this focus contributes to achieving operational excellence.

Befesa is strongly committed to keeping all its employees safe and looking after their well-being. Befesa believes that safety is not only about reducing the number of accidents; it is also about increasing employees' satisfaction at work, their engagement and their productivity.

There are many other tangible and intangible benefits to a safe working environment. These add value to the business and benefit all stakeholders, including employees, the community, customers and shareholders. Befesa's goal is to lead by example in terms of safety, health, environment and quality.

SHARING LEARNING LESSONS

Every incident or near miss is reported and investigated by management in a team approach. This involves operators, among others, to ensure learnings are obtained and spread across the organisation. In 2021, a total of 155 incidents were reported and investigated, almost halved YOY (2020: 302). All incidents were investigated and action plans to avoid reoccurrences were in place.

Accidents causing lost time are communicated to the manager of the plant where the accident occurred. They in turn inform Befesa's CEO and the vice president of the corresponding business segment, in addition to the HR Director and the EHS Director of Befesa, within 24 hours. This serves to ensure full awareness within the organisation and drives prompt investigation and preventive action plans.

For the most relevant incidents and accidents where lessons can be drawn, and for the rest of the organisation to prevent similar occurrences, a single-page document is generated with key learnings.

In 2021, 92 learning lessons from Lost Time Accidents (LTAs), Non-Lost Time Accidents (NLTAs) and incidents were distributed at a corporate level (2020: 84 learning lessons), reaching all management and the shop floor level. This represents 100% of the LTAs, 100% of the NLTAs and more than 12% of the incidents. This shows Befesa's level of work and dedication to learn from accidents and incidents and to implement improvements coming from investigations.

PREVENTIVE SAFETY OBSERVATIONS

Preventive safety observations is a Befesa safety programme intended to detect and correct unsafe acts and conditions before they result in accidents and incidents. This programme aims to enhance a culture of safety, the awareness of employees and commitment through the field presence of line management to address safety issues. Managers at all levels in Befesa are trained to detect unsafe acts and to provide constructive feedback to operators and contractors about work safety practices.

In 2021, more than 1,350 observations were completed (2020: more than 1,300). This involves correcting unsafe acts and conditions, and generating appropriate actions and reports.

In 2021, the safety programme was extended: by the end of the year, task observations were added to the existing preventive safety observations. The task observations aim to analyse not only the behaviour, but also the consistency of Befesa's written rules and employees' compliance with these written documents (including standards, safe work instructions and permits).

LIFE-SAVING RULES

Preventing serious injuries and fatalities is one of the top priorities of the health and safety programme and requires special focus.

The responsible Befesa team analysed and prioritised this list of the most frequent causes of fatalities and generated the Befesa Life-Saving Rules to prevent them. This initial step was reinforced in 2020 with the launch of a specific programme on fatal and serious injuries. This programme focuses on the identification, timely control,

Social, health & safety continued

measurement of the controls' effectiveness and the follow-up by management of all the risks with the potential to cause fatal or serious injuries.

Many activities like audits, training and safety contacts have been conducted in these areas to reduce the risk of accidents with these types of work.

FATAL & SERIOUS INJURIES PREVENTION

In 2021, Befesa continued with the implementation and improvement of the fatal and serious injuries (FSI) prevention programme, aiming to:

- increase the focus on the higher safety risks;
- extend the scope of risk identification, including non-routine tasks, places and operations (e.g. shutdown, start tasks);
- give visibility to those risks at all levels of the organisation, from the executive to the shop floor employees level;
- allocate the appropriate time and resources to risk identification and control; and
- ensure that robust controls are in place, and that those controls are periodically verified.

In 2021, 39 FSI risks were identified across Befesa's locations (2020: 37), of which 50% were satisfactorily managed and closed (2020: 81%). Some of the FSI risks identified in 2021 were discovered at the end of the year. For the remaining 50% of the FSI risks identified in 2021, interim controls were put in place, while the final solution was being studied and implemented.

HEALTH & SAFETY PERFORMANCE

Taking as a reference 2015 – the year when Befesa launched the "Be Safe" project – over the course of six years, Befesa has reduced its Lost Time Injury Rate (LTIR) by 81%. This is according to OHSAS's classification, measured as the number of accidents causing lost time divided by work hours and multiplied by 200,000.

The LTIR related to contractors' accidents has been reduced by 95% compared to the 2015 baseline. After launching the "Be Safe" project in 2015, from 2016 onwards there have been no fatal accidents.

In addition to the previous lagging indicators, various leading indicators are measured to continuously monitor Befesa's health and safety performance. These include the number of incidents reported and the total number of preventive safety observations.

EHS STANDARDS & INITIATIVES

Befesa continues to enhance its management systems by implementing new corporate safety standards, and standardising and strengthening the safety requirements across all the locations. In 2021, the following safety standards were implemented:

- Molten metal safety
- Traffic safety
- Confined spaces entry safety
- Work permits
- Internal audits

In 2021, a total of 12 safety standards were implemented across Befesa locations.

Another goal of Befesa locations is to ensure the safety of the processes, by identifying process hazards and increasing the robustness of the controls. To do so, Befesa started the implementation of the Process Safety Management (PSM).

Lost Time Injury Rate (LTIR):

	2015	2016	2017	2018	2019	2020	2021	% vs 2015	% vs 2020
Own employees	5.30	3.57	2.88	2.67	2.16	1.34	1.03	-81%	-23%
Contractors	8.06	0.98	3.88	5.47	1.60	0.66	0.43	-95%	-35%
Total	5.71	3.11	3.08	3.22	1.98	1.26	0.81	-86%	-36%

Severity Rate (SR):

	2015	2016	2017	2018	2019	2020	2021	% vs 2015	% vs 2020
Total	0.77	0.77	0.31	0.44	0.41	0.48	0.16	-79%	-67%

In 2021, the first steps on this path were:

- Training: All the technical and management staff were formally trained on PSM;
- Assessment: The status of the PSM implementation across Befesa locations has been completed; and
- Awareness: Several awareness initiatives on PSM have been deployed.

THE FIVE LEADERSHIP PERSUASIVE BEHAVIOURS

During 2021, all Befesa's line managers continued developing leadership-by-example skills by implementing policies and programmes in line with Befesa's "Five Leadership Persuasive Behaviours".

FIVE LEADERSHIP PERSUASIVE BEHAVIOURS

1. **When an unsafe act happens, we always stop and correct it.**
2. **We invest time every day in the plant for safety.**
3. **We speak and listen frequently to employees about safety concerns.**
4. **We integrate safety performance in suppliers and contractors.**
5. **We train all contractors in Befesa's rules before commencing work.**

These behaviours have been part of the Middle Managers Safety Development Plan that was implemented across all Befesa units, with the purpose of making them an intrinsic part of Befesa's safety culture.

TRAINING

In 2021, Befesa invested a total of 709 training hours (2020: 260) in educating and preparing local management teams on:

- Fatal and serious injuries prevention
- Process Safety Management
- Traffic Safety EHS software ("Cority") reporting
- Accident and incident investigations

SAFETY INVESTMENTS

In 2021, Befesa further enhanced its EHS software – "Cority" – by including the environmental module that allows Befesa to:

1. centralise the EHS strategic data in one place;
2. simplify the EHS reporting, and report building for the locations;
3. give quick and visual access of the EHS information to the management teams, and allow a simple visual follow-up of the locations' KPIs and action plans; and
4. free up time for the safety personnel to spend on the shop floor.

In addition, over €2.5 million was invested across Befesa locations on safety projects such as:

- The upgrade of cranes;
- Fall protection such as lifelines installation, platforms and grids in many Befesa sites;
- Traffic safety improvements in all the Befesa sites;
- Conveyor belts and other machine guarding in almost all the Befesa sites; and
- The reduction of employee exposure to harmful substances.

Corporate citizenship

Befesa truly contributes to improving local communities and societies, considering their needs and interests as well as the consequences of Befesa's actions on the social system as an essential business obligation. Bearing this in mind, Befesa has developed several projects in the fields of environment, sports and culture.

Befesa takes great pride in its employees and the possibility of getting closer to them by supporting NGOs that they themselves support.

In this regard, the fourth edition of Befesa's Charity Project Contest has been a success once again in 2021. The Charity Contest offers the opportunity for employees to nominate NGO initiatives, with two projects being selected to receive financial support.

In 2021, the winning projects were:

1. The **Solar Power for Education** project of the Amity Foundation located in China. This organisation supports people in need by promoting education, public health, social welfare, community development, environmental protection and other philanthropic topics. The project aims to support children who live in remote and mountainous regions and who must study by candlelight or with oil lamps due to a lack of electricity. The goal of the project is to provide a photovoltaic lighting system to improve their situation and give them an equal opportunity for education to other children. The solar system provided by the organisation has a high energy conversion rate, and is safe and pollution-free.

2. The second winning project was shared by two organisations:

The **Breakfast Bag** project of the Immersatt Kinder- und Jugendtisch e.V. organisation in Germany supports children and teenagers living in poverty, assisting them with education, food, and cultural and social living standards. Many children go to school with an empty stomach and are therefore not able to focus on their lessons. The project aims to provide them with a healthy breakfast including a sandwich and a drink.

The project **Care and Promotion of Children in Situations of Social Vulnerability** of the Caritas Diocesana of Bilbao (Spain) supports children from families in situations of social exclusion in different development areas such as school support, educational leisure, and social values and skills.

In May 2021, Befesa's employees joined runners from all over the world in the Wings for Life World Run event. Befesa raised more than €3,000 and ran more than 470 kilometres to help fund a cure for spinal cord injury.

Furthermore, Befesa organised several volunteer activities and donations that took place during the autumn and winter of 2021. In these activities, the spirit of solidarity of each one of Befesa's employees was demonstrated, contributing to the support of those who are most impoverished, even in a challenging year.

Figures on donations and sponsorships carried out in 2021 will be available in the Befesa ESG Report 2021, which will be published in Q2 2022.

Befesa's corporate citizenship calendar 2021

Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec

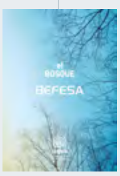
22 Feb
Befesa's recipe book launched

1 Mar
Zero Discrimination Day

28 Apr
World Day of Safety & Health at Work

8 May
Wings for Life World Run 2022

21 May
World Day for Cultural Diversity for Dialogue & Development



5 Jun
World Environmental Day

"Befesa Forest" was the winning project of the Befesa Environmental Initiative 2021 award.

3 Aug
International Charity Project Contest

22 Sep
DE&I initiative about stereotypes

Winter charity initiatives
Every year Befesa mobilises its employees to carry out different winter charity initiatives to help and support those in need.

3 Dec
International Day of People with Disabilities

R&D and innovation

Befesa's research and development (R&D) strategy is designed to create value by developing sustainable improvements to existing technologies, optimising operations and product quality, developing new processes to achieve higher recycling efficiency, reducing costs and improving environmental conditions. All of this contributes to sustainable development and enhanced customer service.

STRATEGIC FOCUS & APPROACH

Befesa's R&D strategic plan aims to be a technologically competitive reference in providing sustainable environmental services that recycle hazardous residues from the steel and aluminium industries, with a core focus on steel dust, salt slags and SPL.

The R&D activities are organised into two teams in order to develop new technological and sustainable environmental service solutions that are adapted to the technological processes of each of the businesses. These two teams meet on a regular basis to exchange the achievements, findings, knowledge and developments of their respective projects.

EMPLOYEES IN R&D

Befesa's R&D strength is based on the teams' experience and qualifications across various specialisations. In 2021, a total of 14 employees were dedicated to R&D activities (2020: 14). Of these, nine were part of the Steel Dust Recycling Services segment and five were part of the Aluminium Salt Slags Recycling Services segment.

EXPENSES ON R&D

The expenses on R&D activities in 2021 decreased by 15% to €2.7 million (2020: €3.2 million).

In the Steel Dust Recycling Services segment, expenses on R&D activities in 2021 remained flat at €1.4 million.

In the Aluminium Salt Slags Recycling Services segment, expenses on R&D activities in 2021 decreased by 28% to €1.3 million (2020: €1.8 million).

COLLABORATIONS NETWORK

One of the pillars of Befesa's R&D strategy is external collaboration. This is primarily executed via research groups and institutions, public research centres, universities and other industrial enterprises with whom Befesa frequently collaborates on R&D projects.

Befesa is a founding partner of the Basque Innovation Agency, which seeks to coordinate and promote innovation in the Basque Country. Befesa is also a member of the Labein Tecnalia Foundation. This is a private technology centre with significant business involvement that creates partnerships within their markets to develop innovative capacity using technology as a tool to increase competitiveness. Befesa has developed projects in collaboration with institutions such as Hydro, Nippon Gases, GHI, Sidenor, CIE Automotive and CSIC (in Spain), IAB and Ibutec (in Germany) and NTNU (in Norway).

Befesa is also undertaking projects in collaboration with universities such as the University of the Basque Country, the University of Valladolid and the University of Oviedo (in Spain), and with the University of Leoben (in Austria), where Befesa is contributing to the project funding of the competence network for the assessment of metal-bearing by-products (COMMBY).

MAIN ACHIEVEMENTS & PROJECTS IN 2021

In the **Steel Dust Recycling Services** segment, focus areas included:

- The development of quality control standards for charcoal for its use in Waelz kiln processes for future reduction of the carbon footprint and market study on available European charcoal sources;
- Conducting first steps on basic research on hydrogen for use in zinc recycling;
- The optimisation of pilot equipment for the monitoring of online process chemical analysis to improve the Waelz process efficiency;
- The transformation of the chemical/physical behaviours of Waelz slag for industrial usages; and
- The treatment testing of waste materials at stainless-steel dust recycling sites for internal recycling and/or transfer into valuable by-products.

In the **Salt Slags** subsegment of the Aluminium Salt Slags Recycling Services segment, the main research activities focused on:

- The development of the refined secondary aluminium oxide to produce new raw material as an alternative to mineral bauxite (to be used in the refractory industry) at pre-industrial scale (620 tonnes per year);
- The development of new polymeric materials using secondary oxides to achieve fireproof properties for new advanced systems in electric vehicles and railway components;
- The obtention of high-pure alumina (4N grade) from low quality aluminium oxides, which can be used as raw material in the manufacturing of LEDs;
- Studying and developing an alternative treatment for SPL, recovering high value products;
- The design and progress of brine cleaning treatment for recovering aluminium hydroxides, to be used as new raw materials in the chemical industry;
- The development of a roadmap to recover main gases from the complex rich hydrogen waste stream for salt slag valorisation;
- The evaluation of the impact of the quality of recovered salts from the salt slags recycling process in the aluminium wastes melting process; and
- The construction of a pilot crystallisation plant to produce "ad hoc" recovered salts.

R&D and innovation continued

In the **Secondary Aluminium** subsegment of the Aluminium Salt Slags Recycling Services segment, the main research focus included:

- The optimisation of the aluminium alloy production process in order to introduce improvements and technologies to increase energy efficiency;
- Studying and improving recovered salts from the salt slags recycling process to increase the efficiency of the aluminium recycling process;
- The development of secondary alloys with improved properties for modular chassis components;
- The demonstration of the use of secondary wastes, aluminium drosses and scraps to produce high-pure silicon and master aluminium alloys by aluminothermic reduction; and
- The production of high-pure alumina using secondary aluminium oxide, involving hydrometallurgical treatments.

PROJECTS IN THE RESEARCH PIPELINE

In the **Steel Dust Recycling Services** segment, projects in 2022 are the continuation of projects launched in 2021 and additional new projects:

- Tests of feeding carbon dioxide-neutral carbon sources into the Waelz process;
- Research on hydrogen use for zinc recycling processes;
- The evaluation of potential carbon capture technology for the Waelz process;
- The evaluation of the use of hydrogen for Waelz slag treatment;
- The optimisation of the efficiency of the Waelz process by monitoring the installed pilot inline process;
- Pilot-scale test to transfer Waelz slag into by-products to improve circularity; and
- Large-scale trials for reducing waste streams at stainless-steel dust recycling sites for transfer into valuable by-product.

In the **Aluminium Salt Slags Recycling Services** segment, the major R&D projects are:

- Bauxal II: The valorisation of aluminium by-products from the salt slags recycling process to produce refractory materials as an alternative to calcined bauxite;
- SisAl: An innovative pilot for silicon production with a low environmental impact, using secondary aluminium and silicon raw materials;
- Alusalt: Studying and improving the quality of melting salt that is recovered in the salt slags valorisation process;
- FISSAC: Fostering industrial symbiosis for a sustainable, resource-intensive industry across the extended construction value chain;
- Radius: Recycling automotive brake discs by upgrading metallic scraps;
- Al fused: New corundum-based abrasive materials from secondary bauxite of the aluminium recycling process;
- Alumelt: A new quality of secondary aluminium through the improvement of the recycled salts;
- Mat EV: New polymeric materials with advanced properties, which can be used to produce new-generation components and systems in electric vehicles;
- Alujoint: A light modulated chassis developed by means of integrating the structural components using advanced technology of manufacture and aluminium joint; and
- HPP: Using high-pure secondary aluminium oxide to manufacture LEDs and electronic components.

Risks & opportunities

Risk management at Befesa is a vital component of the overall management and control system.

BEFESA'S RISK MANAGEMENT SYSTEM

i. Introduction

Befesa considers the management of risk to be one of the key topics the organisation must deal with. A proper compliance system must be based on a detailed risk analysis. For this reason, Befesa has in place a risk management system (RMS) which allows management to analyse, evaluate and manage the risks of the different aspects of Befesa's operations.

The purpose of this risk management system is the identification and assessment of the major risks that affect or may affect Befesa. The system also provides the organisation with a supporting tool in decision-making through the provision of strategies aimed at risk management and control. The risk management system approach implies:

- the elaboration of a risk map;
- a definition of the current controls;
- the implementation and development of a "risk mindset";
- the implementation of action plans; and
- regular future reviews and analyses.

ii. Risk methodology

Befesa follows the ISO 31000 Risk Management Standard for carrying out a risk analysis. The rationale is that Befesa is the owner of the risks, so the risks must be identified, evaluated and controlled by Befesa itself.

The process followed is divided into two phases:

1. Risk identification process: The first step is the identification of the key personnel who need to be involved in the risk analysis. All the business segments are incorporated into the project, including top management, the directors of business segments, finance, legal, H&S, HR, IT, investor relations, internal audit, compliance and the industrial plants. After interviews, workshops and a documentation analysis, a risk catalogue is identified each year.

Impact

Probability	Very low	Low	Medium	High	Very high
Very high	3	4	4	5	5
High	3	3	4	4	5
Medium	2	3	3	3	4
Low	2	2	2	3	4
Very low	1	1	2	2	3

2. Risk assessment process: After compiling the risk catalogue, the next step is the risk assessment. This assessment is carried out by people from the different areas of the organisation included in the scope. They are provided with and trained on the risk assessment methodology and necessary indications.

For the assessment of the risks, it is necessary to establish scales that allow all risks to be assessed in a homogeneous manner.

The risk score "R" is computed as the Cartesian product of I (impact) x P (probability), as shown in the table.

The probability (P) describes the probability of occurrence or degree of verisimilitude of the risk (based on past experiences).

Impact (I):

- Financial impact
- Operational impact
- Legal impact
- Reputational impact

Global impact = maximum (financial, operational, legal, reputational)

iii. Risk map

The final output of the risk analysis is a risk map, where all the financial and non-financial risks are incorporated. It is important to highlight the fact that all the individual risks are mitigated by control measures which are individually listed in the risk map.

The risk levels are: very low, low, medium, high or very high, depending on the assessment.

iv. Risk monitoring

Befesa's risk management system is a systematic mode of identification, assessment and treatment of risks. Therefore, it must not be understood to be a project carried out in a specific moment in time but as an exercise aimed at continuous improvement that requires updating on a regular basis.

The risk analysis and risk map are updated annually to include new risks (or to modify current ones) and new controls to mitigate risks.

In this sense, the risk map must as far as possible reflect the reality of Befesa, and must help to adapt to changes that may influence the organisation.

To guarantee proper monitoring of the risks, Befesa has an Internal Risk Committee (IRC). The IRC is the body within the organisation that is in charge of the monitoring and review of the risks included in the risk map. The IRC is composed of the CEO, the CFO, the vice presidents of the two business segments and the corporate directors.

The committee must ensure that:

- the actions and strategies proposed for the mitigation of risks are effective and efficient, both in design and execution;
- sufficient information is available to improve the assessment of existing risks, as well as to identify, analyse and assess new risks that should be considered; and
- the identification of new risks not previously detected has been carried out.

The risk analysis, risk map and mitigation actions are presented to the Audit Committee and Board of Directors of Befesa on an annual basis for their review.

Befesa's risk map includes financial and non-financial risks, the most relevant of which are described on the pages that follow.

Risks & opportunities continued

FINANCIAL RISKS

i. Commodity prices

Befesa has appropriate risk and review routines and controls in place. An integral part of Befesa's risk management framework is to monitor and manage its risk that is related to commodity price fluctuations. Befesa may not be successful in obtaining long-term hedges for all volumes desired, and it is generally more difficult to successfully hedge larger volumes of zinc over longer periods of time. Consequently, Befesa's main risk management tool is its zinc hedging programme, which targets hedging one to three years forward at a volume level of 60% to 75% of Befesa's annual tonnage of zinc payable output.

The acquired US operations came with some fixed price forward contracts closed with one partner for part of the zinc payable output. These contracts were and are in place up to and including Q1 2023, at fixed prices of around $2,500 per tonne for 2021 and around $2,750 per tonne for the full year 2022 and Q1 2023. Following the closing of the acquisition in August 2021, and under Befesa's more competitive hedging programme, Befesa extended the hedge book for the US operations to be fully synchronised with that of the non-US operations, up to and including October 2024. This locked in 15,000 tonnes of zinc equivalent output per quarter at $2,925 per tonne for Q2 2023, $2,950 per tonne for Q3 and Q4 2023, and $2,975 per tonne for the first three quarters of 2024.

After having completely synchronised the hedge book of the US operations with that of the non-US operations, Befesa's new target volume is to hedge 38,100 tonnes of zinc output per quarter or 152,400 tonnes per year. During Q1 2022, Befesa partially hedged 5,250 tonnes of zinc output of the 38,100 tonnes new target hedged volume for Q4 2024 (November and December 2024 and January 2025) at attractive price levels.

The combined global hedge book in place as of the date of this Annual Report provides Befesa with improved pricing visibility up to January 2025, therefore for the following c. three years.

Befesa's average zinc forward hedged price was €2,151 per tonne in 2021 (2020: €2,239 per tonne), and it will be around €2,275 per tonne, €2,375 per tonne and €2,425 per tonne for 2022, 2023 and 2024, respectively. Befesa does not provide any collateral for the contracted hedges, and conducts its hedging programme with reputable hedging partners such as J.P. Morgan, Citibank, Morgan Stanley or Goldman Sachs.

ii. Foreign exchange

Befesa's functional currency is the euro. However, Befesa has subsidiaries and operations in a number of jurisdictions, including Sweden, Turkey, South Korea, China and the US, where Befesa generates revenues in currencies other than the euro. In light of its growth plans, Befesa may operate in additional jurisdictions with currencies other than the euro.

Befesa has adequate review and risk management processes in place regarding the risk of foreign exchange rates. One of several tools Befesa uses is the hedging of zinc prices forward and transacting those hedges, primarily euro-based versus the LME prices being quoted in US dollars. For 2021, Befesa had hedged 120,013 tonnes of zinc payable output, 27,613 tonnes more YOY (2020: 92,400 tonnes). This represents 73% (2020: 67%) of the zinc payable output sold by Befesa in 2021. Of the 120,013 tonnes hedged for 2021, 62% were in euro-denominated zinc forward hedges, 23% were in the US dollar and the remaining 15% in Korean won.

iii. Capital structure

Befesa's debt was refinanced on 9 July 2019. This was primarily to extend its maturity to July 2026 at attractive rates. It was also to accommodate the planned expansion into, for example, China, through increasing the basket space of the so-called general and local loan baskets.

Subsequently, on 17 February 2020, Befesa repriced its TLB covenant lite, lowering the reference interest rate from Euribor+250 bps to Euribor+200 bps. In August 2021, the margin applicable to TLB was reduced by 25 bps to Euribor+175 bps driven by the net leverage ratio improvement. The Euribor+175 bps interest rate could be reduced further alongside certain leverage ratchets down to a margin of Euribor+125 bps for leverage equal to or lower than x1.50.

The period of the variable to fix interest rate swaps was extended in 2020 up to the end of the TLB maturity, July 2026, on 60% of the

€526 million notional TLB. This was to minimise the risk of a rapid increase in the interest rate of the three months Euribor "0" floor. Nevertheless, Befesa could face potential liquidity risks if the demand for its services and products decreases significantly, as this would reduce the cash in operating activities and could deplete current cash resources. This could lead to insufficient funds to meet future cash needs.

In 2021, Befesa raised €100 million through an extension of its TLB. The proceeds were used, alongside the €329 million proceeds raised through an accelerated equity offering, to finance the acquisition of AZR's recycling assets, general corporate purposes and to pay transaction fees and expenses. The €100 million TLB add-on was reflected in Befesa's balance sheet at Q3 2021 closing; the maturity and the rest of documentation terms of the incremental TLB remain in line with the existing TLB.

As of 31 December 2021, based on the €626 million extended TLB notional, the portion swapped from variable to fix interest rates forward up to the end of the TLB maturity amounts to 50%.

A €75.0 million RCF is part of the capital structure and was undrawn at year-end 2021 as Befesa had €224.1 million cash on hand.

A general economic downturn or crisis could also affect Befesa's suppliers and customers. This could adversely tighten or lengthen the payment terms in place with Befesa. Befesa has established adequate short-, medium- and long-term liquidity processes that form part of the risk management framework. Regular reviews, adequate cash reserves and the above-described capital structure, including credit lines, are in place to address the risk related to Befesa's capital structure and liquidity. Befesa complied with its debt covenants in 2021 and, based on the financial planning, foresees that it will be fully compliant again in 2022.

iv. Interest rates

Any increase in interest rates would increase Befesa's finance costs relating to its variable rate indebtedness and increase the costs of refinancing its existing indebtedness and issuing new debt. Befesa reviews the interest rate risk on a regular basis. With 50% of the €626 million extended TLB notional swapped from variable to fix interest rates forward up to the end of the TLB maturity, there is no material interest rate risk that could affect Befesa's business until the end of the TLB maturity, July 2026.

v. Financial controls & reporting

Befesa's internal control system, financial reviews and reporting are key components of the risk management framework.

The purpose of the internal control and accounting system is to ensure that all transactions are adequately accounted for and that the financial reports present Befesa's financial status fairly. The internal control system ensures compliance with legal regulations and that accounting follows statutory standards and IFRS. A defined calendar ensures that financial reports and statements are produced in a timely manner.

Regular reviews at both the Group level and segment level ensure that potential errors are detected and promptly corrected.

The reviews of the Board of Directors and the Audit Committee occur regularly and form part of the control framework. The accounting team monitors changes to the accounting standards, and advisors from external, specialised parties notify Befesa of changes and complex accounting matters to avoid misstatements.

Befesa's consolidated and selected subsegments and single entities' financials are subject to external audits. These audits form a key part of the risk management framework as an independent review of Befesa's internal control system, financial controls and reporting.

Befesa strives to continuously improve its risk management and internal control system. The main risks with a potential material influence are further detailed in note 4 of the "Consolidated financial statements" section of this Annual Report.

Risks & opportunities continued

NON-FINANCIAL RISKS

i. Industry & business risks

Befesa is exposed to risks and opportunities related to the level of activity of the global economy – in particular, to the level of economic activity in the jurisdictions of the markets Befesa serves in Europe, Asia and the US.

The business is dependent on the availability of the materials to which the services relate and which Befesa recycles – in particular, steel dust in the Steel Dust Recycling Services segment, and salt slags and aluminium residues in the Aluminium Salt Slags Recycling Services segment.

In periods of slowing economic growth, the industrial recycling industry is affected, resulting in a reduction in the demand for Befesa's services and products. One important initiative to address slower economic growth has been to expand Befesa's operations in emerging markets such as South Korea, South East Asia, Turkey and, most recently, China, as well as in certain mature and developed markets where Befesa was not present (e.g. the US). Nevertheless, the global economy may be affected by macroeconomic events, such as the ongoing COVID-19 pandemic, the global chip shortage or the Russo–Ukrainian conflict.

Zinc smelters are significant consumers of the WOX that Befesa produces in the Steel Dust Recycling Services segment. These smelters typically experience a variation in demand for their products due to a change in the level of activity, among others, in the automotive and construction industries.

For the Aluminium Salt Slags Recycling Services segment, most of the salt slags and aluminium residues are received from companies operating in the automotive and construction industries in Europe.

Because of this, the demand for and pricing of Befesa's services and products is to a degree dependent on the developments in the automotive and construction industries.

ii. Environmental risks

Owing to its business activity, Befesa must comply with governmental regulations. These include but are not limited to increasingly stringent environmental laws and regulations in most jurisdictions where Befesa operates.

These laws and regulations require permits and authorisations to be obtained as they relate to Befesa's business. Certain procedures need to be followed, such as the completion and delivery of manifests for the shipment of hazardous wastes and other materials. This is so that the movement and management of hazardous residues are properly documented in terms of the location of generation and final disposition.

Generally, Befesa could be held liable for the mismanagement of hazardous residues from the moment Befesa becomes contractually responsible for its management from customers' facilities. Liability can extend to the point of departure from customers' facilities, depending on Befesa's contractual obligations.

In addition, the contravention of environmental laws and regulations could result in fines and penalties on account of anyone found to be responsible for the release of hazardous substances into the environment (entering the soil, surface water, ground water or the atmosphere). This liability may be assigned by government agencies to entities owning the hazardous waste and others responsible for its management.

In addition to regulations dealing with the management of hazardous residues, Befesa is also required to comply with regulations dealing with air emissions, water discharge and the management of hazardous materials.

A summary of potential environmental impacts related to Befesa's operations and process monitoring and control measures implemented by the Company are described below.

a. **Air emissions**

Befesa closely monitors the air emissions from its operations, and the performance of controls established to meet regulatory thresholds. Industry practices employing BAT for operations and emission controls are implemented to ensure that process emissions remain at acceptable levels.

During the last few years, Befesa has implemented measures to ensure that operations at its facilities comply with the regulations of the Industrial Emissions Directive (IED). As part of this initiative, Befesa has developed a management system that is certified under the ISO 14001 standards and EMAS, to ensure compliance with applicable regulations and renew Befesa's commitment to continuous improvement in its operations.

b. Soil, storm water and groundwater protection

Befesa's plants are designed to ensure materials are kept from placement on the land surface.

Operation areas are established with concrete and paved surfaces for material transfer and other areas of high use. In addition, rainwater collection and control systems and other engineered facilities and practices are in place to protect hazardous process materials from potentially being transported and deposited on the soil surface and entering storm water. Groundwater monitoring is provided where required according to regulations.

c. Water conservation

By reference, the most sustainable approaches and technologies demonstrating the stewardship of water consumption and the processing of effluent discharge are used at Befesa's facilities, including Steel Dust Recycling Services and Salt Slags Recycling Services facilities. These facilities operate under a zero-discharge policy. Befesa's plants have been designed with the capability of recycling 100% of the effluent water that is produced. Effluent water is used in the recycling process. This is done in an effort to reduce water consumption while minimising the potential for the discharge of entrained metals to off-site surface waters.

In addition to minimising the use of this valuable resource, Befesa's water conservation efforts aim to provide economic dividends resulting from reduced operating costs for purchased water resources, eliminating the need for water treatment prior to discharge. In addition, entrained metal values are recovered for valuable use, as opposed to being discharged in the environment.

Befesa uses water consumption as a KPI to highlight enterprise conservation efforts. Each site contributes information for KPI tracking. Trends are monitored and analysed, and practices aligned to minimise consumption values.

d. Residue reduction

Befesa is an environmental recycling services provider that plays a critical role in the circular economy. This it does by conserving valuable mineral resources and reducing potential environmental impacts and risks for the steel and aluminium industries.

Befesa's inherent business of recycling hazardous residues from metal-processing businesses prevents the disposal of valuable minerals in landfills, while allowing the reuse of the valuable materials reclaimed.

KPIs are maintained for tracking hazardous and non-hazardous residues produced from Befesa's operations, and the volumes that are disposed or recycled. Each site contributes information for KPI tracking. Trends are monitored and analysed, and practices aligned to minimise residues generated and disposed.

e. Carbon emissions

Befesa's business is to reclaim valuable metals from hazardous residues produced by the metals industry and provide valuable feedstocks to bulk metal production businesses. Carbon emissions are generated by the processes used by Befesa in metal recycling operations. This occurs from the use of carbon reductant sources, including coke and coal, and fossil fuels.

Regulations are rapidly being promulgated on a regional and global scale to limit carbon emissions, which causes risk in business operations going forward. Opportunities to improve operational efficiency and reduce carbon emissions are currently being evaluated. Certain measures have already been implemented to minimise carbon emissions and to shrink Befesa's overall carbon footprint in a cost-effective manner.

Indirect services and utilities supplied to Befesa's operating

Risks & opportunities continued

sites are tracked and recorded, including the source of electricity and its production from fossil fuels or renewable resources. Sources of energy supply and its production will indirectly affect Befesa's carbon footprint, while potentially affecting the overall cost of operations and Befesa's overall profitability.

As of 31 December 2021, all the Befesa sites are ISO 14001 certified, 76% of the Befesa sites are ISO 50001 certified, 81% are ISO 14064 certified and 81% are also certified according to ISO 45001. Through these management systems and other internal protocols, Befesa monitors carbon emissions and reports on a Company-wide basis annually. In addition, Kyoto Scope 1 and Scope 2 emissions are reported.

To minimise the carbon emissions, Befesa applies BAT and looks for improvement opportunities as part of its operational excellence programme. Through this programme, specific opportunities are identified and evaluated for future implementation to reduce carbon emissions and energy consumption. Certain projects have already been implemented to achieve these objectives, namely the replacement of aluminium melting furnaces with units that have lower emissions.

Carbon emissions are monitored and compiled using the ISO 14064 management system. This is reported to stakeholders after being validated by an independent third-party organisation.

Befesa is defining a plan to reduce its CO_2 emissions by 20% by 2030, with the ambition of achieving net zero by 2050. The detailed plan will be provided as part of the Befesa ESG Report 2021 scheduled for Q2 2022.

iii. Health & safety risks

Daily operations at Befesa's plants by employees may cause damages to employees and/or contractors, particularly from the potential occurrence of events or circumstances. These could include being exposed to chemical agents; becoming trapped between objects/ in moving parts; the risk of being run over in a plant (by a vehicle); incidents with subcontracted companies/ personnel; exposure to high temperatures; damage due to thermal injury; exposure to excessive noise; entering confined spaces; the threat of explosion; electrical injury; and operators becoming trapped because of machinery overturning.

To manage this risk, Befesa has a wide variety of controls in place, following the approved H&S policy and plan, which is the most relevant.

Controls include the "Be Safe at Befesa" programme, ISO 45001 and the Life-Saving Rules; an annual budget with investments to implement safety measures; inspections, audits and safety observations; internal training and communication (H&S monthly safety reports); accident investigations/learning lessons; corporate safety standards, plant level safety standards and work instructions; risk evaluations of all works including periodical revision; procedures and communications with contractors; permanent attention from management; and life and accident insurance.

iv. IT risks

As with almost all companies in today's world, Befesa is exposed to cybercrime. Over the last few years, the frequency of cyberattacks has increased significantly. Cybercriminals are constantly developing new tools and techniques to maximise the effectiveness of their attacks, jeopardising the operations of the targeted business. The attacks and fraud attempts that rely on individuals to become effective are the most used techniques; phishing and malware attacks are proved to have results.

Befesa follows a robust cybersecurity approach, combining the collaboration with best-in-class vendors for cybersecurity services, a Company-wide training programme to improve employees' awareness of the correct behaviour regarding cybersecurity, and well-defined cybersecurity response procedures. Cybersecurity risks are periodically assessed and adequately managed by the information security team and in coordination with the management team.

Subsequent events & outlook

SUBSEQUENT EVENTS

There are no events between the financial statement date (31 December 2021) and the date of the formulation of the accounts (29 March 2022) that would materially affect the Group's assets or the Group's financial and/or earnings position.

With regards to the invasion of Ukraine by Russia, Befesa has no direct customers, suppliers, employees nor production sites in Russia nor Ukraine, referring to our main activities, environmental services to the steel and aluminium industries. Therefore, Befesa is not being directly affected by this event. The latter is affecting the global economy and indirectly Befesa, most notably for Befesa resulting in higher volatility in the prices of commodities, such as energy inflation and higher base metal prices. Befesa is closely monitoring the evolution of energy prices as well as of base metal prices, especially zinc and aluminium. Befesa has 60% to 75% of its zinc payable annual output hedged at attractive price levels up to January 2025, approximately three years forward. Furthermore, various industries observe supply chain disruptions. However, Befesa's business model is regionally focused and as a result the impact is not direct but again rather indirect. Also, Befesa's geographic footprint is globally well diversified and balanced across Europe, Asia and North America. The most relevant future growth initiatives are outside of Europe, rather in Asia and in the US, therefore these are not directly impacted. As of the date of this Annual Report, Befesa has not been materially impacted. Befesa closely monitors potential indirect impacts but those can not be properly quantified at this stage and are depending highly on the duration of the invasion of Ukraine by Russia. Most importantly, Befesa hopes the invasion to end very soon.

OUTLOOK

This outlook is based on the assumption that the Russian war against Ukraine will not have a material impact on the global economy.

The year 2022 will clearly be one of continued strong growth for Befesa, driven mainly by strong volume growth in the Steel Dust recycling business and supported by strong metal prices.

Befesa expects year over year double-digit EBITDA growth in 2022, based on the 2021 adjusted EBITDA of €197.6 million.

From the volume point of view, Befesa will deliver strong growth in the Steel Dust recycling business, driven by the contribution of the two plants in China as well as a full year of operations in the US.

The year 2022 marks the first year of commercial operations of Befesa in China, which is the biggest steel market in the world. In Jiangsu, after the successful commissioning and ramp-up of the plant, Befesa expects 12 months of full production, with an average capacity utilisation of around 90%. Up until this point in 2022, Befesa has been operating as planned for the first two months of the year and has secured more than 100 thousand tons of steel dust for the full year. In Henan, Befesa expects to complete the commissioning and the ramp-up of the plant in H1 2022 and start commercial operations in H2 2022. In Henan, Befesa is working on securing the volume and expects to also run the plant at a high capacity utilisation.

As a result, Befesa expects a positive EBITDA contribution from China in 2022.

In the US, the integration of the recently acquired AZR into Befesa is progressing well, working across all different aspects of the business, from the operational to the commercial side. Befesa is very confident of achieving the announced synergies of approximately $20 million over 2022 and 2023.

In 2021, Befesa consolidated around 4.5 months of operations from the US, which represented an EBITDA of around €10 million. In 2022, Befesa will benefit from full consolidation of the US operations, which will result in a significant EBITDA growth, driven by a better zinc hedge and market prices and the contribution of synergies. This will be partially offset by a slightly lower volume of steel dust compared to the previous year, which Befesa expects to recover over the course of the next few years.

Beyond China and the US, in the established markets where Befesa operates, strong steel dust, secondary aluminium and salt slags capacity utilisation and volume is expected. This will be supported by strong performance of the underlying industries, mainly steel production, especially using the less CO_2-intensive EAF production facilities, and a higher level of activity in the auto industry (based on an expected improvement of the semiconductor chip shortage and finally a continued recovery of the general industry from the COVID-19 pandemic).

From the point of view of metal prices, Befesa expects a positive contribution in 2022. The hedge price for 2022 of c. €2,275 per tonne is €125 per tonne higher than in 2021. In addition, so far in 2022, the zinc market price has been higher than in 2021. It may stay at an elevated price level for the rest of the year, driven by strong demand and constrained supply.

Zinc TC will be settled in spring, which could have an impact on earnings. In 2021, the TC was $159 per tonne (2020: $300 per tonne). Any increase of $10 per tonne will have an impact of around –$2.5 million on the EBITDA level.

Energy prices in Europe have been suffering high levels of volatility since Q2 2021. This is having an impact on Befesa's European operations and especially on Befesa's aluminium business, in which natural gas represents around two-thirds of the total energy cost. This is partially compensated by higher average aluminium prices compared to last year.

Befesa is very confident and positive about how matters are developing in China. Environmental authorities are committed to enforcing the environmental regulation and steelmakers are seeing recycling as a real solution and differentiator. Befesa will announce its next steps in China later in 2022.

Befesa will continue to carefully manage dividend stability and dividend yield, cash flow, net leverage and the funding of the expansion projects including China. Befesa maintains its dividend policy to distribute between 40% and 50% of its net profit.

From a net leverage point of view, Befesa expects to end the year at levels at or below x2 EBITDA.

Befesa will publish its ESG Report in Q2 2022, which will include a detailed chapter on climate change. Befesa is defining a plan to reduce its CO_2 emissions by 20% by 2030, with the ambition of achieving net zero by 2050.

Corporate governance

The Board of Directors is the corporate body in charge of the management of Befesa S.A., supervising and controlling the activity of the Company and focusing on its strategic direction.

The Board of Directors acts in the corporate interests of the Company and serves the common interests of all the shareholders, ensuring the implementation of its strategy. The Board of Directors also ensures the monitoring of the business activities of its affiliates. The Board of Directors is vested with the broadest powers to act in the name of Befesa S.A. and to take any action necessary or useful to accomplish its corporate purpose, with the exception of the powers reserved to the General Meeting by the Luxembourg law on commercial companies of 10 August 1915, as amended (the "Luxembourg Companies Law") and the Articles of Association.

The Board of Directors has appointed an Audit Committee and a Nomination and Remuneration Committee in order to deal with specific tasks. These committees advise the Board of Directors and make recommendations to the Board of Directors and/or, as the case may be, to the General Meeting (as defined overleaf).

1. Javier Molina Montes

Executive Director,
Chief Executive Officer

Mr Molina has managed Befesa since 2000, when he was appointed Chairman and Chief Executive Officer of Befesa Medio Ambiente. Mr Molina joined Abengoa in 1994 and later became Chief Executive Officer of Abengoa Servicios Urbanos (Abensur). From 1989 to 1993, he was general director of Tecsa and prior to that, from 1983 to 1988, was an investment banker at Banco de Progreso. Mr Molina holds a master's degree in law and management and business (ICADE, E3) from Universidad Pontificia Comillas, Madrid, Spain.

2. Wolf Uwe Lehmann

Executive Director,
Chief Financial Officer

Mr Lehmann was appointed Chief Financial Officer of Befesa upon joining in 2014. In addition to finance, he has responsibility for operational excellence, cost savings and information technologies. Prior to joining Befesa, Mr Lehmann was Chief Financial Officer at Wilsonart International, Austin, Texas. He started his professional career as finance trainee (FMP) and travelling corporate auditor (CAS) at General Electric (GE) in various international locations (1996–2002). He was manager of finance at Propulsion and Specialty Services at GE Transportation, Erie, Pennsylvania (2002–2005) and later became Chief Financial Officer at Momentive Performance Materials (previously GE Silicones) in various locations and responsibilities, including US/Global, China/Asia Pacific and Germany/EMEAI (2005–2013). Mr Lehmann holds a double degree in business and engineering from the University of Hamburg, Germany (Diplom-Wirtschaftsingenieur).

3. Asier Zarraonandia Ayo

Executive Director, Vice President
Steel Dust Recycling Services

Mr Zarraonandia has been the Vice President of Befesa's Steel Dust Recycling Services business unit since 2006. Mr Zarraonandia joined Befesa in 2001 and was the Chief Financial Officer of the Aluminium Salt Slags Recycling Services business unit from 2001 to 2004 and the Financial Controller of the Abengoa Group from 2004 to 2006. Before joining Befesa, he was a senior audit manager and consultant for Arthur Andersen, where he worked for 10 years, specialising in mergers and acquisitions in the industrial sector. He holds a bachelor's degree in economics from the University of the Basque Country, Bilbao, Spain. He currently serves as a board member of the Canadian company Global Atomic Corporation.

4. Romeo Kreinberg

Independent Director,
Chairman of the Board of Directors

Mr Kreinberg has over 40 years of experience in the executive management of public and private companies in the chemical industry, including various executive positions at Dow Chemical (1977–2007). Throughout the course of his career, Mr Kreinberg has served as a director of companies in the United States, Europe, Latin America and Asia, and is fluent in six languages. Mr Kreinberg holds a degree from the Faculty of Architecture and Urban Planning from the University of Buenos Aires, Argentina.

5. Frauke Heistermann

Independent Director

In 1999, Mrs Heistermann founded AXIT, a digital service platform managing global supply chains, which was sold to Siemens in 2015. Mrs Heistermann served as Chief Digitalisation Officer at Siemens Postal, Parcel & Airport Logistics GmbH in 2017. Prior to her management career, Mrs Heistermann worked as a consultant and product manager. She serves as managing director of AXIT. She is currently Chairwoman of the Council of Technology of the Federal State of Rhineland-Palatinate as well as member of the Advisory Board of Vahle GmbH. She holds a diploma in logistics and business administration (Diplom-Betriebswirtin) from the Cooperative State University, Mannheim, Germany.

6. Manuel Soto

Independent Director

Mr Soto started his professional career at Arthur Andersen, where he became partner in 1970. He was country managing partner for Spain (1970–1989), area managing partner for EMEA (1980–1998) and chairman of the worldwide board of partners (1970–1988). He retired from Arthur Andersen in 1998 and joined Banco Santander S.A. where he was a member of the Board of Directors (1999–2013). Mr Soto holds degrees in accounting and business administration from the University of Madrid, Spain.

7. Georg Graf Waldersee

Independent Director

Mr Waldersee is a German-certified accountant (Wirtschaftsprüfer). For more than 25 years, he was a partner at Arthur Andersen and Ernst & Young (EY) where he served in senior management positions in the EMEIA – and global – management teams of both organisations. Until his retirement from EY in 2016, he was the managing partner of EY in Germany, Switzerland and Austria. He is currently the Chairman of the Supervisory Board of EY, Wirtschaftsprüfungsgesellschaft, Germany. Mr Waldersee studied economics at the University of Bonn and holds a degree in business administration from the University of Hamburg, Germany.

8. Helmut Wieser

Independent Director

Mr Wieser was Chief Executive Officer at AMAG Austria Metall AG. Previously he served as Group President for Global Rolling at Alcoa Inc. and member of the Executive Board at AMAG Austria Metall AG, and held several management positions at Voest-Alpine Industrieanlagenbau. He is a member of the Strategic Planning Committee of OJSC Novolipetsk Steel, as well as a member of the Supervisory Boards of Höldmayr International AG and Benteler AG. He is also a member of the Advisory Council of TTTech Industrial Automation AG. Mr Wieser graduated as Dipl.-Ing. in mechanical engineering and economics from Graz University of Technology, Austria.

9. Santiago Zaldumbide

Independent Director

Mr Zaldumbide was senior consultant to Glencore-Xstrata plc. from May 2013 to February 2015, later working as Chairman and CEO of Asturiana de Zinc, S.A. and executive director of Xstrata plc., a major zinc producer (1998–2013). Mr Zaldumbide started his professional career at Unión Explosivos Rio Tinto, where he was CEO in several divisions (1970–1984). He worked at Banco de Bilbao (1984–1986), as CEO of Petróleos del Norte, S.A. (1986–1994) and in Corporación Industrial y Financiera de Banesto, S.A. (1994–1998). He currently serves as a member of the Board of Directors of Madrid Town Inversiones, S.L. He holds a degree in law from the University of Madrid, Spain; a degree in economics from the University of Deusto, Bilbao, Spain; and an MBA degree from the University of California, Berkeley, United States.

10. Birke Fuchs

Board Secretary

Mrs Fuchs is the Board Secretary and Group's General Counsel. She joined Befesa in 2007. She is a German-qualified lawyer and holds a degree in law from the University of Trier, Germany and a master of laws degree from Tulane Law School, United States, and has successfully completed the programme for management development at ESADE Business School, Spain.

Corporate governance continued

The Board of Directors of Befesa S.A. is firmly committed to the principles of transparent, responsible and value-based management and supervision. The standards of good corporate governance have a high priority at Befesa and is something that forms the basis of all its activities.

As a Luxembourg *société anonyme* – whose shares are exclusively listed on a regulated market in Germany – Befesa S.A. is not required to adhere to the Ten Principles of Corporate Governance of the Luxembourg Stock Exchange (the "LuxSE"). This is applicable to companies that are listed and admitted to trading on the regulated market of the LuxSE, or to the German corporate governance regime that is applicable to stock corporations organised under German law. In light of the aforementioned legal framework, Befesa has developed its own corporate governance rules based on the recommendations of the German Corporate Governance Code but with the necessary modifications required by the one-tier Board structure, the Articles of Association of Befesa S.A.

Executive Directors

Name	Position	Nationality	Year of birth	First appointment	Renewal	End of term
Mr Javier Molina Montes	CEO	Spanish	1959	18/10/2017	26/04/2018	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021
Mr Wolf Uwe Lehmann	CFO	German	1971	18/10/2017	26/04/2018	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021
Mr Asier Zarraonandia Ayo	Vice President Steel Dust Recycling Services	Spanish	1967	24/07/2019 (co-optation)	N/A	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021

Independent Directors

Name	Position	Nationality	Year of birth	First appointment	Renewal	End of term
Mr Romeo Kreinberg	Chairman of the Board of Directors	American	1950	18/10/2017	26/04/2018	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021
Mrs Frauke Heistermann	Independent Director	German	1971	18/10/2017	26/04/2018	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021
Mr Manuel Soto	Independent Director	Spanish	1940	18/10/2017	26/04/2018	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021
Mr Georg Graf Waldersee	Independent Director, Chairman of the Audit Committee	German	1955	18/10/2017	26/04/2018	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021
Mr Helmut Wieser	Independent Director	Austrian	1953	24/07/2019	N/A	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021
Mr Santiago Zaldumbide	Independent Director	Spanish	1942	18/10/2017	26/04/2018	AGM to be held in 2022 approving the annual accounts for the financial year ending on 31/12/2021

Befesa's Board of Directors is formed with a majority of six independent directors out of a total of nine directors.

and Luxembourg Companies Law. Befesa's corporate governance system is continuously reviewed by the Board of Directors and updated to incorporate new best practices in corporate governance.

Befesa places a strong emphasis on:

i. a skilled and balanced composition of the Board of Directors with a majority of independent directors;

ii. acting in the best interests of all of the Company's shareholders, including minority shareholders;

iii. internal control and reporting, with emphasis on effective risk management;

iv. a compliance management system that ensures strict compliance with applicable laws and regulations, enhancing business integrity;

v. the promotion of social responsibility and ethical values in all of Befesa's areas of activity; and

vi. commitment to sustainability and corporate social responsibility.

Befesa is committed to adhering to good corporate governance practices that provide for the necessary decision-making processes and controls to balance the interests of all stakeholders, which ultimately ensures the long-term success of Befesa.

The main corporate bodies are the Board of Directors and the General Meeting of shareholders.

Befesa currently has a majority of independent directors on the Board of Directors. All the members of the Audit Committee and the Nomination and Remuneration Committee are independent.

To enhance transparency regarding executive compensation, Befesa provides the compensation of all the members of the Board of Directors on an individual basis with respect to the compensation received in 2021. Befesa ensures that its shareholders can exercise their rights before or during the General Meeting, as provided by Luxembourg Companies Law and Befesa's Articles of Association, thereby exercise their voting rights. Details of the above-mentioned items can be found below.

REQUIRED SKILLS, EXPERIENCE & BACKGROUND

All proposals for the members of the Board of Directors of Befesa S.A. are made on individual merit. All directors need to have the required balance of skills, qualifications, background, experience, diversity – including gender – and the ability to adequately perform the duties of the Board of Directors. The selection and nomination process of new directors generally takes into account the following criteria:

- The alignment of skills with Befesa's strategic direction;
- Value added to the current composition of the Board;
- The cultural fit with the Board of Directors;
- The time it will take to become an effective contributor; and
- Succession planning.

Befesa is looking always for professional experienced persons who have relevant industry experience, strategic and problem-solving skills, and strong interpersonal and negotiation skills.

In addition, the representation of a mix of cultural and educational backgrounds offers a wide variety of perspectives on Company issues. Naturally, women as well as men can be members of the Board of Directors.

Part of diversity for Befesa is to combine different genders, experiences, nationalities and backgrounds in the Board of Directors. This approach is explicitly stated in Befesa's HR and equality policy.

Different skills are a foundation to create an effective and appreciated Board of Directors. Befesa makes sure that the members of each Board committee have the relevant skills based on their experience, which is also shown in their curriculum vitae.

Corporate governance continued

Experience, skills & focus

			Experience, skills and focus				
	Nationality	Year of birth	Industrial operations	Risk management, finance, audit	Environmental, health & safety	Business strategy	Ethics & governance
Mr Javier Molina Montes, CEO	Spanish	1959	✓		✓	✓	✓
Mr Wolf Uwe Lehmann, CFO	German	1971		✓		✓	✓
Mr Asier Zarraonandia Ayo, Vice President Steel Dust Recycling Services	Spanish	1967	✓	✓	✓	✓	✓
Mr Romeo Kreinberg, Chairman of the Board of Directors	American	1950	✓		✓	✓	✓
Mrs Frauke Heistermann, Independent Director	German	1971	✓			✓	✓
Mr Manuel Soto, Independent Director	Spanish	1940		✓		✓	✓
Mr Georg Graf Waldersee, Chairman of the Audit Committee	German	1955		✓		✓	✓
Mr Helmut Wieser, Independent Director	Austrian	1953	✓		✓	✓	✓
Mr Santiago Zaldumbide, Independent Director	Spanish	1942	✓		✓	✓	✓

COMPOSITION

Befesa's Board of Directors has the size and structure necessary to promote efficient functioning and maximise participation, in accordance with Befesa's share capital structure. Befesa also emphasises the importance of corporate governance, with a high standard of transparency executed by the Board of Directors.

According to the Articles of Association, the Board of Befesa S.A. must have a minimum of five directors and the duration of their mandate may not exceed six years. Each director is appointed by the General Meeting and will be eligible for reappointment. In the event of a vacancy on the Board of Directors, the remaining directors may elect by co-optation a new director to fill such vacancy until the next General Meeting, which shall ratify such co-optation or elect a new director instead.

The Board of Directors of Befesa S.A. is currently composed of nine members: three executive directors and six non-executive independent directors. Therefore, Befesa's Board of Directors is formed with a majority of six independent directors out of a total of nine directors. It has elected a chairman from among its members who is an independent director. As mentioned, all directors have been selected based on the criteria of complementarity, balance, diversity of knowledge, professional experience and nationality.

MEETINGS

The Board of Directors holds meetings in person or by tele/videoconference and can take decisions by written circulation.

The quorum for a valid meeting of the Board of Directors shall be the presence or the representation of at least half of the directors. For the purposes of approval of resolutions, abstention and nil votes will not be considered. The Chairman of the Board of Directors shall have no casting vote in case of a voting tie. The Board of Directors met on 13 occasions in 2021 with an attendance record of 100%.

COMMITTEES

In order to strengthen Befesa's corporate governance, the Board of Directors has set up the following two committees, each responsible for the examination and monitoring of areas of particular importance:

- Audit Committee
- Nomination and Remuneration Committee

The committees shall have at least three members each and will meet as often as necessary, but at least twice a year. During 2021, the Audit Committee met on five occasions, whereas the Nomination and Remuneration met on two occasions. Both committees had an attendance record of 100%.

i. Audit Committee

The Audit Committee consists of Mr Georg Graf Waldersee (chairman), Mrs Frauke Heistermann and Mr Manuel Soto. All members are independent.

This committee is responsible for:

- evaluating and monitoring all material questions concerning the financial statements, accounting processes and policies of Befesa and its subsidiaries;
- overseeing Befesa's internal control and internal audit system; and
- supervising the risk management system and the compliance management system.

ii. Nomination and Remuneration Committee

Mr Romeo Kreinberg (chairman), Mr Helmut Wieser and Mr Santiago Zaldumbide are the members of this committee, all of whom are independent.

The Nomination and Remuneration Committee ensures that the directors have the necessary knowledge, experience, abilities and professional background to assume their responsibilities. This enables the Board of Directors as a whole to have an appropriate balance in its composition and suitable knowledge of Befesa and its environment, activities, strategy and risks, contributing to a better performance of its functions. In addition, the committee is responsible for:

- implementing HR-related policies;
- making recommendations to the Board of Directors on the terms of appointment and the long- and short-term benefits of executive directors; and
- making recommendations on bonus payments to be paid to employees.

These include the implementation of policies, appointments and releases of the daily managers of Befesa S.A., and proposing to the General Meeting of shareholders suitable candidates for their recommendation to be appointed as members of the Board of Directors.

Overview of the member participation of the Board of Directors and committee meetings during 2021

Board of Directors	Presence	100%
Mr Javier Molina Montes	13/13	✓
Mr Wolf Uwe Lehmann	13/13	✓
Mr Asier Zarraonandia Ayo	13/13	✓
Mr Romeo Kreinberg	13/13	✓
Mrs Frauke Heistermann	13/13	✓
Mr Manuel Soto	13/13	✓
Mr Georg Graf Waldersee	13/13	✓
Mr Helmut Wieser	13/13	✓
Mr Santiago Zaldumbide	13/13	✓

Audit Committee	Presence	100%
Mr Georg Graf Waldersee	5/5	✓
Mrs Frauke Heistermann	5/5	✓
Mr Manuel Soto	5/5	✓

Nomination and Remuneration Committee	Presence	100%
Mr Romeo Kreinberg	2/2	✓
Mr Helmut Wieser	2/2	✓
Mr Santiago Zaldumbide	2/2	✓

Corporate governance continued

Shareholders

GENERAL MEETINGS

All General Meetings of shareholders (the "General Meeting") are held in the Grand Duchy of Luxembourg at the address of the registered office of Befesa S.A. or at such other place in the Grand Duchy of Luxembourg specified in the convening notice of the meeting. It may be held abroad, if, in the judgement of the Board of Directors, circumstances *force majeure* so require.

The convening notice (including the agenda) to the General Meeting, the reports and any other documents required for the meeting are published in the subsection "General Meeting", included under the investors section of Befesa's website, in the *Recueil Electronique des Société et Associations* and in a Luxembourg newspaper at least 30 days before the day of the meeting, in accordance with the Articles of Association and Luxembourg law.

The Annual General Meeting ("AGM") is held once a year within six months of the end of the preceding financial year, in accordance with the Articles of Association and Luxembourg law. The Board of Directors of Befesa S.A. is responsible for presenting the consolidated financial statements and the annual accounts at the AGM. The approval of the consolidated annual financial statements and of the individual accounts of Befesa S.A., the allocation of results, the determination of the dividend, the appointment of the independent auditor and the discharge of the members of the Board of Directors are, among others, some of the resolutions adopted at the AGM.

The Board of Directors may convene General Meetings (in addition to the AGM) and it must do so if shareholders representing at least ten per cent (10%) of the share capital of Befesa S.A. so require, in accordance with the Articles of Association and Luxembourg law.

The shareholders of Befesa S.A. exercise their voting rights at the AGM (or at any other General Meeting validly convened). Each share entitles the holder to attend all General Meetings, either in person or by proxy, to address the General Meeting and to exercise their voting rights. Each share entitles the holder to one vote.

Befesa S.A. ensures equal treatment of all shareholders. There is no minimum shareholding required to be able to attend or vote at a General Meeting. In addition, the right of any shareholder to participate in any General Meeting and to exercise the voting rights attached to their shares is determined accordingly to the shares held by the shareholder at the end of the 14th day prior to the General Meeting.

Shareholders holding – individually or collectively – at least five per cent (5%) of the issued share capital of Befesa S.A. have the right to (i) put items on the agenda of the General Meeting, and (ii) present drafted resolutions for items included or items to be added to the agenda of the General Meeting. A relevant request must be received by Befesa S.A. by the 22nd day prior to the General Meeting.

ORDINARY & EXTRAORDINARY RESOLUTIONS

Luxembourg law distinguishes between ordinary resolutions and extraordinary resolutions. Extraordinary resolutions relate to proposed amendments to the Articles of Association and certain other limited matters. All other resolutions are, as a general rule, ordinary resolutions.

Extraordinary resolutions are generally required for any of the following matters, among others:

- An increase or decrease of the authorised or issued capital;
- A limitation or exclusion of pre-emptive rights;
- The approval of a statutory merger or demerger (scission) or certain other restructurings;
- The dissolution of Befesa; and
- An amendment to the Articles of Association.

For any extraordinary resolutions to be considered at a General Meeting, the quorum must be at least 50% of Befesa's issued share capital. For their approval, at least two-thirds of the votes validly cast must approve such resolution. Abstentions are not considered as "votes".

DIVIDEND RIGHTS

In accordance with the Luxembourg Companies Law and the Articles of Association, Befesa S.A. must allocate at least five per cent (5%) of any net profit to a legal reserve account. Such a contribution ceases to be compulsory as soon as and as long as the legal reserve reaches ten per cent (10%) of Befesa S.A.'s subscribed capital. However, it shall again be compulsory if the legal reserve falls below the ten per cent (10%) threshold.

The General Meeting will resolve how the remainder of the annual net profits, after allocation to the aforementioned legal reserve, will be disposed of. This it will do by allocating the whole or part of the remainder to a reserve or to a provision by carrying it forward to the following financial year or by distributing it, together with carried-forward profits, distributable reserves or share premium to the shareholder(s), each share entitling to the same proportion in such distributions.

Subject to the provisions of the laws and in compliance with the provisions set forth herein, the Board of Directors may resolve that Befesa pays out an interim dividend to shareholders. The Board of Directors shall set the amount and the date of payment of the interim dividend.

LIQUIDATION RIGHTS

The Company may be dissolved by a resolution of the General Meeting adopted in compliance with the quorum and majority rules set for any amendment of the Articles of Association. Should the Company be dissolved, the liquidation will be carried out by the Board of Directors or other person(s) appointed by the General Meeting.

The General Meeting shall also determine the powers and the compensation (if any) of those other person(s). After settlement of all the debts and liabilities of the Company, including the expenses of liquidation, the net liquidation proceeds shall be distributed to the shareholder(s) in compliance with the same preference as set out for dividend distributions.

Corporate governance continued

Other corporate governance practices

COMPLIANCE MANAGEMENT SYSTEM

The compliance management system (CMS) is an integral part of Befesa's corporate governance system, which ensures compliance with national and international laws, regulations and policies, and social responsibility and ethical values.

The core of the ethics and compliance programme at Befesa is the code of conduct. Befesa's code of conduct provides the legal and ethical framework for the conduct of all directors, officers and employees of Befesa. The code defines the basic behavioural standards within Befesa itself and in connection with other parties. In addition, Befesa has implemented a whistle-blowing channel and complementary-specific compliance policies such as a Group security dealing code. This provides continuous training in compliance matters. More information on Befesa's CMS can be found in the "Compliance" section of this Annual Report (pages 88 to 94).

RISK MANAGEMENT SYSTEM

Befesa has established internal procedures that are described in more detail in the "Compliance" section of this Annual Report and which form an integral part of Befesa's risk management system (RMS). This is explained in detail in the "Risks & opportunities" section of this Annual Report (pages 62 to 68).

INDEPENDENT AUDITORS

In accordance with the Luxembourg law on commercial companies, the annual consolidated financial statements and the annual individual accounts of Befesa S.A. are certified by an approved statutory auditor (*réviseur d'entreprises agréé*) appointed by the shareholders at the AGM. The AGM held on 30 June 2021 approved the appointment of KPMG Luxembourg Société Anonyme as the approved statutory auditor (*réviseur d'entreprises agréé*) for the financial year ending 31 December 2021. KPMG Luxembourg Société Anonyme has audited the annual consolidated financial statements and the annual individual accounts of Befesa S.A. since the financial year ending 31 December 2019 (i.e. for a period of three years).

Compensation

For Befesa S.A. to maintain and apply transparent and detailed reporting on the compensation of the Board of Directors is an element of good corporate governance. The compensation disclosed in this Annual Report covers the remuneration of the members of the Board of Directors and is governed by Befesa's remuneration policy. As part of preparing for the 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 German stock indices SDAX and MDAX, covering the positions of the three executive directors.

Befesa's remuneration structure and levels are aligned with this market benchmark and Befesa's remuneration policy. In 2019, Befesa expanded this study with the help of the external advisor to also cover the non-executive directors. To align the total compensation of the non-executive directors with the performed benchmark, Befesa's non-executive directors were granted a one-time, long-term incentive plan, vesting over 2019 to 2021. No further variable compensation was granted.

NOTES TO THE REMUNERATION OF EXECUTIVE DIRECTORS:

I. Fixed remuneration

Base salary is the fixed gross compensation per fiscal year. In 2021, the base salary of the executive directors remained unchanged compared to 2020.

Fees for participation in the administrative, management or Board bodies of Befesa are not remunerated and are therefore not applicable.

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

II. Variable remuneration

One-year variable remuneration represents the value of the annual bonus paid out in 2021, awarded for the performance achieved in the year 2020. The predetermined performance targets cover the following four **performance criteria** and predetermined **weighting**:

Performance criteria	Weighting
ESG: Environmental, health & safety, corporate governance	20%
EBIT and EBITDA	35%
Net debt and cash flow	15%
Execution of strategic initiatives and return on growth projects	30%

The performance level for each performance criterion ranges from 0% to 200%. The overall one-year variable payout is **capped** at

Remuneration of executive directors

The following table provides an overview of the remuneration of the three executive directors of the Board of Directors for the year ended 31 December 2021.

	I. Fixed remuneration			II. Variable remuneration					
Name of executive director, position	**Base salary**	**Fees**	**Fringe benefits**	**One-year variable**	**Multi-year variable**	**III. Extra-ordinary items**	**IV. Social security/ pension expense**	**V. Total remunera-tion**	**VI. Proportion of fixed and variable remunera-tion[1]**
Mr Javier Molina Montes, CEO	€512,474	n/a	€17,189	€838,593	€1,474,744	€1,491,673	€12,552	€4,347,224	19% / 81%
Mr Wolf Uwe Lehmann, CFO	€414,120	n/a	€8,724	€559,062	€1,044,619	€1,056,610	€14,118	€3,097,254	21% / 79%
Mr Asier Zarraonandia Ayo, Vice President Steel	€362,355	n/a	€11,814	€559,062	€983,163	€1,056,610	€12,552	€2,985,555	20% / 80%
Total remuneration	**€1,288,949**	**n/a**	**€37,727**	**€1,956,717**	**€3,502,525**	**€3,604,893**	**€39,223**	**€10,430,033**	**20% / 80%**

[1] Proportion of fixed and variable computed as of total remuneration, excluding extraordinary items

Corporate governance continued

maximum 200%. The performance level for each performance criterion as well as the overall weighted performance level is subject to review and recommendation of the Nomination and Remuneration Committee. It is subsequently presented for the review and approval of the Board of Directors. In 2020, the performance level reached, blended and weighted across the four performance criteria was 135%, based on which the annual bonus was paid out in 2021 (payout in 2020 for 2019: 100%).

Multi-year variable remuneration is shown in the table using an illustrative valuation method to conceptually approximate the potential market value of the multi-year variable programme. The method uses one-third of the number of performance shares granted in tranche II (vesting over 2019 to 2021), one-third of the number of performance shares granted in tranche III (vesting over 2020 to 2022) and one-third of the number of performance shares granted in tranche IV (vesting over 2021 to 2023). For illustrative valuation purposes, an average share price over the last 10 trading days of 2021 of €65.60, combined with the applicable dividends over the vesting period of €3.22, amounting to €68.82 per performance share, was assumed for remunerating the mentioned performance shares granted for tranches II, III and IV. The number of performance shares granted for each of these tranches 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 Steel Dust Recycling Services. The final remuneration for each tranche will depend on the share price at the respective year of vesting and the performance level cumulative over the three-year vesting period of the respective tranches. The final remuneration will also include the corresponding dividend payable to the granted performance shares during the vesting period.

The performance targets will be determined and measured over a three-year performance period (e.g. tranche II: 1 January 2019 to 31 December 2021).

The predetermined performance targets cover the following three **performance criteria** and predetermined **weighting**:

Performance criteria	Weighting
Cumulative EBIT and EBITDA	25%
Cumulative cash flow	25%
Return on strategic projects, ESG: environmental, health & safety, corporate governance	50%

For each performance criterion, 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. The share price appreciation between the granting and vesting of each tranche is capped at 300%. The cap of the performance target of maximum 160% and the cap of the share price appreciation of maximum 300% provides the **maximum overall cap** for the multi-year variable remuneration.

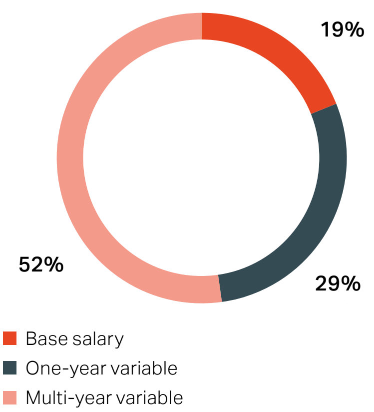
Once a performance period has ended, the definitive number of performance shares is derived by multiplying the number of performance shares granted by the total target achieved, rounded to the nearest integer.

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

a. The transfer of Befesa S.A. shares
b. A cash payout of the value of the Befesa S.A. shares

Following is a further explanation of **tranche I**, vested over the years 2018, 2019 and 2020. The performance level reached, blended and weighted across the three performance criteria was 95%. The average share price over the last 10 trading days of 2020 was €49.03, combined with the applicable

Percentage remuneration of sub-total base salary, one- and multi-year variable remuneration
(shown combined for the three executive directors)



dividends over the vesting period of €2.78, amounting to €51.81 per performance share. The number of performance shares granted per tranche to the three executive directors, as explained above, is in total 50,894 performance shares. Neither the performance cap of 160% nor the share price appreciation cap of 300% were triggered. The equivalent of 50,894 x 95% x €51.81 = €2,504,977 was settled in cash as per the Company's choice in April 2021.

III. Extraordinary items

On 26 April 2021, the Board of Directors of Befesa S.A., in line with the remuneration policy, granted a Transformational Growth Incentive Plan (TGIP), incentivising a transformational acquisition opportunity. To reward for the extraordinary circumstances of successfully closing the transformational acquisition opportunity and retention for the subsequent 1 + 1 year after closing, the executive directors of Befesa have been granted phantom shares as part of the TGIP. After vesting, the value of the phantom stock rights is paid out in cash. The settlement phantom share price is based on the closing price of the Befesa S.A. share on the Frankfurt Stock Exchange, determined over a period of 10 trading days prior and including the vesting date. The following totals of phantom stock rights have been granted: 3 x 21,429 phantom stock rights for Mr Javier Molina, CEO; 3 x 15,179 phantom stock rights for Mr Wolf Uwe Lehmann, CFO; and 3 x 15,179 phantom stock rights for Mr Asier Zarraonandia, Vice President of Steel Dust Recycling Services. The settlement of the phantom stock rights is subject to a share price **cap** of three times the value of one ordinary share at the grant date, which is the closing date.

The acquisition of AZR was successfully closed on 17 August 2021. With the closing of the transaction, the first 51,787 (21,429 + 15,179 + 15,179) phantom shares vested. The average of the closing share price over the last 10 trading days prior to and including 17 August 2021 was €69.61, and no dividends were applicable. As a result, 51,787 x €69.61 = €3,604,893 was paid out in cash in August 2021. The share price cap of three times the value of one ordinary share at the grant date, which is the closing date, or 3 x €70.40 on 17 August 2021 equal to €211.20, was not triggered. The remaining two vesting milestones are on 17 August 2022 and on 17 August 2023, respectively.

IV. Social security/ pension expense

In terms of the social security/ pension expense, Befesa provides the mandatory or statutory social security and pension coverage as per the respective jurisdiction. Befesa did not provide additional pension benefits to its executive directors.

V. Total remuneration

Total remuneration is computed as the addition of I, II, III and IV remuneration components.

VI. Proportion of fixed & variable remuneration

The fixed proportion is computed as the summation of the "Fixed remuneration" (I.) and "Social security/pension expense" (IV.) components as a percentage of the "Total remuneration" (V.), excluding "Extraordinary items" (III.).

The variable proportion is computed as the "Variable remuneration" (II.) component as a percentage of the "Total remuneration" (V.), excluding "Extraordinary items" (III.).

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The following is an explanation of the one-time granted tranche, vested over the years 2019, 2020 and 2021, which will be paid out in cash in 2022 after the AGM. The number of phantom stocks granted are: 1,061 phantom stocks for Mr Romeo Kreinberg, Chairman of the Board of Directors; 566 phantom stocks for Mr Georg Graf Waldersee, Chairman of the Audit Committee; and 424 phantom stocks each for Mrs Frauke Heistermann, Mr Manuel Soto, Mr Helmut Wieser and Mr Santiago Zaldumbide. A total of 3,325 phantom stocks per year, or 9,975 phantom stocks over the vesting period, were granted to the six non-executive directors. The performance level reached, blended and weighted across the three performance criteria is assumed illustratively at 100%, is **capped** at 160%, and will be determined based on the audited financial results including the financial year 2021. For the details of the multi-year variable programme (e.g. performance criteria, targets, weighting and settlement mechanism), refer to the multi-year variable remuneration note for executive directors (page 82), as this is valid also for the non-executive directors. The average share price

Corporate governance continued

over the last 20 trading days of 2021 was €63.84, combined with the €1.90 applicable dividends entitled over the vesting period, amounting to €65.74 per phantom share. The cap of 300% of the share price appreciation was not triggered. The total number of phantom stocks granted to the six non-executive directors of 3,325 per year x 100% performance (for illustrative purposes) x €65.74 per phantom stock = €218,575, as shown in the below table, which represents one year of the one-time granted tranche. Settlement will be made in cash in 2022 after the AGM, and based on the average share closing price of the 20 trading days before cash payout, plus the dividend entitlements of the years 2020 and 2021. This variable compensation to the non-executive directors was granted one-time and no further variable compensation was granted to the non-executive directors.

OTHERS

Befesa provides a Group insurance policy for all directors and officers of Befesa, 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 Befesa.

Further information about the remuneration of the members of Befesa's Board of Directors can be found in the remuneration policy available in the Investor relations/General Meeting section of Befesa's website (www.befesa.com/investors/general-meeting/) after the publication of the invitation to the 2022 AGM.

LUXEMBOURG LAW ON TAKEOVER BIDS

The following disclosures are made in accordance with article 11 of the Luxembourg law on takeover bids of 19 May 2006.

a. Share capital structure

Befesa S.A. has issued one class of shares that is admitted to trading on the Frankfurt Stock Exchange. No other voting securities or securities convertible into shares have been issued. The issued share capital as of 31 December 2021 amounts to €111,047,595.14, represented by 39,999,998 ordinary shares, each fully paid up.

b. Transfer restrictions

As of the date of this Annual Report, all Befesa S.A.'s shares are freely transferable.

c. Major shareholding

Based on the various major holding notifications received by Befesa S.A. as of 31 December 2021, the following shareholders hold (or to whom were attributed) 5% or more of total voting rights attached to Befesa S.A. shares:

Name of shareholder (direct or indirect)	% of voting rights in the share capital of Befesa	Date on which the threshold was crossed or reached
Alba Europe S.à r.l.	5.10% attached to shares	21 June 2021
Global Portfolio Investments, S.L.	5.41% attached to shares	17 June 2021
Allianz Global Investors GmbH	10.07% attached to shares	18 March 2020

Remuneration of non-executive directors

The table below shows the remuneration of the non-executive directors of the Board of Directors for the year ended 31 December 2021.

Name of non-executive director	Base salary	Multi-year variable	Total compensation	Status
Mr Romeo Kreinberg	€150,000	€69,758	€219,758	Served from 01.01.2021 to 31.12.2021
Mrs Frauke Heistermann	€60,000	€27,903	€87,903	Served from 01.01.2021 to 31.12.2021
Mr Manuel Soto	€60,000	€27,903	€87,903	Served from 01.01.2021 to 31.12.2021
Mr Georg Graf Waldersee	€80,000	€37,204	€117,204	Served from 01.01.2021 to 31.12.2021
Mr Helmut Wieser	€60,000	€27,903	€87,903	Served from 01.01.2021 to 31.12.2021
Mr Santiago Zaldumbide	€60,000	€27,903	€87,903	Served from 01.01.2021 to 31.12.2021
Total	**€470,000**	**€218,575**	**€688,575**	

Note: Non-executive directors were remunerated in 2021 by the above specified base salary and were not remunerated through further fixed compensation such as fees, fringe benefits or pension contribution. The multi-year variable remuneration is based on the one-time granted tranche II vesting over years 2019, 2020 and 2021, and will be paid out in cash in 2022 after the AGM.

d. Special control rights

All the issued and outstanding shares have equal voting rights. Befesa S.A. has not issued any securities granting any special control rights to its holders.

e. Control system in employees' share scheme

This is not applicable. Befesa S.A.'s Board of Directors is not aware of any issue regarding section e) of article 11 of the Luxembourg law on takeover bids of 19 May 2006.

f. Voting rights

Each issued share of Befesa S.A. entitles the holder to one vote at the General Meeting of the shareholders. The Articles of Association of Befesa S.A. do not contain any restriction on voting rights. In accordance with the Articles of Association, a record date for admission to a General Meeting of shareholders is set; that is, at 24:00 hours Luxembourg time on the 14th day preceding the date of the relevant General Meeting of the shareholders (the "Record Date"). Only shareholders holding shares on such Record Date will be able to participate at the relevant General Meeting. In addition, a shareholder willing to participate in any General Meeting shall notify Befesa of their intention to participate by a declaration in writing to be submitted to Befesa and/or its designated depositary agent by no later than the Record Date, together with any supporting documents that may be required to evidence title to the shares.

g. Shareholders' agreements with transfer restrictions or voting rights

Befesa's Board of Directors has no information about any agreements between shareholders that may result in restrictions on the transfers of Befesa S.A.'s shares. The shares issued by Befesa S.A. are freely transferable in accordance with the legal requirements for shares in dematerialised form. The Board of Directors also has no information about any shareholders' agreements that may result in restrictions on voting rights.

h. Appointment of Board members; amendments of the Articles of Association

Rules governing the appointment and the replacement of members of the Board of Directors and changes to the Articles of Association are contained in articles 11 and 32 of the Articles of Association of Befesa S.A. This document is available at https://www.befesa.com/investors/corporate-governance/

In particular, the following applies:

- The members of the Board of Directors are appointed by the General Meeting of shareholders for a period not exceeding six years. They may be removed with or without cause and/or be replaced at any time by a resolution adopted by the General Meeting of shareholders of Befesa S.A.
- Resolutions to amend the Articles of Association may be adopted by a majority of two-thirds of the votes validly cast, if the quorum of half of the share capital is met. If the quorum requirement of half of the share capital of Befesa S.A. is not met at the first meeting, then the shareholders may be reconvened to a second meeting. No quorum is required in respect of such second meeting and the resolutions are adopted by two-thirds of the votes validly cast.

i. Powers of the Board of Directors

The powers of the Board of Directors are regulated in articles 6, 12 and 13 of the Articles of Association of Befesa S.A. The Articles of Association are available at https://www.befesa.com/investors/corporate-governance/

In particular, the following applies:

- Befesa S.A. is managed by its Board of Directors.
- The Board of Directors is vested with the broadest powers to perform all acts necessary or useful to accomplish Befesa's objectives.
- The Board of Directors may delegate the daily management of Befesa and the representation of Befesa for this daily management to one or more persons or committees, specifying the limits of such delegated powers and the manner in which they should be exercised.
- The Board of Directors may appoint an Audit Committee, a Nomination and Remuneration Committee, an Operations Committee and/or any other committees it may deem necessary in order to deal with

Corporate governance continued

specific tasks.

- The Board of Directors is authorised, up to the maximum amount of the authorised capital, to (i) increase the issued share capital in one or several tranches with or without share premium, against payment in cash or in kind, by conversion of claims on the Company or in any other manner; (ii) issue subscription and/or conversion rights in relation to new shares or instruments within the limits of the authorised capital under the terms and conditions of warrants, convertible bonds, notes or similar instruments; (iii) determine the place and date of the issue or successive issues, the issue price, the terms and conditions of the subscription of, and paying up on, the new shares and instruments; and (iv) remove or limit the statutory preferential subscription right of the shareholders. The above authorisation is valid for a period ending five years after the date of the General Meeting creating the authorised capital. The relevant authorisation was granted by the General Meeting of the shareholders held on 5 October 2021.
- The Board of Directors is authorised to acquire itself or through a person acting in its own name but on Befesa's behalf, its own shares, subject to the following conditions: (i) the maximum number of shares to be acquired may not exceed ten per cent (10%) of the total number of shares composing the issued share capital at the time of this resolution or, if lower, at the time of the acquisition; (ii) as a result of those acquisitions, Befesa S.A.'s holding of its own shares may not exceed at any time ten per cent (10%) of the total number of shares composing the issued share capital of Befesa S.A.; (iii) the acquisition price per share shall not be lower than its accounting par value or higher than ten per cent (10%) above the volume weighted average listing price per share in the XETRA trading system (or a comparable successor system) during the calendar month preceding the resolution of the Board of Directors on the buy-back; (iv) the acquisitions of its own shares by Befesa S.A., as well as shares acquired by a person acting in their own name but on behalf of Befesa S.A., may not have the effect of reducing the net assets of Befesa S.A. below the aggregate amount of the subscribed capital and the reserves, which may not be distributed under the law or the Articles of Association of Befesa S.A. Only fully paid-up shares may be repurchased; (v) the authorisation will be valid for a period of five (5) years after the date of the General Meeting creating the share buy-back. The relevant authorisation was granted by the AGM of shareholders held on 18 June 2020; and (vi) the purchase shall be effected either through the stock exchange or on the basis of a public purchase offer to all shareholders. Befesa may use, in whole or in part, own shares acquired pursuant to this authorisation for any legally permissible purpose.

j. Significant agreements

With exception of the senior facility agreement signed on 14 February 2020, there are no significant agreements that Befesa S.A. is party to and which take effect, alter or terminate upon a change of control of Befesa S.A. following a takeover bid.

k. Agreements with directors & employees

The service agreements signed by the executive directors with the relevant Group companies establish the right of an exit payment amounting to the total sum of €3.3 million for all three executive directors in case of the termination of their service agreements without cause by the relevant Group companies.


BEFESA
Unwashed Waelz Oxides
Substance name : Flue dust, zinc-refining
CAS No. 69012-63-1

Compliance

BEFESA'S COMPLIANCE MANAGEMENT SYSTEM

i. Definition & content

Befesa is committed to achieving success and sustainable, profitable growth. Befesa believes that this can only be achieved if everyone is focused on integrity, high moral values and respect for environmental, social and governance practices so that Befesa can be recognised as a reliable business partner. Befesa must, at all times, fully respect all applicable laws, regulations and the environment in which it operates.

The management of Befesa is fully determined to execute the organisation's compliance management system (CMS) and continuously seeks opportunities to further strengthen this framework.

Befesa's CMS includes, but is not limited to, internal guidelines and policies such as the code of conduct and guidelines that address competition law requirements, anti-corruption, anti-money laundering, IT services, environmental, health and safety issues, conflicts of interest and international sanctions. These measures, in addition to the whistle-blowing channel, guide members in ensuring that Befesa complies with all laws, regulations and values.

ii. Befesa's general compliance policy

Befesa believes that compliance risk must be identified, managed and reported by management and the Board of Directors. The general compliance policy provides guidance to Befesa and its subsidiaries on how to establish, maintain and report an effective CMS.

This document briefly describes concepts and guidelines that are developed later in specific policies, tools and procedures. It covers several topics such as commitment of management, code of conduct, compliance officer figure, identification and assessment of risks, specific compliance policies, training and the existence of a whistle-blowing channel.

Befesa's general compliance policy establishes the foundation for the implementation of an effective compliance framework and introduces the basic principles that will be the content of the complete compliance system. It is supported by monthly compliance committees, and by communication and training for the entire organisation.

Befesa's compliance management system (CMS)

Befesa CMS

1 / Compliance management system

- Group's compliance policy
- Risk identification and risk management with a software-based integrated risk map and continuous risk monitoring

2 / Code of conduct

- Cornerstone of Befesa's CMS
- Eight languages available

3 / Internal procedures

- Internal communication and authorisation system that represents the internal rules of Befesa

4 / Complementary-specific compliance policies

- Anti-corruption and anti-bribery
- Anti-money laundering
- Anti-trust
- Conflicts of interest
- Environmental, health and safety, and quality
- Group security dealings code
- International sanctions
- IT
- Diversity, equality and inclusion (DE&I) policy
- Confidentiality, and industrial and intellectual property

5 / Monthly messages & training

- Monthly messages to employees covering diverse compliance topics
- Online platform for compliance training
- Brochures on conduct guidelines available
- Specific cybersecurity training

6 / Whistle-blowing channel

- Web platform and voice intake
- Eight languages available

7 / Other

- Internal controls
- Criminal compliance (Spain)
- Certifications: ISO (9001, 14001, 14064, 50001), ISO 45001
- Insurances: coverage of detected risk
- General data-protection regulations
- Code of conduct for suppliers

Compliance continued

Code of conduct

DEFINITION & MAIN ASPECTS COVERED

Befesa has established a code of conduct that is binding for all employees and which is the cornerstone of its CMS. It is available to all employees and third parties in the Sustainability/Governance/Compliance section of Befesa's website https://www.befesa.com/sustainability/governance/#compliance

The code provides the legal and ethical framework for the conduct of Befesa's directors, executives, managers and employees. It defines basic behavioural standards within Befesa itself and in connection with other parties. The document is available in the eight languages spoken in the countries where Befesa operates. Some of the key aspects include the following:

- Strictly comply with the laws and regulations of each jurisdiction.
- Do not compromise your integrity. Do not use your position at Befesa to obtain benefits for yourself, your family or your friends.
- Do not offer or accept gifts and invitations that could create the impression of influencing the commercial judgement of the recipient.
- Do not deliberately mislead anyone. Never attempt to falsify any record.
- Treat your colleagues with fairness and respect. Any form of discrimination based on race, colour, religion, gender, age, marital status, sexual orientation or disability is unacceptable.
- Respect Befesa's commercial relationships. Treat Befesa's clients and suppliers fairly and with respect at all times. Be a good neighbour.
- Look out for the safety of others. Health and safety standards and procedures are intended to protect you, your colleagues and all others. Comply with them at all times.
- Respect and protect the environment.
- In case of doubt, always ask.

Any violation of laws and regulations or the infringement of the code of conduct by any employee at any level of the organisation will be subject to disciplinary consequences.

COMPLEMENTARY-SPECIFIC COMPLIANCE POLICIES

Based on the results of the risk identification and assessment, Befesa develops and updates compliance-relevant documents covering the following areas:

i. Anti-corruption & anti-bribery

One of Befesa's core principles is to strictly comply with all the anti-corruption and anti-bribery laws and regulations where the Company operates. Befesa's principle is to compete by making deals and providing services to its customers based on the quality and price of its products and offerings, instead of providing undue advantages or benefits to others.

ii. Anti-money laundering

Befesa is committed to carrying out its activities with accredited clients and with other trading partners who perform their activities legally and whose funds come from legitimate sources. Accordingly, all employees of Befesa must strictly comply with the pertinent money-laundering legislation and with Befesa's internal procedures, which are designed to detect and prevent suspicious payment methods. All Befesa employees are obliged to report any suspicious behaviour by clients or trading partners, either to the compliance officer or by using the whistle-blowing channel. All employees must comply with all the rules and guidelines regarding accounting and financial information applicable to cash and other forms of payment in relation to the transactions that have to be made.

iii. Anti-trust

It is the unconditional policy of Befesa to fully comply with all applicable anti-trust laws worldwide and to enforce compliance throughout the organisation. In this policy, a guideline summarises the basic rules of the anti-trust laws prevailing in the main jurisdictions where Befesa is active.

All employees must be familiar with and strictly observe the basic rules and specific anti-trust regulations of the relevant jurisdiction in which they operate or which is affected by their operations. Non-compliance will be taken very seriously by Befesa's management and will lead to personal consequences for the relevant employee(s).

iv. Conflicts of interest

The purpose of this policy is to identify and prevent situations in which an employee's activities conflict or appear to conflict with the interests of Befesa and its subsidiaries. Every employee must offer undivided commercial loyalty to Befesa and make business decisions only in the best interests of the Company, not based on their potential personal interests. All employees must avoid any relationship or activity that could affect their independent judgement in the conduct of Befesa's business, conflicts with the Company's interests or could reasonably give the appearance of conflicting with Befesa's interests.

v. Group security dealings code

This code applies to all employees, managers and directors of Befesa and its fully consolidated subsidiaries and joint ventures. These rules are designed to ensure that employees do not misuse, or place themselves under suspicion of misusing, information about Befesa that they have access to and which is not available to other investors. This code also includes a closed period calendar to be followed by the affected persons.

vi. International sanctions

International sanctions or restrictive measures take the form of economic instruments that seek to modify policies or activities in other countries that breach international law or human rights. The implemented measures are obligatory and affect all the countries that form part of the organisation that adopts them. In the case of the EU, they are obligatory for all its member states. Befesa believes that all its employees must comply with these restrictive measures, insofar as they affect their activities. The aforementioned CMS of Befesa includes a specific section on policies, systems and controls in relation to international sanctions.

vii. Diversity, equality and inclusion policy

Befesa is committed to encouraging diversity, equality and inclusion among its workforce, and seeks to eliminate discrimination. The policy's purpose is to provide equality, fairness and respect for all the employees of Befesa, and to oppose and avoid all forms of discrimination by ensuring that recruiting, remuneration and promotion at Befesa is based on qualifications and performance.

viii. Confidentiality, and industrial & intellectual property

Befesa is aware of the value of its assets, in particular the industrial and intellectual property rights inherent in the innovative knowledge generated during the progress of its activities. The Company strives to protect this by adopting appropriate measures for interactions with its employees and with third parties. This policy establishes the operational rules and standards to be applied at Befesa, as well as for third parties. This ensures the effective protection of the industrial and intellectual property of Befesa, guaranteeing a high level of security and compliance with current legislation.

INTERNAL PROCEDURES

i. Concept

The internal procedures of Befesa take the form of a suitable internal control system that represents the internal rules of the Company. It works through an internal system of communication and authorisation. The main goal is to have a common method of operating, assessing and mitigating the business risks inherent in Befesa's activities.

Compliance continued

This implies the following:

- Consistency of actions
- Reinforcement of corporate identity
- Risk control and -reduction
- Optimisation of management
- Creation of value for stakeholders
- Profitability

ii. Covered areas

The internal procedures cover different areas considered as key for Befesa. Twenty-one procedures are in place and include controls for the following areas:

- Finance, projects and capex
- Legal matters and insurance management
- Human resources
- IT management
- General expenses
- Corporate identity, communication and corporate social responsibility
- R&D project management

COMMUNICATION TO EMPLOYEES & ENGAGEMENT

A compliance system cannot be effective without proper communication with all parties involved, especially employees. For this reason, Befesa has implemented three tools to guarantee that everyone in the organisation has access to the latest compliance initiatives: monthly messages, training and conduct guidelines.

i. Monthly messages

Every month one specific compliance topic is shared with all Befesa's employees. These topics are agreed upon with management and are circulated via e-mail throughout the organisation in three languages: English, German and Spanish.

ii. Training

The continuous training of Befesa's employees is key for the future and development of the organisation. Compliance is an important aspect for the Company. Befesa has therefore developed annual training for certain employees; the training courses and training tests are updated on an annual basis with the latest compliance-related contents.

All training courses are reviewed by the compliance department to make sure that every employee has accomplished the training requirements, and a final summary is shared with management.

During 2021, Befesa carried out specific cybersecurity training for all employees, covering several topics related to this issue (e.g. phishing attacks, microphone and cameras, secure passwords, cloud services, safe surfing and social media). This cybersecurity training will be in place for the coming years as cyberattacks continue to increase all over the world.

iii. Brochures on conduct guidelines

Printed brochures on the conduct guidelines are in place and have been sent to all Befesa's employees. These brochures are available in the eight languages of the Group. It covers the main aspects of Befesa's code of conduct and CMS in a visual format that can be easily checked by all personnel.

OTHER ASPECTS COVERED BY BEFESA'S CMS

In addition to the above aspects, as part of Befesa's CMS there are other relevant areas in the system, such as internal controls, risk analyses, insurance coverages and data-protection regulations.

i. Internal controls

In addition to the compliance policies mentioned, Befesa has in place an internal control matrix that contains more than 500 controls, which cover the most significant areas of the Company:

- Purchases
- Fixed assets
- Stocks
- Sales
- Treasury
- Human resources
- Taxes
- Hedging
- Equity
- Closing & reporting
- Legal & ethics

ii. Risk analysis & insurance coverage

Befesa has a risk management system (RMS) in place, which is explained in detail in the "Risks & opportunities" section (pages 62 to 68).

iii. Data-protection regulations

Following the General Data Protection Regulation (GDPR) that came into force in May 2018, Befesa has carried out an analysis of the Company's data-protection standards with the main goal of adapting those standards to the new GDPR requirements.

iv. Supplier code of conduct

Befesa promotes and expects business integrity, compliance with applicable laws and adherence to internationally recognised environmental, social and corporate governance standards within the organisation and among its business partners.

For these reasons, during 2020, Befesa implemented a code of conduct for suppliers that must be accepted and signed by all suppliers. Befesa expects its suppliers to implement the principles set out in this code of conduct throughout their organisations worldwide and to comply with these principles. Befesa also expects suppliers to use their best efforts to implement these standards with their suppliers and subcontractors and to take these principles into account when selecting them. The supplier code of conduct covers different areas, including environmental protection and energy efficiency; human rights, employment practices, and health and safety; and business integrity and corporate governance standards. The supplier code of conduct is available on Befesa's website https://www.befesa.com/sustainability/governance/#compliance. The internal audit team reviews and analyses the implementation of the code in the subsidiaries.

v. Criminal compliance certification UNE 19601

The Spanish criminal code establishes that legal persons may have criminal responsibility. In order to avoid this from happening at Befesa, a criminal compliance programme (Criminal Risks Management System) has been implemented. This programme comprises a set of preventive tools with the aim of preventing the breach of rules of a criminal nature and of avoiding possible sanctions that could generate responsibility for the Company. Furthermore, there is a certifiable standard UNE 19601 concerning criminal compliance that Befesa Medio Ambiente S.L.U. has satisfactorily achieved in the first quarter of 2021.

INTERNAL AUDIT ON FINANCIAL INFORMATION & ETHICAL STANDARDS

Internal controls and processes included in Befesa's internal control matrix cover financial and non-financial information. Its compliance is audited each year by Befesa's internal audit department across all significant subsidiaries.

In 2021, a total of 31 audits were carried out following these processes (2020: 34 audits).

The financial statements of Befesa and its subsidiaries are internally audited on an annual basis, providing Befesa's investors with additional confidence regarding the financial information published every quarter.

In addition, Befesa's internal audit team reviews compliance with ethical standards and ESG policies regularly. These include:

- Anti-money laundering, payments and collections, and cash destinations and origins;
- Powers of attorney and compliance with the "four eyes" principle;
- Internal approvals for key actions;
- Negotiations with suppliers, customers and other business partners, in addition to existing contracts;
- Compliance with Befesa's supplier code of conduct;
- The definition of proper criminal compliance policies of Spanish entities;
- Training for employees on compliance policies, the code of conduct and IT security;
- The hiring and remuneration of employees;
- Donations and sponsorships; and
- Taxes.

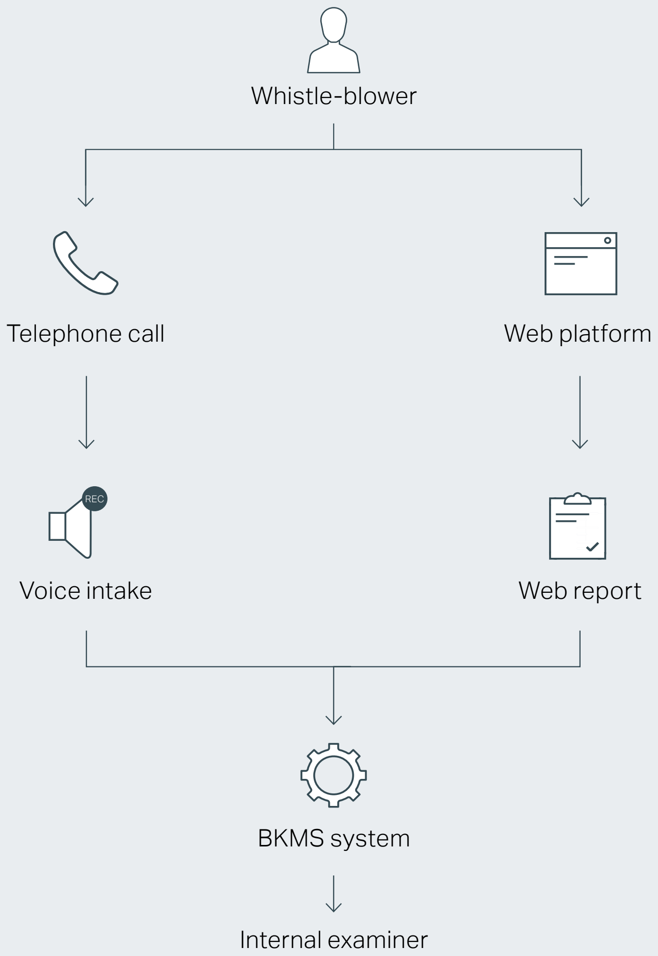
Befesa's internal audit team is also involved in investigations concerning complaints received through the Company's whistle-blowing channel.

The results and progress on internal audit works are reported to Befesa's Audit Committee periodically.

Compliance continued

Whistle-blowing channel

Befesa has a whistle-blowing channel in place on its website, which is available to all employees and external third parties 24/7. Complaints can be made via telephone or the web platform. The platform is available in eight languages: English, German, Spanish, French, Swedish, Turkish, Korean and Chinese.



European Privacy Seal

- Europe/Global privacy laws
- Phone line with local greeting
- Web page with local language
- Report/Case management
- Reports in local languages and English
- 24/7, 365 days a year

Recover

Valuable materials from previously used products using the best available technology.

Consolidated financial statements

Consolidated statement of financial position as at 31 December 2021

(Thousands of euros)

Assets	Note(s)	2021	2020
Non-current assets:			
Intangible assets			
Goodwill	7	573,151	335,564
Other intangible assets	8	104,418	87,458
		677,569	**423,022**
Right-of-use assets	11	**30,335**	**20,401**
Property, plant and equipment	9	**509,075**	**295,308**
Non-current financial assets			
Investments in Group companies and associates		46	118
Other non-current financial assets	10	15,953	2,546
		15,999	**2,664**
Deferred tax assets	19	**125,462**	**81,369**
Total non-current assets		**1,358,440**	**822,764**
Current assets:			
Inventories	12	**67,477**	**39,350**
Trade and other receivables	13	**113,229**	**54,222**
Trade receivables from related companies	13–25	**917**	**1,003**
Accounts receivable from public authorities	13–20	**10,671**	**9,621**
Other receivables	13	**20,561**	**18,817**
Other current financial assets	10	**825**	**64**
Cash and cash equivalents	4	**224,089**	**154,558**
Total current assets		**437,769**	**277,635**
Total assets		**1,796,209**	**1,100,399**

The accompanying Notes 1 to 29 and the Appendix are an integral part of the consolidated financial statements.

Consolidated statement of financial position as at 31 December 2021 (Thousands of euros) continued

Equity and liabilities	Note(s)	2021	2020
Equity:			
Parent Company	14		
Share capital		111,048	94,576
Share premium		532,867	263,875
Hedging reserves		(96,830)	(9,509)
Other reserves		(19,915)	(54,306)
Translation differences		(4,080)	(15,077)
Net profit/(loss) for the year		99,745	47,608
Interim dividend		–	(9,880)
Equity attributable to the owners of the Company		**622,835**	**317,287**
Non-controlling interests	14	**8,712**	**10,294**
Total equity		**631,547**	**327,581**
Non-current liabilities:			
Long-term provisions	18	**22,267**	**9,968**
Loans and borrowings	15	**653,571**	**520,602**
Lease liabilities	11–15	**15,756**	**10,860**
Other non-current financial liabilities	17	**56,700**	**4,614**
Other non-current liabilities	16	**4,621**	**4,905**
Deferred tax liabilities	19	**91,946**	**68,293**
Total non-current liabilities		**844,861**	**619,242**
Current liabilities:			
Loans and borrowings	15	**17,791**	**13,629**
Lease liabilities	11–15	**7,612**	**3,124**
Other current financial liabilities	17	**75,650**	**8,842**
Trade payables to related companies	25	**1,436**	**613**
Trade and other payables		**151,414**	**98,091**
Other payables			
Accounts payable to public administrations	16–20	17,855	11,432
Other current liabilities	16	48,043	17,845
		65,898	**29,277**
Total current liabilities		**319,801**	**153,576**
Total equity and liabilities		**1,796,209**	**1,100,399**

The accompanying Notes 1 to 29 and the Appendix are an integral part of the consolidated financial statements.

Consolidated income statement for the year ended 31 December 2021

(Thousands of euros)

	Note(s)	2021	2020
Revenue	**5, 22.1**	821,613	604,330
Changes in inventories of finished goods and work in progress		10,713	(5,541)
Procurements	**22.2**	(370,697)	(249,713)
Other operating income	**22.3**	14,989	5,823
Personnel expenses	**22.4**	(98,819)	(82,989)
Other operating expenses	**22.5**	(188,187)	(148,422)
Amortisation/depreciation, impairment and provisions	**22.6**	(62,155)	(55,567)
Operating profit/(loss)		**127,457**	**67,921**
Finance income	**15**	344	16,005
Finance costs	**23**	(24,583)	(22,295)
Net exchange differences		8,634	(2,997)
Net finance income/(loss)		**(15,605)**	**(9,287)**
Profit/(loss) before tax		**111,852**	**58,634**
Corporate income tax	**19**	(9,500)	(11,749)
Profit/(loss) for the year		**102,352**	**46,885**
Attributable to:			
Parent Company's owners		99,745	47,608
Non-controlling interests		2,607	(723)
Earnings/(losses) per share attributable to owners of the Parent Company (expressed in euros per share)	**28**	2.68	1.40

The accompanying Notes 1 to 29 and the Appendix are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2021

(Thousands of euros)

	Note(s)	2021	2020
Consolidated profit/(loss) for the year		**102,352**	**46,885**
Items that may subsequently be reclassified to income statement:			
Income and expense recognised directly in equity		**(112,239)**	**(34,583)**
– Cash flow hedges	17	(167,326)	(30,191)
– Translation differences		6,808	(13,449)
– Tax effect	19	48,279	9,057
Transfers to the income statement		**31,726**	**(15,326)**
– Cash flow hedges	17	43,501	(21,209)
– Tax effect	19	(11,775)	5,883
Other comprehensive income/(loss) for the year, net of tax		**(80,513)**	**(49,909)**
Total comprehensive income/(loss) for the year		**21,839**	**(3,024)**
Attributable to:			
Parent Company's owners		23,421	467
Non-controlling interests		(1,582)	(3,491)

The accompanying Notes 1 to 29 and the Appendix are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2021

(Thousands of euros)

	Attributable to the owners of the Parent								
	Share capital (Note 14)	**Share premium (Note 14)**	**Hedging reserves (Note 14)**	**Other reserves (Note 14)**	**Interim dividend (Note 14)**	**Translation differences (Note 14)**	**Net profit/ (loss) for the year (Note 14)**	**Non-controlling interests (Note 14)**	**Total equity**
Balances at 31 December 2019	**94,576**	**263,875**	**26,951**	**(117,286)**	**–**	**(4,396)**	**82,713**	**13,785**	**360,218**
Total comprehensive income for the year	–	–	(36,460)	–	–	(10,681)	47,608	(3,491)	(3,024)
Distribution of profit for the year									
Reserves	–	–	–	67,724	–	–	(67,724)	–	–
Dividends (Note 14)	–	–	–	–	(9,880)	–	(14,989)	–	(24,869)
Other movements	–	–	–	(4,744)	–	–	–	–	(4,744)
Balances at 31 December 2020	**94,576**	**263,875**	**(9,509)**	**(54,306)**	**(9,880)**	**(15,077)**	**47,608**	**10,294**	**327,581**
Total comprehensive income for the year	–	–	(87,321)	–	–	10,997	99,745	(1,582)	21,839
Increase of equity (Note 14)	16,472	315,792	–	(3,648)	–	–	–	–	328,616
Distribution of profit for the year									
Reserves	–	–	–	47,608	–	–	(47,608)	–	–
Dividends (Note 14)	–	(46,800)	–	(9,880)	9,880	–	–	–	(46,800)
Other movements	–	–	–	311	–	–	–	–	311
Balances at 31 December 2021	**111,048**	**532,867**	**(96,830)**	**(19,915)**	**–**	**(4,080)**	**99,745**	**8,712**	**631,547**

The accompanying Notes 1 to 29 and the Appendix are an integral part of the consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2021

(Thousands of euros)

	2021	2020
Cash flows from operating activities:		
Profit/(Loss) for the year before tax	**111,852**	**58,634**
Adjustments for:		
Depreciation and amortisation (Note 22.6)	53,251	37,460
Impairment losses (Note 9, 22.6)	8,904	18,107
Changes in provisions	3,753	1,209
Interest income	(344)	(16,003)
Finance costs	24,583	22,295
Other profit/(loss)	(750)	(1,030)
Exchange differences	(8,634)	2,997
Changes in working capital:		
Trade receivables and other current assets	(66,766)	(11,529)
Inventories	(21,255)	12,403
Trade payables	45,414	1,645
Other cash flows from operating activities:		
Interest paid	(16,872)	(17,011)
Taxes paid	(15,235)	(16,634)
Net cash flows from/(used in) operating activities	**117,901**	**92,543**
Cash flows from investing activities:		
Investments in intangible assets (Note 8)	(2,156)	(2,278)
Investments in property, plant and equipment (Note 9)	(75,528)	(52,542)
Collection from financial assets	2,031	906
(Acquisition)/Disposal of new subsidiaries (Note 6)	(373,694)	–
Collections from sale of property, plant and equipment	–	102
Investments/(Divestments) in other current financial assets	(123)	(73)
Net cash flows from/(used in) investing activities	**(449,470)**	**(53,885)**
Cash flows from financing activities:		
Equity issuance (Notes 6 and 14)	328,615	–
Cash inflows from bank borrowings and other liabilities (Note 15)	130,370	20,237
Cash outflows from bank borrowings and other liabilities (Note 15)	(10,414)	(4,532)
Dividends paid to shareholders (Note 14)	(46,800)	(24,869)
Net cash flows from/(used in) financing activities	**401,771**	**(9,164)**
Effect of foreign exchange rate changes on cash and cash equivalents	**(671)**	**(396)**
Net increase/(decrease) in cash and cash equivalents	**69,531**	**29,098**
Cash and cash equivalents at the beginning of year	154,558	125,460
Cash and cash equivalents at the year end	224,089	154,558

The accompanying Notes 1 to 29 and the Appendix are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as at 31 December 2021

(Thousands of euros)

1. General information

Befesa, S.A. (formerly Bilbao Midco, S.à r.l) (hereinafter the “Parent Company” or the “Company”) was incorporated in Luxembourg on 31 May 2013 as a “société à responsabilité limitée” subject to Luxembourg law for an unlimited period of time. On 18 October 2017, the shareholders resolved to convert the Company from into a “société anonyme” without creating a new legal entity or affecting the legal existence or personality of the Company in any manner, and to change the name of the Company into Befesa S.A. The registered office of the Company was 46, Boulevard Grande-Duchesse Charlotte, L-1330, Luxembourg, and on 1 January 2022 it was transferred to 68-70, Boulevard de la Pétrusse, L-2320 Luxembourg.

The Company’s statutory activity is the acquisition, holding and disposal of interests in Luxembourg and/or in foreign companies and undertakings, as well as the administration, development and management of such interests.

The Company may provide loans and financing in any other kind or form or grant guarantees or security in any other kind or form, for the benefit of the companies and undertakings forming part of the Group of which the Company is a member.

The Company may also invest in real estate, in intellectual property rights or any other movable or immovable assets in any kind or form.

The Company may borrow in any kind or form and issue bonds, notes or any other debt instruments as well as warrants or other share subscription rights.

In general, the Company may carry out any commercial, industrial or financial operation, which it may deem useful in accomplishing and conducting its statutory activity.

The Company’s financial year starts on 1 January and ends on 31 December.

The Company’s Shareholders at their General Meeting held on 18 October 2017, agreed to convert the Company from a private limited liability company to a public limited company.

On the same date, it was also agreed at the Company’s General Shareholders’ Meeting to change the name of the Company from Bilbao Midco, S.à r.l to Befesa, S.A.

The principal place of business of the Group is located in Asúa – Erandio, Bizkaia (Spain).

The Company and its subsidiaries (“Befesa” or the “Group”) is an international industrial group (see Appendix) that engages mainly in the management and treatment of industrial residues (see Note 5).

The majority of the systems, equipment and facilities included in the Group’s property, plant and equipment should be deemed to be assigned to the management and treatment of industrial residues and, in general, to the protection and improvement of the environment, either because of the business activities carried out by the Group or because of their nature (industrial residues). Most of the expenses and revenues for 2021 and 2020 should be understood to accrue in the normal course of the aforementioned activities. Any information on possible provisions for contingencies and charges and on possible contingencies, liability and grants, if any, arising from the normal performance of the activities constituting the Group’s statutory activity, and other environmental measures are described, as and when appropriate, in the related notes to the consolidated financial statements.

Since 3 November 2017, Befesa, S.A. has been listed on the Frankfurt Stock Exchange (Germany) (Note 14) (ISIN code LU1704650164).

2. Basis of presentation of the consolidated financial statements and basis of consolidation

The consolidated financial statements have been prepared on the basis of the accounting records of Befesa, S.A. and its consolidated subsidiaries and joint arrangements. The consolidated financial statements for 2021 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other applicable provisions of the applicable financial reporting framework, to give a true and fair view of the consolidated equity and consolidated financial position of Befesa, S.A. and subsidiaries at 31 December 2021, and the consolidated results of operations, consolidated cash flows and changes in consolidated equity for the year then ended.

Details of the Group's accounting policies are included in Note 3.

The Directors of the Parent Company consider that the consolidated financial statements for the year ended 31 December 2021, authorised for issue on 29 March 2022, will be approved with no changes by the shareholders at their Annual General Meeting to be held on 16 June 2022.

2.1 Fair presentation

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for the financial year 2021 include comparative figures for the prior year, which formed part of the 2020 consolidated financial statements approved by the shareholders of the Parent Company at their Annual General Meeting held on 30 June 2021.

The Company's consolidated financial statements for 2021 were formally prepared:

- In accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), in conformity with the Regulation (EC) of the European Parliament and of the Council, including International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the accompanying consolidated financial statements are summarised in Note 3.
- Considering all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly Group's consolidated equity and consolidated financial position at 31 December 2021 and the consolidated results of its operations, changes in consolidated equity and consolidated cash flows for the year then ended.
- On the basis that the accounting records kept by the Parent Company and by the other Group companies, which include the joint arrangements in which they had interests at 31 December 2021. However, since the accounting policies and measurement bases used in preparing Befesa, S.A. consolidated financial statements (IFRS-EU) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with IFRS-EU.
- The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.4.
- The consolidated financial statements have been prepared in accordance with Luxembourg's legal and regulatory framework and on the going concern assumption.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

2. Basis of presentation of the consolidated financial statements and basis of consolidation continued

2.2 Adoption of new standards and interpretations issued.

2.2.1 First-time application of standards

The following new and amendments to standards and interpretations which are applicable for the first time in 2021, are either not relevant or do not have a material impact on the consolidated financial statements of the Group:

- Amendment to IFRS 16: COVID-19-Related Rent Concessions
- Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 17 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

2.2.2 Standards, amendments and interpretations issued but not yet effective

At the date these consolidated financial statements were authorised for issue, standards, amendments and interpretations issued but not yet effective, and which the Group expects to adopt for annual periods beginning on or after 1 January 2022, are as follows:

- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IES 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IAS 37 Provisions, contingent liabilities and contingent assets: Provisions for onerous contracts.
- References to the conceptual framework of IFRS in IFRS 3

In light of the Group's activities, the effect of applying the new standards, amendments or interpretations to the consolidated financial statements when they are applied for the first time is not deemed to be relevant for the Group.

2.2.3 Standards, amendments and interpretations to existing standards that have not been adopted by the European Union

At the date these consolidated financial statements were authorised for issue, the IASB and the IFRS Interpretations Committee had published the following standards, amendments and interpretations, which are pending adoption by the European Union:

- Amendment to IAS 1: Classification of liabilities as current or non-current
- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimate
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In light of the Group's activities, the effect of applying the new standards, amendments or interpretations to the consolidated financial statements when they are applied for the first time is not deemed to be relevant for the Group.

2.3 Functional currency

These consolidated financial statements are presented in thousands of euros, since the euro is the currency used in the main economic area in which the Group operates. Foreign operations are recognised in accordance with the policies established in Note 3. The main currencies other than the euro in which the Group carries out its transactions are US dollar, Korean won, Swedish krona, Turkish lira and Chinese yuan.

2.4 Use of estimates and judgements

The information in these consolidated financial statements is the responsibility of the Board of Directors of the Parent Company.

In the Group's consolidated financial statements for the year ended 31 December 2021 estimates are occasionally made by senior management of the Parent Company and of the consolidated companies, and later ratified by the Directors, in order to qualify certain assets, liabilities, income, expenses and obligations reported herein.

a) Relevant Accounting estimates and assumptions

Those estimates relate to the following:

Impairment losses on goodwill and certain assets (see Notes 7, 8, 9 and 11)

The Group verifies annually whether there is an impairment loss in respect of goodwill and other assets, in accordance with the accounting policy described in Note 3.

When calculating the value in use of the principal items of goodwill and licenses with indefinite useful life, the assumptions used were as follows:

- Projections of the cash flows of the cash generating unit (CGU) or group of CGUs in question are made for periods of five years (when based on past experience it is possible to predict cash flows accurately over a period longer than five years), calculating a residual value based on flow for the last year projected, provided that this flow is representative of a normalised flow to reflect margin and cash flow experience in those businesses, as well as future expectations. The projections are based on the budgets for next year increased in accordance with the assumptions estimated by the management.
- The gross margins used in the calculation are in line with the profit expected to be obtained, based on past experience of profits of each of the segments and on new contracts existing in each case.
- To discount the flows, a discount rate is used based on the weighted average cost of capital for assets of this type, adjusted, where necessary, on the basis of the additional risk that could be contributed by certain types of activity.
- In any case, further sensitivity analyses are conducted, particularly with regard to the discount rate used and the residual growth rate, to ensure that the effect of possible changes in estimates of these rates does not have an impact on the recoverability of the recognised goodwill and licenses with indefinite useful life.

Recoverability of deferred taxes (Notes 3.19 and 19)

Deferred tax assets are recognised for all deductible temporary differences and unused deductions for which it is probable that the companies of the Group will have future tax profits against which they can be utilised. To determine the deferred tax assets eligible for recognition, their amount, the dates on which the future tax profits are expected to be obtained and the reversal period of the temporary differences are estimated.

Estimates made in the context of share-based payments (Note 24)

To calculate the liability for the obligation derived from share-based compensation plans with certain employees, at year end the Group estimates the fair values of the liabilities based on Befesa, S.A.'s share price, and the degree of target achievement.

Although these estimates were made on the basis of the best information available at 31 December 2021 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statement.

Estimates made in the context of the Purchase Price Allocation (Notes 3.1 and 6)

Estimating the fair value of assets acquired and liabilities assumed in business combinations and purchase price allocations in acquisitions requires significant judgments by management.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

2. Basis of presentation of the consolidated financial statements and basis of consolidation continued

b) Relevant judgments in the application of accounting policies

On 17 August 2021, the Group, through Befesa Holding US, Inc., acquired a 100% interest in American Zinc Recycling Corp. (currently Befesa Zinc US, Inc.) (Note 6).

As part of these agreements, Befesa has also acquired a minority stake of 6.9% of the equity interests in American Zinc Products LLC ("AZP"), AZR's zinc refining subsidiary. As a consequence, the Company does not have significant influence over AZP as it has no power to intervene in the financial and operating policy decisions of the entity and it only has one member out of ten on AZP's Board of Directors. Therefore, this investment has been recorded as a financial investment at fair value through profit or loss.

2.5 Changes in the scope of consolidation

Following is a description of the main changes in the scope of consolidation in 2021 and 2020:

2021

In August 2021, the Group completed the acquisition of 100% of the shares of American Zinc Recycling Corp. ("AZR") (currently Befesa Zinc US, Inc.) (Note 6).

2020

There was no change in the scope of consolidation in 2020.

2.6 Alternative performance measures

The Company regularly reports alternative performance measures (APMs) not defined by IFRS that management believes are relevant indicators of the performance of the Group.

Alternative performance measures are used to provide readers with additional financial information that is regularly reviewed by management and used to make decisions about operating matters. These measures are also used for defining senior management's variable remuneration. They are useful in terms of relating to discussions with the investment analyst's community.

However, these APMs are not uniformly disclosed by all companies, including those in the Group's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted GAAP measure. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

Definitions use and reconciliations to the closest IFRS measures are presented below.

2.6.1 Net debt

Net debt is defined as current and non-current financial debt plus current and non-current lease liabilities less cash and cash equivalents and less other current financial assets net of derivative financial instruments. The Group believes that net debt is relevant to investors, since it gives an indication of the absolute level of non-equity funding of the business.

This can be compared to the income and cash flows generated by the business, and available undrawn facilities.

The following table reconciles net debt to the relevant statement of financial position line items:

	2021	2020
Non-current financial debt (Note 15)	653,571	520,602
Non-current lease liability (Notes 11 and 15)	15,756	10,860
Current financial debt (Note 15)	17,791	13,629
Current lease liability (Notes 11 and 15)	7,612	3,124
Cash and cash equivalents (Note 4)	(224,089)	(154,558)
Other current financial assets net of derivative financial instruments (Note 10)	(61)	(64)
Net debt	**470,580**	**393,593**

2.6.2 EBITDA, Adjusted EBITDA and EBITDA margin

EBITDA is defined as operating profit for the period before the impact of amortisation, depreciation, impairment and provisions.

Adjusted EBITDA is defined as EBITDA adjusted by any one-time projects/non-current charges or income.

EBITDA margin is defined as EBITDA divided by revenue. The Company believes that EBITDA and EBITDA margin are useful supplemental indicators that may be used to assist in evaluating the Group's operating performance.

The following table reconciles EBITDA to the consolidated income statement line items from which it is derived:

	2021	2020
Revenue (Note 5)	821,613	604,330
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions) (Note 22)	(632,001)	(480,842)
Amortisation/depreciation, impairment and provisions (a) (Note 22)	(62,155)	(55,567)
EBIT (Operating profit/(loss)) (b)	**127,457**	**67,921**
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (b-a)	**189,612**	**123,488**
One-time projects (Notes 6 and 21)	7,958	–
Non-recurrent charges/income (Note 9)	–	3,460
Adjusted EBITDA	**197,570**	**126,948**

The following table provides a reconciliation of EBITDA margin and Adjusted EBITDA margin:

	2021	2020
Revenue (a)	**821,613**	**604,330**
EBITDA (b)	**189,612**	**123,488**
One-time projects	7,958	–
Non-recurrent charges/income	–	3,460
Adjusted EBITDA (c)	**197,570**	**126,948**
EBITDA margin (%) (b/a)	**23%**	**20%**
Adjusted EBITDA margin (%) (c/a)	**24%**	**21%**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

2. Basis of presentation of the consolidated financial statements and basis of consolidation continued

2.6.3 EBIT, Adjusted EBIT and EBIT margin

EBIT is defined as operating profit for the year. The Company uses EBIT to monitor its financial return after both operating expenses and a charge representing the cost of usage of both its property, plant and equipment and finite-life intangible assets.

Adjusted EBIT is defined as EBIT adjusted by any one-time projects/non-recurrent charges or incomes.

EBIT margin and Adjusted EBIT margin are defined as EBIT and Adjusted EBIT as a percentage of revenue, respectively. The Company believes that these ratios are useful measures to demonstrate the proportion of revenue that has been realised as EBIT and Adjusted EBIT, and therefore indicators of profitability.

The following table reconciles EBIT and Adjusted EBIT to the income statement line items from which it is derived:

	2021	2020
Revenue (Note 5)	821,613	604,330
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions) (Note 22)	(632,001)	(480,842)
Amortisation/depreciation, impairment and provisions (Note 22)	(62,155)	(55,567)
EBIT (Operating profit/(loss))	**127,457**	**67,921**
One-off impairments/provisions (Notes 9 and 21)	13,848	18,107
EBITDA adjustments (Notes 6, 9 and 21)	7,958	3,460
Adjusted EBIT	**149,263**	**89,488**

The following table provides a reconciliation of EBIT margin and Adjusted EBIT margin:

	2021	2020
Revenue (a)	**821,613**	**604,330**
EBIT (b)	**127,457**	**67,921**
One-off impairments/provisions (Notes 9 and Note 21)	13,848	18,107
EBITDA adjustments (Notes 6, 9 and 21)	7,958	3,460
Adjusted EBIT (c)	**149,263**	**89,488**
EBIT margin (%) (b/a)	**16%**	**11%**
Adjusted EBIT margin (%) (c/a)	**18%**	**15%**

2.6.4 Net debt/Adjusted EBITDA (Adjusted leverage ratio)

Net debt/Adjusted EBITDA ratio is defined as net debt divided by Adjusted EBITDA. The Group believes that this ratio is a useful measure to show its ability to generate the income needed to be able to settle its loans and borrowings as they fall due.

The following table reconciles the net debt/EBITDA ratio to net debt and EBITDA:

	2021	2020
Net debt (Note 4)	470,580	393,593
Adjusted EBITDA	197,570	126,948
Net debt/Adjusted EBITDA	**2.4**	**3.1**

2.6.5 Capex

Capex is defined as the cash payments made during the period for investments in intangible assets, property, plant and equipment and right-of-use assets.

The Company believes that this measure is useful to understand the effort made by the Company each year to acquire, upgrade and maintain physical assets such as property, industrial buildings or equipment.

The following table reconciles Capex to the cash flow statement line items from which it is derived:

	2021	2020
Cash flows from investing activities:		
Investments in intangible assets (Note 8)	2,156	2,278
Investments in property, plant and equipment (Note 9)	75,528	52,542
Capex	**77,684**	**54,820**

3. Accounting principles and policies and measurement methods applied

All accounting principles and policies are consistently applied by the Group.

3.1 Business combination

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, the equity instruments issued and any consideration contingent on future events or compliance with certain conditions in exchange for control of the acquiree.

The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition costs are recognised as an expense when incurred.

The Group recognises the assets acquired and liabilities assumed at their acquisition-date fair value. Liabilities assumed include any contingent liabilities that represent present obligations arising from past events for which the fair value can be reliably measured. The Group also recognises indemnification assets transferred by the seller at the same time and following the same measurement criteria as the item that is subject to indemnification from the acquiree, taking into consideration, where applicable, the insolvency risk and any contractual limitations on the indemnified amount.

These criteria are not applicable to long-term defined benefit obligations, share-based payment transactions, or deferred tax assets and liabilities.

The excess between the consideration given, plus the value assigned to non-controlling interests, and the value of net assets acquired and liabilities assumed, is recognised as goodwill.

3.2 Subsidiaries

Subsidiaries are entities, including structured entities, over which the Group, either directly or indirectly, exercises control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

The income, expenses and cash flows of subsidiaries are included in the consolidated financial statements from the date of acquisition, which is the date on which the Group obtains effective control of the subsidiaries. Subsidiaries are no longer consolidated once control ceases.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

Transactions and balances with Group subsidiaries and unrealised gains or losses have been eliminated on consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The accounting policies of subsidiaries have been adapted to Group accounting policies for transactions and events in similar circumstances.

The consolidated financial statements or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Company.

3.3 Joint arrangements

Joint arrangements are those in which there is a contractual agreement to share the control over an economic activity, in such a way that decisions about the relevant activities require the unanimous consent of the Group and the remaining venturers or operators. The existence of joint control is assessed considering the definition of control over subsidiaries.

The Group has applied IFRS 11 to all joint arrangements. Investments in joint arrangements under IFRS 11 are classified as joint operations or joint ventures, depending on the contractual rights and obligations of each investor.

The Group has assessed the nature of its joint arrangements and has determined that they are joint operations in all cases.

Joint operations arise when investors have rights to the assets and obligations with respect to the liabilities of an arrangement. The Group recognises the assets, including its share of any assets held jointly, the liabilities, including its share of any liabilities incurred jointly with the other operators, the revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and the expenses, including its share of any expenses incurred jointly, in the consolidated financial statements.

The Group's acquisition of an initial and subsequent share in a joint operation which constitutes a business is recognised following the same criteria used for business combinations, at the percentage of ownership of each individual asset and liability. However, in subsequent acquisitions of additional shares in a joint operation, the previous share in each asset and liability is not subject to revaluation, to the extent that the Group retains joint control.

In purchases by the Group from a joint operation, the resulting gains and losses are only recognised when it resells the acquired assets to a third party. However, when such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets, the Group recognises its entire share of such losses.

The integration of "joint operations", (Recytech S.A.S., part of the Steel Dust Recycling Services segment), in the consolidated financial statements means that assets, liabilities, income and expenses at 31 December 2021 are increased by approximately €22,118 thousand, €5,510 thousand, €24,669 thousand and €14,944 thousand, respectively (approximately €12,239 thousand, €2,606 thousand, €14,648 thousand and €11,750 thousand, respectively, at 31 December 2020), before consolidation adjustments and eliminations.

3.4 Non-controlling interests

Non-controlling interests in subsidiaries acquired as of 1 January 2004 are recognised on the acquisition date at the percentage participation in the fair value of identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the percentage participation in their equity on the date of first consolidation.

Non-controlling interests are disclosed in consolidated equity separately from equity attributable to shareholders of the Parent Company. Non-controlling interests in consolidated profits for the year (and in consolidated comprehensive income for the year) are also presented separately in the consolidated statement of comprehensive income.

The consolidated total comprehensive income for the year and changes in equity of the subsidiaries attributable to the Group and non-controlling interests after consolidation adjustments and eliminations, is determined in accordance with the percentage ownership at year end, without considering the possible exercise or conversion of potential voting rights and after discounting the effect of dividends, agreed or not, on cumulative preference shares classified in equity accounts. However, Group and non-controlling interests are calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently give access to the returns associated with the interests held in the subsidiaries.

The results and each component of other comprehensive income are allocated to equity attributable to the shareholders of the Parent Company and to non-controlling interests in proportion to their investment, although this implies a balance receivable from non-controlling interests.

3.5 Goodwill

This heading in the consolidated financial statement reflects the difference between the price paid to acquire certain consolidated subsidiaries and the Group's interest in the fair value of the net assets (assets, liabilities and contingent liabilities) of those companies at the date of acquisition.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the company acquired over the acquisition cost of the investment is allocated to income on the date of acquisition.

Goodwill is recognised as an asset and at the end of each reporting period it is estimated whether any impairment has reduced its value to an amount lower than its carrying amount. If so, impairment losses are recognised for the goodwill, which must not be reversed in a subsequent period.

Goodwill is allocated to CGUs for the purpose of impairment testing. The goodwill is allocated to the CGUs that are expected to benefit from the business combination in which the goodwill arises.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

3.6 Other intangible assets

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred. In conformity with IFRS, the Group classifies as internally generated intangible assets the expenses incurred in the development of projects that meet the following conditions:

- The expenditure is specifically identified and controlled by project, and its distribution over time is clearly defined.
- The Directors have well-founded reasons for believing that there are no doubts as to the technical success or the economic and commercial viability of the projects, on the basis of their level of completion and order book.
- The Group has the necessary technical, financial and other resources to complete the development work.
- The development cost of the asset, which includes, where appropriate, the personnel expenses of the Group's personnel working on the projects, can be measured reliably.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

Internally generated intangible assets are amortised on a straight-line basis over the period that they are expected to generate income, which is generally five years. The technical, economic and financial potential of each project is reviewed at each year-end. If a project is progressing negatively or if there are no financing plans to assure effective completion, the related amount is charged to income in full.
Where no internally generated intangible asset can be recognised, development expenditure is accounted for as an expense in the year in which it is incurred.

The Group has recognised the work performed on its intangible assets in relation to the development of new technologies for which there is a high probability of technical and economic success as a decrease in the income statement headings which reflect the carrying amount of capitalised expenses for an amount of €1,039 thousand (31 December 2020: €953 thousand). The amounts capitalised during the year mainly relate to projects aimed at improving aluminium scrap treatment processes developed by the subsidiary Befesa Aluminio, S.L.

Computer software
The acquisition and development costs incurred in relation to the basic computer systems used in the management of the Group are recognised with a charge to "Other intangible assets" in the consolidated financial statement. Computer system maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over the useful life of the assets (five years).

Concessions, patents, licences and similar items
In general, the amounts recognised by the Group in connection with concessions, patents, licences and similar items relate to the cost incurred in acquiring them, which is amortised on a straight-line basis over the estimated useful life based on the concession arrangement.

The capitalised concessions have a maximum estimated useful life of 25 years.

Licences acquired in a business combination are recognised at fair value at the acquisition date and have an indefinite useful life. Licences with indefinite useful life are tested for impairment at least annually (Note 8). The useful life, in accordance with IAS 38, is considered indefinite due to the fact that those licences represent the amount that any producer willing to enter the market at any moment would have to pay in order to obtain the needed environmental authorisation to start the activity and have no maturity.

3.7 Property, plant and equipment
Property, plant and equipment are recognised at acquisition cost less any accumulated depreciation and any recognised impairment losses. However, prior to the date of transition to IFRS, the Group revalued certain items of property, plant and equipment as permitted by the applicable legislation. In accordance with IFRS, the Group considered the amount of the restatements as part of the cost of the assets.

Costs of expansion, modernisation or improvements, leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Repairs that do not lead to a lengthening of the useful life of the assets and maintenance expenses are charged to the consolidated income statement for the year in which they are incurred.

In-house work on non-current assets is recognised at accumulated cost (external costs plus in-house costs, determined on the basis of in-house warehouse materials consumption and manufacturing costs allocated using hourly absorption rates, similar to those used for inventory valuation). In 2021, €3,467 thousand was recognised in this regard (2020: €1,506 thousand) (Note 22.3). At 31 December 2021, the work performed by the Group on its property, plant and equipment is recognised under "Other operating income" in the consolidated income statement. This amount mainly relates to works carried out in China in connection with the construction of the new plants in Changzhou (Jiangsu province) and Xuchang (Henan province), and in the subsidiary Befesa Salzschlacke GmbH in connection with the closing of storage (2020: work carried out in China in connection with the construction of the new plants in Changzhou (Jiangsu province) and Xuchang (Henan province)) (Note 9).

The Group depreciates property, plant and equipment using the straight-line method (land is not subject to depreciation), distributing the cost of the assets over the following years of estimated useful life:

	Average years of estimated useful life
Buildings	16 – 50
Plant and machinery	10 – 25
Other property, plant and equipment	4 – 10

Since the Group has to meet certain costs in relation to the closure of its facilities, the accompanying consolidated financial statement includes the provisions raised for such costs (Note 18).

Assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each consolidated financial statement date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the items sold.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 9).

3.8 Leases

(i) Identification of a lease

At inception of a contract, the Group assesses whether it contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The period of time during which the Group uses an asset includes consecutive and non-consecutive periods of time. The Group reassesses the conditions if the contract is changed.

(ii) Lessee accounting

For contracts that contain one or more lease components and non-lease components, the Group considers all the components as a single lease component.

At the date of initial application, the Group recognises a right-of-use asset and a lease liability for leases previously classified as an operating lease applying IAS 17.

The right-of-use asset comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred and an estimate of dismantling and restoration costs to be incurred, as described in the accounting policy for provisions.

The Group measures the lease liability at the present value of the lease payments that are not made at the commencement date. The Group discounts the lease payments using the appropriate incremental borrowing rate, unless the interest rate implicit in the lease can be reliably determined. In this regard, for initial measurement of the lease liability, the incremental borrowing rate has been used, which represents the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment (2% – 2.75%).

Pending lease payments comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of the

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The Group measures the right-of-use asset at cost, less any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the right-of-use asset includes the price of the purchase option, the lessee shall depreciate the right-of-use asset following the depreciation criteria for property, plant and equipment from the commencement date of the lease to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term.

The Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

The Group recognises remeasurements of the lease liability as an adjustment to the right-of-use asset, until this is reduced to zero and then in profit or loss.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate if there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.

The Group remeasures the lease liability if there is a change in the amounts expected to be payable under a residual value guarantee or a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review.

3.9 Non-financial asset impairment

At each reporting date, the Group reviews non-current assets to determine whether there is any indication that they might have undergone an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, at each balance financial statement date, the possible impairment of goodwill and of any intangible assets that have not yet come into operation or which have an indefinite useful life is analysed.

The recoverable amount is the higher of fair value, less costs to sell and value in use, which is taken to be the present value of the estimated future cash flows. In order to calculate value in use, the assumptions used include discount rates, growth rates and forecast changes in selling prices and costs. The Directors estimate post-tax discount rates, which reflect the time value of money and the risks specific to the CGU. The growth rates and the changes in selling prices and costs are based on in-house and industry forecasts, and experience and future expectations, respectively.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised for the difference, with a charge to "Amortisation/depreciation, impairment and provisions" in the consolidated income statement. Impairment losses recognised for an asset in prior years are reversed, with a credit to the aforementioned heading when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, except in the case of the impairment of goodwill, which cannot be reversed.

3.10 Financial instruments

(i) Recognition and classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 "Financial Instruments: Presentation".

For measurement purposes, the Group classifies financial instruments in the following categories of financial assets and financial liabilities according to the business model and the characteristics of the contractual cash flows.

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated income statement. This category includes the loans, trade and other receivables, and security deposits.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the consolidated income statement. This category corresponds with the hedging derivatives.
- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the income statement and presented net within other gains/(losses) in the period in which it arises. This category includes the factoring and Equity instruments.

The business model is determined by key Group personnel and on one level reflects the manner in which they jointly manage groups of financial assets to reach a specific business objective. The Group's business model represents the manner in which it manages its financial assets to generate cash flows.

The Group initially designates a financial liability at FVPL if doing so eliminates or significantly reduces an inconsistency in the measurement or recognition that would otherwise arise, if measurement of the assets of liabilities or recognition of the results thereof were made on different bases, or if a group of financial liabilities or financial assets and financial liabilities is managed, and their return is evaluated, based on fair value, in accordance with an investment strategy or documented risk management strategy, and information on this group is provided internally on the same basis to the Group's key management personnel.

The Group classifies the remaining financial liabilities, except financial guarantee contracts, commitments to extend below-market rate loans and financial liabilities resulting from a transfer of financial assets that do not qualify for derecognition or are recognised using the continued involvement approach, as financial liabilities at amortised cost.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated statement of comprehensive income. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

(iii) Impairment

The Group recognises an impairment loss for expected credit losses on financial assets at amortised cost, FVOCI, lease finance receivables, contractual assets, loan commitments and financial guarantees.

For trade receivables, the Group applies the simplified approach permitted under IFRS 9 which requires that expected lifetime losses be recognised since the initial recognition of the receivable.

(iv) Derecognition, modification and extinguishment of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(v) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor or is legally released from primary responsibility for the liability, either by a process of law or by the creditor.

The exchange of debt instruments between the Group and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, providing the instruments have substantially different terms.

The Group considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted for as an extinguishment of the original financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, the modified flows are discounted at the original effective interest rate, and any difference in the previous carrying amount is recognised in the income statement. Any costs or fees incurred adjust the carrying amount of the financial liabilities and are amortised using the amortised cost method over the remaining term of the modified liability.

The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. The Group applies the above criteria to determine whether it should derecognise the original trade payable and recognise a new liability with the financial institutions. Trade payables settled under the management of financial institutions are recognised under trade and other payables only if the Group has transferred management of the payment to the financial institutions but retains primary responsibility for settling the debt with the trade creditors.

The Company does not identify any type of material liquidity risk related to these reverse factoring agreements. Despite this, the Company only uses entities that have been given high independent credit rating and had proven solvency on the market.

Factoring receivables

Befesa derecognises trade receivables for the amount transferred to financial institutions, providing the factor assumes all the risk of insolvency and default (non-recourse factoring). At 31 December 2021 and 2020, balances receivable not due, which were extinguished as a result of the aforementioned non-recourse factoring operations, amounted to €54,064 thousand and €36,181 thousand, respectively. Unlike the above, Befesa does not derecognise amounts receivable transferred to financial institutions for which it retains substantially the associated risks.

3.11 Hedge accounting

Derivative financial instruments are initially recognised using the same criteria as for financial assets and financial liabilities. Derivative financial instruments that do not qualify for hedge accounting are classified and measured as financial assets and financial liabilities at fair value through profit or loss. Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments. Nonetheless, transaction costs are subsequently recognised in profit and loss, inasmuch as they do not form part of the changes in the effective value of the hedge.

At the inception of the hedge, the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. This documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group measures hedge effectiveness.

Hedge accounting only applies when there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does dominate the value changes that result from that economic relationship, and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness, irrespective of whether recognised or not, that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

For cash flow hedges of forecast transactions or a component thereof, the Group assesses whether these transactions are highly probable and if they present an exposure to variations in cash flows that could ultimately affect profit or loss for the year.

At the inception of the hedging relationship, and on an ongoing basis, the Group evaluates whether the relationship meets the effectiveness qualifying criteria prospectively. The Group assesses the effectiveness at each accounting close or when there are significant changes affecting the effectiveness requirements.

The Group performs a qualitative assessment of effectiveness, providing that the fundamental conditions of the instrument and the hedged item are the same. When the fundamental conditions are not exactly the same, the Group uses a hypothetical derivative with fundamental conditions equivalent to the hedged item to assess and measure efficiency.

The Group records changes in the time value of the options, hedging an item related to a transaction in other comprehensive income. If the hedged item results in the recognition of a non-financial asset or liability, the Group includes the accumulated amount in other comprehensive income with an adjustment to the non-financial asset or liability. For the remaining hedging relationships, the amount deferred in other comprehensive income is reclassified to profit or loss in the same period or periods in which the expected hedged cash flows affect profit or loss. Nonetheless, if the Group expects that part of the amount will not be recovered in one or more future periods, this is immediately recognised in profit or loss.

However, if the hedge is interrupted, the amount deferred in other comprehensive income is reclassified immediately to profit or loss.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

Cash flow hedges

The Group recognises the portion of the gain or loss on the fair value measurement of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised under finance income or costs.

The separate component of other comprehensive income associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies into finance income or finance expenses the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss and under the same caption of the consolidated income statement.

3.12 Cash and cash equivalents

This item includes cash on hand, current bank accounts and, where applicable, deposits and reverse repurchase agreements that meet all of the following requirements:

- They may be converted into cash.
- They have a maturity of three months or less on the date of acquisition.
- They are not subject to a significant risk of changes in value.
- They form part of the Company's usual cash management policy.

Bank overdrafts are recognised in the consolidated financial statement as current borrowings.

3.13 Inventories

"Inventories" in the consolidated financial statement includes the assets that the Group:

- holds for sale in the ordinary course of its business;
- has in the process of production, construction or development for such sale; or
- expects to consume in the production process or in the provision of services.

Raw materials and goods held for resale are measured at the lower of FIFO cost and market. Ancillary products, consumables and spare parts are measured at the lower of the price per the last invoice and market value, which does not differ significantly from FIFO cost.

Work-in-progress and finished goods are measured at the lower of market value and average production cost. Average production cost is calculated as the specific cost of the supplies and services plus the applicable portion of the direct and indirect cost of labour and general manufacturing expenses. Other warehouse materials are measured at the lower of average acquisition cost and market value.

Obsolete, defective or slow-moving materials have been reduced to their net realisable value.

3.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are presented in equity as a deduction, net of taxes, from resources obtained.

Where any Group company purchases the Company's share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to equity holders of the Company until the shares are cancelled, reissued or sold. Where such shares are subsequently disposed of or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity owners.

3.15 Provisions, contingent liabilities and contingent assets

In the preparation of the consolidated financial statements, the Parent's Directors drew a distinction between:

- Provisions: credit balances covering present obligations at the consolidated financial statement date arising from past events that could give rise to a loss for the companies, which are certain as to their nature but uncertain as to their amount and/or timing.
- Contingent liabilities: possible obligations arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated companies and which do not meet the requirements for recognition as provisions.
- Contingent assets: possible assets that arise from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the entities.

The Group recognises provisions for the estimated amount required to suitably meet its liability, whether it be legal or constructive, probable or certain, arising from contingencies, litigation in process or obligations, which arise as a result of past events, for which it is more probable than not that an outflow of resources will be required, provided that it is possible to make a reasonable estimate of the amount in question. Provisions are recognised when the liability or obligation arises with a charge to the relevant heading in the consolidated income statement, based on the nature of the obligation, for the present value of the provision when the effect of discounting the obligation is material.

Provisions for pensions and similar obligations

Several Group companies have certain defined benefit obligations with their employees to supplement social security retirement pensions. These obligations had been externalised at 31 December 2021 and 2020. Subsidiaries' obligations as pension plan promoters are established in the contribution of a percentage of employees' pensionable salaries. These commitments are not significant on a Group scale.

Dismantling, restoration and similar provisions

In addition to the above, "Long-term provisions" in the accompanying consolidated financial statement also include, where applicable, the estimated amounts required to close certain facilities (Note 18), and the estimated amounts required to settle any liability that might arise from ongoing litigation and other significant obligations, when it is considered more probable than not that these obligations will have to be met, while any contingent liabilities (possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of Befesa) are not recognised in the consolidated financial statements, but rather are disclosed, as required by IAS 37 (see Note 22).

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

Share-based payments

The fair value of options granted under share-based compensation plans is recognised as an employee benefits expense with the corresponding increase in long-term liabilities.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period, with any changes in fair value recognised in the consolidated income statement. Services received or goods acquired, and the liability payable are recognised over the vesting period or immediately if vesting is immediate. The Group only recognises as personnel expenses the amount accrued in accordance with the vesting conditions of the fair value of the payment on the grant date, and the residual amount accrued is recognised as finance income or expense.

3.16 Revenue recognition

a) Sale of goods

Sales of WOX and secondary aluminium are recognised when control of the products is transferred to the customers, mainly manufacturing companies, when the customer has full discretion over the products and there is no unfulfilled obligation that could affect the client's acceptance of the products. Delivery occurs depending on the specific agreements with customers (incoterm), the risks of obsolescence and loss have been transferred to the customers, and the Group has evidence that all criteria for acceptance have been satisfied.

Revenue is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group acts as the principal in all sales transactions. Additionally, the Group has determined that its contracts with customers do not contain a significant financing component and Group sales have no variable component.

No critical judgements in recognising revenue are identified.

In relation to the revenue recognition of sales, the Group considers that under IFRS 15 there is only one kind of contract with customers. The assessment is supported by the fact that the main sales of the Group's products have only one performance obligation: delivery of WOX or delivery of secondary aluminium. Furthermore, the products are not dependent on or connected to other products or services. Consequently, as there are no delayed performance obligations, the revenue is recognised fully after passing of control to the customer.

The performance obligations for this type of sale reflect the delivery of distinct goods defined in each contract and the price of each delivery is established in each separate contract, having been indexed to various market variables on the payment dates.

b) Sale of services

Revenue from customer contracts is recognised based on the amount expected to be received from the customer when the transfer of control of a customer service occurs. Control transfer can occur at a specific time or over time.

The performance obligations for this type of sale correspond to the collection of waste, the collection of the salt slags and SPLs and the delivery of the defined product in each technology contract. The Company considers that the performance obligation related to this type of service is satisfied at a specific point in time except for technology contract sales that the performance obligation is satisfied over time.

The price of each service is established in each separate contract. Each contract has a unique performance obligation which means that the price is estimated on an individual contract basis.

A contract is not considered to contain a significant financing component when the period between when the customer's committed service is transferred and when the customer pays for that service is one year or less.

There are no incremental costs for any of this type of rendering of services to secure the contract.

Consequently, as there are no delayed performance obligations, the revenue is recognised fully after passing of control to the customer.

Based on this, the Group discloses revenue by reporting segment and geographical area (Note 5).

The different type of services provided by Befesa are:

Steel Business Services

In the Steel Dust Recycling Services segment, the Group collects and recycles crude steel dust and other steel residues generated in the production of crude, stainless and galvanised steel through EAF steel production. The Group sells the WOX produced in the recycling of crude steel dust to zinc smelters and, to a lesser extent, return metals, mainly nickel, chromium and molybdenum, recovered in the recycling of stainless-steel residues, to stainless steel producers for a tolling fee or sells such recovered metals on the market.

In this segment, additionally to the Group revenues from sales of WOX, the other revenue sources are:

(i) the service fees the Group charges for collecting and recycling crude steel dust. The performance obligations for this type of sale correspond to the collection of waste as defined in each contract and the price of the service is established in each separate contract.

(ii) the tolling fees the Group charges for collecting and recycling stainless steel residues and for returning the recovered metals to the stainless-steel producers. Most of the services of this type are with return of recovered metals. If there are no returns, the service is the same as in the previous point (collecting). The performance obligations for this type of sale correspond to waste collection. The Company invoices customers a tolling/conversion fee per tonne of dust treated. The plant receives stainless-steel dust from its customers, treats this dust and returns to the customers the alloys contained in this dust.

Collection of salt slags and SPLs

In the Salt Slags operations of the Aluminium Salt Slags Recycling Services segment, the Group recycles salt slags, which it receives from customers for a service fee or generates during its own production of secondary aluminium. In addition, the Group recycles SPLs generated by primary aluminium producers.

The basis for the Aluminium Salt Slags Recycling Services segment is the secondary aluminium production market in Europe. The secondary aluminium production market produces salt slags, which are categorised as a hazardous waste in Europe and other markets.

The performance obligations for this type of sale reflect the collection of the salt slags and SPLs and the treatment price per tonne is a fixed price indicated in each contract, based on the tonnes received during the year.

Technology division

The Secondary Aluminium subsegment has a small Technology division which designs, constructs, assembles and starts up the facilities so they are ready for use in the aluminium, zinc and lead cast houses.

The performance obligation for this type of sale reflects the delivery of the defined product in each contract, with each contract containing a purchase order with all of the specifications of the project and a fixed price for it.

Note 13 to the financial statements for 2021 reflects a breakdown of "Contract assets" at 31 December 2021 and 2020, which amount to €2,492 thousand (2020: €2,691 thousand).

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

c) Interest income

Interest income is accrued on a time-proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

d) Income from dividends

Income from dividends is recognised when the shareholder's right to receive payment is established.

3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets, in accordance with IAS 23 for assets that necessarily take a substantial period of time to be prepared for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the year in which they are incurred.

3.18 Foreign currency

(i) Foreign currency transactions, balances and cash flows

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies have been translated into euros at the foreign exchange rate ruling at the financial statement date, while non-monetary assets and liabilities valued at historical cost are translated at the rates prevailing at the transaction date. For these purposes, advances to suppliers and customers are deemed non-monetary items and are translated at the exchange rate on the date the payment or collection took place. Subsequent recognition of the receipt of the inventories or the advance on the income from sales is translated at the original exchange rate and not at the transaction date. Non-monetary assets measured at fair value have been translated into Euros at the exchange rate at the date that the fair value was determined.

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(ii) Translation of foreign operations

Foreign operations whose functional currency is not the currency of a hyperinflationary economy have been translated into euros as follows:

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparative amounts, are translated at the closing rate at the reporting date.
- Income and expenses, including comparative amounts, are translated at the exchange rates prevailing at each transaction date.
- All resulting exchange differences are recognised as translation differences in other comprehensive income.

Translation differences recognised in other comprehensive income are accounted for in profit or loss as an adjustment to the gain or loss on the sale using the same criteria as for subsidiaries.

3.19 Income tax, deferred tax assets and deferred tax liabilities

Expense for income tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction the result of which is recognised directly in equity, in which case the related tax is also recognised in equity.

Current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting allowable tax credits, plus the change in deferred tax assets and liabilities, and any tax loss and tax credit carry-forwards and deductions.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carry-forwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. In addition, deferred tax assets recognised for tax loss and tax credit carry-forwards and temporary differences are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

Deferred tax assets and liabilities recognised are reassessed at each financial statement date in order to ascertain whether they still exist, and the appropriate adjustments are made based on the findings of the analyses performed (see Notes 19 and 20).

The Group recognises tax loss carry-forwards and deductions providing their realisation or future application is probable within a reasonable period. Directors have also taken into account the Group's ability to use tax benefits in different fiscal years depending on their needs.

In view of the Group's international nature, there are several tax rates depending on the applicable legislation, ranging mainly from 19% to 33%.

3.20 Environmental matters

The Group carries out actions mainly aimed at preventing, reducing or repairing any damage its activities may cause to the environment.

The Group recognises environmental investments at acquisition or production cost, net of the related accumulated depreciation/amortisation, and classifies them by nature in the appropriate non-current asset accounts.

Expenses incurred in order to comply with the applicable environmental legislation are classified by nature under "Other Operating Expenses" in the accompanying consolidated income statement.

3.21 Related-party transactions

The Group performs all its transactions with related parties at arm's length. In addition, transfer prices are adequately supported and, therefore, the Parent's Directors consider that there are no material risks in this regard that might give rise to significant liabilities in the future.

3.22 Dividend distribution

The distribution of dividends to the Parent Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

3.23 Segment reporting

The operating segments are presented consistently with the management approach, in accordance with the information used internally at the highest decision-making level. The maximum authority for decision-making is responsible for assigning resources to operating segments and evaluating the segments' performance. Segment reporting is disclosed in Note 5.

3.24 Consolidated statement of cash flows

The following terms are used in the consolidated statement of cash flows, which was prepared using the indirect method, with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities. The principal revenue-producing activities of the Group companies and other activities that are not investing or financing activities.
- Investing activities. Acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities. Activities that result in changes in the size and composition of the equity and borrowings that are not operating activities.

3.25 Earnings per share

a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- The profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares.
- The weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The post income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- The weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

4. Financial risk management policy

The activities carried out by the Group through its business segments are exposed to several financial risks: market risk (including foreign currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Risk Management Model used by the Group focuses on the uncertainty in financial markets and attempts to minimise the potential adverse effects on the Group's earnings.

Risk management is carried out by the Corporate Financial Department in accordance with internal management rules. This department identifies, assesses and hedges financial risks in close cooperation with the different operating units. The internal management rules provide written policies for global risk management, as well as for specific areas such as foreign currency risk, interest rate risk, liquidity risk, the use of derivative and non-derivative instruments, and investment of cash surpluses. There were no changes in risk management policies between 2021 and 2020.

4.1 Financial risk factors

a) Market risk

i) Foreign currency risk

The Group companies operate internationally and are therefore exposed to foreign currency risks in foreign currency transactions (especially US dollar).

To control the foreign currency risk that arises from future commercial transactions and recognised assets and liabilities, Group companies use derivative contracts. Foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that it is not the Group's functional currency.

For financial reporting purposes, each subsidiary designates hedges with the Corporate Financial Department as fair value hedges or as cash flow hedges, as appropriate. In addition, at the corporate level, external foreign currency hedges are designated as foreign currency risk hedges on certain assets, liabilities or future transactions.

The Group's main exposures to currency risk at 31 December 2021 and 2020 are shown below. The table reflects the carrying amount of the Group's financial instruments or classes of financial instruments denominated in foreign currency:

	2021				2020			
Currency	**Trade and other receivables**	**Treasury**	**Short-term loans and borrowings**	**Trade and other payables**	**Trade and other receivables**	**Treasury**	**Short-term loans and borrowings**	**Trade and other payables**
USD	33,142	20,623	6,645	6,155	4,657	19,312	6,578	1,125
EUR	4,206	65	–	1,129	9,057	89	–	987
WON	116	–	–	–	260	–	–	–
Other	21	3	–	20	11	2	–	139
Total	**37,485**	**20,691**	**6,645**	**7,304**	**13,985**	**19,403**	**6,578**	**2,251**

If the average exchange rate of the euro in 2021 and 2020 had depreciated/appreciated by 50 basis points on all functional currencies other than the euro, with other variables remaining constant, equity and results for the year would not have changed significantly.

ii) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from variable interest financial debt.

To manage interest rate risk, in certain situations, the Group uses floating-to-fixed interest rate swaps, either for the total amount or a portion of the loan and either for the full term or a portion thereof.

In 2021 and 2020, had the average interest rates on the financial debt denominated in euros increased/decreased by 50 basis points, with all other variables remaining constant, the profit after tax for the year would not have been significantly affected as a result of the hedging policies in place.

The exposure of the Group's financial debt to variations in interest rates is set out below:

	2021	**2020**
Total external financial debt (Note 15)	694,730	548,215
Effect of interest rate swaps (Note 17)	(316,000)	(316,000)
Financial debt subject to variable interest	**378,730**	**232,215**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

4. Financial risk management policy continued

iii) Price risk

Earnings in the Steel Dust, Salt Slags and Secondary Aluminium segments are exposed to the movement of recycled metal prices (zinc and aluminium). The Group manages price risk through the acquisition of commodity swaps. Befesa's target in the Steel Dust Recycling Services segment is to hedge between 60% and 75% of the sale transactions, which are subject to the risk of changes in selling prices.

The objective of the Group is to secure a certain level of revenues that will ensure a reasonable return, given the risk of decline that these revenues may face in the event of a fall in zinc prices, which accounts for 85% of the price of the product sold (WOX).

The Group uses zinc futures contracts at the London Metal Exchange hedging between 60% and 75% of the estimated sales, so the likelihood of the hedged transaction being executed is almost 100%, given that, due to the nature of the business, the sale of the entire production is assured. Establishing this limit protects the business against reductions in production due to one-off events, such as breakdowns, technical shutdowns or other similar circumstances.

These financial instruments are initially analysed to assess whether they can be treated as hedging instruments and, if so, the accounting rules specific to these instruments may be applied.

Note 17 contains a breakdown of derivative financial instruments arranged on the selling prices of these metals.

b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at FVOCI and at FVPL, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

Regarding cash and cash equivalents, the Group's credit policy is to use only entities that have been given high independent credit ratings. Most of the balances are held in credit institutions located in the eurozone, mainly in Spain and Germany, with their credit risk rated at least BBB or above.

Most receivables and work in progress relate to several customers in various industries and countries. In most cases, the contracts provide for progress billings, billings at the beginning of the provision of service or billings upon delivery of the product.

It is standard practice for the Group to reserve the right to cancel projects in the event of any material breach and, in particular, of default on payment.

In addition, under most contracts the Group has a firm commitment from several banks for the acquisition, without recourse, of receivables. Under these agreements, the Group pays a fee to the banks for assuming its credit risk, plus interest and a spread on the financing received. In all cases, the Group assumes liability for the validity of the receivables.

In this regard, factored receivables are recognised off the financial statement, provided that all the conditions established in IFRS 9 are met for their derecognition from the consolidated financial statement. An analysis is performed to determine whether the risks and rewards inherent to ownership of the related financial assets have been transferred, comparing the Company's exposure to changes in the amounts and timing of net cash flows from the transferred asset before and after the transfer. Once the exposure of the company factoring the receivables to these changes has been eliminated or substantially reduced, then the financial asset in question is deemed to have been transferred.

In addition, some Group companies work with insurance companies that establish the credit guaranteed, normally insuring around 95% of the risk hedged in case of insolvency. The Finance Department continually seeks to adjust the limits granted to business needs. The Group allows for an acceptable level of commercial risk, which is established based on each specific customer, market and circumstance (e.g. history of non-payment, solvency, among others).

Consequently, as regards the balance of trade and other receivables, the potential effect of trade receivables, for which there are factoring agreements, would have to be excluded, as well as the effect of other trade receivables that can be factored but which have not yet been sent to the factor at the year-end and assets that are covered by credit insurance and that are reflected in this balance. Through this policy, the Group minimises its credit risk exposure in relation to these assets.

Trade and other receivables, other receivables, current financial assets and cash are the Group's main financial assets and represent its maximum exposure to credit risk, in the event that the counterparty does not meet its obligations.

c) Liquidity risk

The prudent management of liquidity risk entails the maintenance of sufficient cash and marketable securities, the availability of financing through a sufficient level of committed credit facilities and the capacity to settle market positions. Given the dynamic nature of the core businesses, the Group's Treasury Department has the objective of maintaining flexible financing through the availability of committed credit lines.

Management monitors the Group's liquidity reserve projections and changes in net borrowings, calculated as follows at 31 December 2021 and 2020:

	2021	2020
Cash and cash equivalents	224,089	154,558
Other current financial assets (Note 10)	61	64
Undrawn credit facilities and unused financing (Note 15)	75,000	75,000
Liquidity reserve	**299,150**	**229,622**
Financial debt (Note 15)	671,362	534,231
Finance lease payables (Note 15)	23,368	13,984
Cash and cash equivalents	(224,089)	(154,558)
Other current financial assets (Note 10)	(61)	(64)
Net debt (Note 2.6)	**470,580**	**393,593**
Less non-current borrowings (Note 15)	(669,327)	(531,462)
Current net financial surplus	**(198,747)**	**(137,869)**

One of the Group's strategic objectives is the optimisation and most efficient possible use of its assets and resources assigned to the business. Therefore, the Group pays special attention to the net operating working capital invested in it. In this respect, as in previous years, during 2021 and 2020, the Group made significant efforts to control and reduce collection periods with customers and other debtors and to optimise payment terms, thereby unifying policies and conditions across the Group.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

4. Financial risk management policy continued

The table below presents an analysis of the financial liabilities that will be settled, which are grouped to reflect the term remaining from the financial statements date to contractual maturity. This breakdown does not include long-term provisions (Note 18).

	Within one year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2021				
Bank borrowings and lease liabilities (Note 15)	25,403	15,087	644,458	9,782
Other financial liabilities (Derivatives)	75,650	46,296	10,404	–
Trade and other payables (*)	218,748	104	475	–
Unaccrued interest payable	14,620	14,687	34,206	764
At 31 December 2020				
Bank borrowings and lease liabilities (Note 15)	16,753	4,857	9,184	517,421
Other financial liabilities (Derivatives)	8,842	3,330	–	1,284
Trade and other payables (*)	127,981	125	89	–
Unaccrued interest payable	14,322	14,193	39,592	6,994

(*) Long-term payables do not include capital grants amounting to €4.0 million and €4.7 million in 2021 and 2020, respectively.

d) Capital risk

The Group manages its equity investments to ensure that its subsidiaries have a guarantee of continuity in terms of their assets and financial position, maximising shareholder return by optimising the structure of equity and liabilities on the liabilities side of the subsidiaries' financial statements.

Capital management is the responsibility of the Group's Management Committee, whose approach focuses on increasing the value of the business in the long-term for shareholders and investors as well as for employees and customers. The objective is to achieve constant, sustained results through organic and, where necessary, inorganic growth. For this purpose, a balance in the businesses is required, with control of financial risks, combined with the necessary financial flexibility to achieve such objectives.

The Group's capital management policy focuses on achieving a financial structure that optimises the cost of capital while maintaining a solid financial position. This policy makes the creation of value for the shareholders compatible, with access to financial markets at a competitive cost in order to cover both debt refinancing requirements and the investment plan financing needs not covered by the funds generated by the business.

Details of the debt/equity ratios (excluding balances with Group companies) at 31 December 2021 and 2020 are as follows:

	2021	2020
Total bank borrowings (Note 15)	694,730	548,215
Less: Cash and cash equivalents	(224,089)	(154,558)
Other current financial assets (Note 10)	(61)	(64)
Net debt	**470,580**	**393,593**
Total equity	**631,547**	**327,581**
Total capital invested	**1,102,127**	**721,174**
Borrowing ratio	**42.7%**	**54.6%**

For a detailed definition of net debt, please refer to Note 2.6.

4.2 Fair value estimation

IFRS 13 establishes as fair value the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, whether it is observable or has been estimated using a valuation technique. For this purpose, consistent data with features that market participants would consider in the transaction are selected.

IFRS 13 maintains the principles of the other standards while setting the full framework for fair value measurement when it is mandatory under other IFRSs and establishes the additional information to be disclosed about fair value measurements.

The requirements of IFRS 13 are met by the Group in the fair value measurement of assets and liabilities when fair value is required by other IFRSs.

For financial assets and liabilities not valued at fair value, the Group breaks down the possible impacts between the fair value and the amortised cost if the impact is significant (Note 10).

Based on the content of IFRS 13 and in accordance with IFRS 7 on financial instruments measured at fair value, the Group reports on estimating the fair value hierarchy levels as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. reference prices) or indirectly (i.e. derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (unobservable market data) (Level 3).

The table below shows the Group's assets and liabilities that were measured at fair value at 31 December 2021 and 2020:

2021

	Level 2	Level 3	2021
Assets			
– Equity Instruments (Note 10)	–	8,829	8,829
– Derivatives (Note 17)	1,200	–	1,200
Total assets at fair value	**1,200**	**8,829**	**10,029**
Liabilities			
– Derivatives (Note 17)	132,350	–	132,350
Total liabilities at fair value	**132,350**	**–**	**132,350**

2020

	Level 2	Level 3	2020
Assets			
– Derivatives (Note 17)	249	–	249
Total assets at fair value	**249**	**–**	**249**
Liabilities			
– Derivatives (Note 17)	13,456	–	13,456
Total liabilities at fair value	**13,456**	**–**	**13,456**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

4. Financial risk management policy continued

a) Financial instruments Level 2

The fair value of financial instruments not traded in an active market is determined using valuation techniques. The Group employs a variety of methods such as estimated discounted cash flows and uses assumptions based on the market conditions at each financial statement date. If all significant data required to calculate the fair value of an instrument are observable, the instrument is included in Level 2.

Specific techniques for measuring financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of future estimated cash flows.
- The fair value of currency forwards is determined using forward exchange rates quoted in the market at the financial statement date.
- It is assumed that the book value of trade payables and receivables approximates their fair value.
- The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The instruments included in Level 2 relate to derivative financial instruments (Note 17).

b) Financial instruments Level 3

The Group records under this level of financial instruments the investment acquired in 2021 in the company American Zinc Products LLC (AZP) (Note 10) since its fair value includes unobservable variables.

5. Segment reporting

The Board of Directors is ultimately responsible for making the Group's operational decisions, as the Board functions as the Chief Operating Decision Maker (CODM). The Board of Directors reviews the Group's internal financial information in order to assess its performance and allocate resources to the segments.

The Board of Directors analyses the business based on the segments indicated below:

- Steel Dust Recycling Services ("Steel Dust")
- Aluminium Salt Slags Recycling Services
  - Salt Slags Recycling ("Salt Slags")
  - Secondary Aluminium production ("Secondary Aluminium")

These segments correspond to the Group's principal activities (products and services), the sales of which (fee for the services and/or sale of the recycled waste) determine the Group's revenue.

The Board of Directors assesses the performance of the operating segments, based mainly on operating income before interest and taxes (EBIT), depreciation/amortisation and provisions (EBITDA).

The financial information received by the Board of Directors include finance income and costs tax aspects, cash flow and net debt only as a consolidated basis because this is the way the Company manages them.

For a detailed definition of EBIT and EBITDA, please refer to Note 2.6.

The accounting policies and measurement bases applied to the information furnished to the Board of Directors are consistent with those applied in the consolidated financial statements.

a) Segment reporting

Set out below is the distribution by segment of EBIT and Adjusted EBIT for the year ended 31 December 2021 and for the year ended 31 December 2020 (thousands of euros).

	2021				
	Steel Dust	**Salt Slags**	**Secondary Aluminium**	**Corporate, other minor and eliminations**	**Total**
Revenue	455,836	77,349	329,860	(41,432)	821,613
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(321,243)	(50,824)	(301,561)	41,627	(632,001)
Amortisation/depreciation, impairment and provisions	(37,594)	(15,183)	(8,967)	(411)	(62,155)
EBIT (Operating profit/(loss))	**96,999**	**11,342**	**19,332**	**(216)**	**127,457**
One-off impairments/provisions (Notes 9 and 21)	7,830	6,018	–	–	13,848
EBITDA adjustments (Notes 6, 9 and 21)	13,736	(6,018)	–	240	7,958
Adjusted EBIT (Operating profit/(loss))	**118,565**	**11,342**	**19,332**	**24**	**149,263**

	2020				
	Steel Dust	**Salt Slags**	**Secondary Aluminium**	**Corporate, other minor and eliminations**	**Total**
Revenue	345,762	66,977	223,900	(32,309)	604,330
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(248,074)	(53,702)	(211,817)	32,751	(480,842)
Amortisation/depreciation, impairment and provisions	(24,216)	(22,711)	(8,285)	(355)	(55,567)
EBIT (Operating profit/(loss))	**73,472**	**(9,436)**	**3,798**	**87**	**67,921**
One-off impairments/provisions (Note 9)	4,739	13,368	–	–	18,107
EBITDA adjustments (Note 9)	–	3,460	–	–	3,460
Adjusted EBIT (Operating profit/(loss))	**78,211**	**7,392**	**3,798**	**87**	**89,488**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

5. Segment reporting continued

The reconciliation of Adjusted EBIT to results attributable to the Parent Company is as follows:

	2021	2020
Adjusted EBIT	**149,263**	**89,488**
– One-off impairments/provisions (Notes 9 and 21)	(13,848)	(18,107)
– EBITDA adjustments (Notes 6, 9 and 21)	(7,958)	(3,460)
EBIT (Operating profit/(loss))	**127,457**	**67,921**
Finance income/(cost)	(15,605)	(9,287)
Corporate income tax	(9,500)	(11,749)
Profit/(loss) attributable	**102,352**	**46,885**
Non-controlling interests	(2,607)	723
Profit/(loss) attributed to the Parent Company	**99,745**	**47,608**

Set out below is the distribution by segment of EBITDA and Adjusted EBITDA for the years ended 31 December 2021 and 2020 (thousands of euros):

	2021				
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total
Revenue	455,836	77,349	329,860	(41,432)	821,613
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(321,243)	(50,824)	(301,561)	41,627	(632,001)
Amortisation/depreciation, impairment and provisions (a)	(37,594)	(15,183)	(8,967)	(411)	(62,155)
EBIT (Operating profit/(loss)) (b)	**96,999**	**11,342**	**19,332**	**(216)**	**127,457**
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (b-a)	**134,593**	**26,525**	**28,299**	**195**	**189,612**
Non recurrent costs/incomes (Notes 6, 9 and 21)	13,736	(6,018)	–	240	7,958
Adjusted EBITDA	**148,329**	**20,507**	**28,299**	**435**	**197,570**

	2020				
	Steel Dust	**Salt Slags**	**Secondary Aluminium**	**Corporate, other minor and eliminations**	**Total**
Revenue	345,762	66,977	223,900	(32,309)	604,330
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions)	(248,074)	(53,702)	(211,817)	32,751	(480,842)
Amortisation/depreciation, impairment and provisions (a)	(24,216)	(22,711)	(8,285)	(355)	(55,567)
EBIT (Operating profit/(loss)) (b)	**73,472**	**(9,436)**	**3,798**	**87**	**67,921**
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (b-a)	**97,688**	**13,275**	**12,083**	**442**	**123,488**
Non recurrent costs/incomes (Note 9)	–	3,460	–	–	3,460
Adjusted EBITDA	**97,688**	**16,735**	**12,083**	**442**	**126,948**

The reconciliation of Adjusted EBITDA to results attributable to the Parent Company is as follows:

	2021	**2020**
Adjusted EBITDA	**197,570**	**126,948**
– Non-recurrent costs/incomes	(7,958)	(3,460)
Amortisation/depreciation, impairment and provisions	(62,155)	(55,567)
Operating profit/(loss)	**127,457**	**67,921**
Finance income/(cost)	(15,605)	(9,287)
Corporate income tax	(9,500)	(11,749)
Profit/(loss)	**102,352**	**46,885**
Non-controlling interests	(2,607)	723
Profit/(loss) attributed to the Parent Company	**99,745**	**47,608**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

5. Segment reporting continued

Other segment items included in the consolidated income statement are as follows:

	2021					2020				
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total
Depreciation/ amortisation charge:										
– Property, plant and equipment (Notes 9 and 22)	(26,061)	(12,830)	(6,641)	(106)	(45,638)	(17,370)	(7,070)	(6,904)	(85)	(31,429)
– Intangible assets (Notes 8 and 22)	(360)	(737)	(622)	(72)	(1,791)	(339)	(603)	(625)	(71)	(1,638)
-Right-of-use assets (Notes 11 and 22)	(3,399)	(1,362)	(828)	(233)	(5,822)	(1,692)	(1,670)	(812)	(200)	(4,374)
– Reversal/ (recognition) of impairment losses and other (Note 22)	(7,774)	(254)	(876)	–	(8,904)	(4,815)	(13,368)	56	1	(18,126)
Total	**(37,594)**	**(15,183)**	**(8,967)**	**(411)**	**(62,155)**	**(24,216)**	**(22,711)**	**(8,285)**	**(355)**	**(55,567)**

Details of segment assets and liabilities are as follows:

	2021					2020				
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total
Assets										
Intangible assets	612,342	51,858	13,184	185	677,569	357,661	51,925	13,180	256	423,022
Property, plant and equipment	397,004	49,802	61,654	615	509,075	177,372	50,424	66,842	670	295,308
Right-of-use assets	22,787	5,972	1,080	496	30,335	13,088	5,861	707	745	20,401
Non-current financial assets and deferred tax assets	83,808	1,014	58,214	(1,575)	141,461	46,466	41	60,340	(22,814)	84,033
Current assets	236,296	20,388	91,646	89,439	437,769	164,771	14,133	49,548	49,183	277,635
Total assets	**1,352,237**	**129,034**	**225,778**	**89,160**	**1,796,209**	**759,358**	**122,384**	**190,617**	**28,040**	**1,100,399**
Equity and liabilities										
Net assets	196,114	28,508	50,251	356,674	631,547	218,250	34,074	29,828	45,429	327,581
Non-current liabilities	910,276	84,887	87,764	(238,066)	844,861	435,288	75,968	101,258	6,728	619,242
Current liabilities	245,847	15,639	87,763	(29,448)	319,801	105,820	12,342	59,531	(24,117)	153,576
Total equity and liabilities	**1,352,237**	**129,034**	**225,778**	**89,160**	**1,796,209**	**759,358**	**122,384**	**190,617**	**28,040**	**1,100,399**

Investments in the corresponding year were as follows (excluding the effect of translation differences):

	2021					2020				
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate and eliminations	Total	Steel Dust	Salt Slags	Secondary Aluminium	Corporate and eliminations	Total
Additions to non-current assets (Notes 8 and 9)	68,176	12,626	2,260	52	83,114	38,252	5,620	5,411	132	49,415
Disposals of non-current assets (Notes 8 and 9)	(3,638)	(3,706)	(11,276)	(1)	(18,621)	(5,366)	(41)	(366)	(8,333)	(14,106)
Net investments in the year (Notes 8 and 9)	**64,538**	**8,920**	**(9,016)**	**51**	**64,493**	**32,886**	**5,579**	**5,045**	**(8,201)**	**35,309**

Investments in non-current assets include additions to property, plant and equipment (see Note 9) and intangible assets (see Note 8).

Inter-segment transfers and transactions (if any) are arranged under the same usual commercial terms and conditions as those that should also be available to unrelated third parties. Details of sales by geographical segment for the years ended 31 December 2021 and 2020 are as follows:

Geographical area	2021	%	2020	%
Spain	190,605	23%	146,917	24%
Germany	112,293	14%	90,737	15%
Belgium	53,261	7%	40,104	7%
Finland	46,883	6%	35,597	6%
Netherlands	44,845	6%	43,266	7%
Italy	33,424	4%	18,208	3%
Norway	26,628	3%	27,065	4%
France	20,706	3%	19,483	3%
Sweden	14,210	2%	18,573	3%
Portugal	13,133	2%	9,513	2%
Rest of Europe	27,273	3%	38,320	6%
Japan	77,533	9%	39,743	7%
USA	56,359	7%	5	0%
South Korea	28,335	3%	22,660	4%
Australia	20,481	2%	13,652	2%
China	18,283	2%	10,297	2%
Brazil	17,740	2%	7,289	1%
Rest of the world	19,621	2%	22,901	4%
	821,613	**100%**	**604,330**	**100%**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

5. Segment reporting continued

The distribution of property, plant and equipment, intangible assets (excluding goodwill and licences) and right-of-use assets is as follows (Notes 8, 9 and 11):

	2021	2020
Germany	92,804	94,062
Spain	85,065	84,904
France	29,642	31,525
United Kingdom	83	109
Rest of Europe	13,255	13,154
United States of America	189,181	–
China	86,125	33,990
Turkey	9,399	17,279
South Korea	40,708	47,144
	546,262	**322,167**

b) Information on customers

At 31 December 2021 two customers each represented over 10% of the Group's total revenues, both of them from the Steel Dust segment. The first-largest customer represents approximately 16% of the Group's total revenues (15% in 2020) and the second-largest customer represents approximately 13% of the Group's total revenues (12% in 2020).

6. Business combination

On 17 August 2021, the Group, through Befesa Holding US, Inc., acquired a 100% interest in American Zinc Recycling Corp. (AZR, currently Befesa Zinc US, Inc.). Befesa Zinc US, Inc. has its registered office in Pittsburgh, Pennsylvania and its principal activity is providing electric arc furnace steel dust (EAFD) recycling services. The main reason for the business combination is to enter into the US market and become a global leader in steel dust recycling.

On the same date, an agreement was reached to repay the long-term financing the mentioned company had for an amount of €266,287 thousand.

The acquired business has generated revenue and a consolidated profit/(loss) of €56,357 thousand and €(2,770) thousand, respectively, for the Group between the acquisition date and the end of the reporting period. Befesa Zinc US, Inc. sells the majority of the tonnes it produces to AZP (Note 10).

If the acquisition would have taken place at 1 January 2021, the Group's revenue and consolidated adjusted EBITDA for the year ended 31 December 2021 would have amounted to €927,856 thousand and €217,797 thousand, respectively.

Details of the consideration given, the fair value of the net assets acquired and goodwill are as follows:

	Thousands of Euros
Consideration given	
Cash paid	130,563
Total consideration given	130,563
Fair value of net assets acquired	(98,111)
Goodwill (excess of net assets acquired over cost of acquisition)	228,674

The acquisition and the cancellation of long debt term debt have been financed through a capital increase and a pre-approved Term Loan B (TLB) add-on of €100 million. For this purpose, on 16 June 2021, the Board of Directors of Befesa S.A. resolved on a capital increase by issuing up to 5,933,293 new ordinary shares with par value of €2.78 (€16,472 thousand) and share premium of €53.22 (€315,792 thousand). The Company has recognised €3,648 thousand of issuance costs as a reduction in equity instruments issued.

The most significant factor resulting from recognition of goodwill is the future profitability of the acquired business that is expected to be obtained following the acquisition by the Group and once the Group's management model has been adapted.

The costs associated with this operation amounted to €13,976 thousand and correspond mainly with advisory, legal, valuation and other professional fees.

The amounts recognised by significant class at the date of acquisition of the assets, liabilities and contingent liabilities are as follows:

	Thousands of Euros
Property, plant and equipment (Note 9)	172,843
Intangible assets (Note 8)	15,945
Right-of-use assets (Note 11)	8,097
Other investments (Note 10)	8,498
Other financial assets	5,616
Cash and cash equivalents	19,312
Other current assets	10,541
Total assets	240,852
Provisions (Note 18)	9,524
Long-term debt	274,010
Lease leabilities (Note 11)	8,094
Deferred income tax liabilities (Note 19)	16,263
Current liabilities	31,072
Total liabilities and contingent liabilities	338,963
Total net assets	(98,111)
Total net assets acquired	(98,111)
Cash paid	(130,563)
Cash and cash equivalents of the acquired company	19,312
Cash outflow for the acquisition	(111,251)

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

6. Business combination continued

The criteria for calculating the main assets and liabilities existing at the date of taking over the operations of AZR are the following:

- Licences: The valuation method applied to the identified Intangible Asset has been the Multi Excess Earnings Method (MEEM) ("Income Approach"). According to this approach, the value of the intangible asset will be calculated as the present value of cash flows streams generated by the asset. As the asset generally generates cash flow streams in conjunction with other tangible and intangible assets, such as property, plant and equipment, working capital, and workforce, it is estimated that the Contributory Assets Charges (CACs) must be subtracted from the cash flows generated by the intangible asset being valued.
- Property, plant and equipment: The fair value of tangible assets is based on valuation reports prepared by an external independent expert that applied the cost approach together with the income approach by considering whether the projected future cash flows of the business would support the estimated fair value of the subject assets.
- Deferred tax assets: measured based on the accounting policies identify in note 3.19.
- Provisions: measured based on fair value when it is possible that an outflow of resources will be required to settle the obligation.
- Long-term debt: the value of the debt recognised on the date of the business combination was similar to its fair value and, therefore, its repayment in 2021 has had no impact on the consolidated annual accounts.

7. Goodwill

Details of goodwill on the consolidated statement of financial position as at 31 December 2021 and 2020 are as follows:

CGU	Balance at 31/12/20	Business Combination (Note 6)	Translation differences	Balance at 31/12/21
Befesa Zinc US, Inc.	–	228,674	8,913	237,587
Steel Dust	290,778	–	–	290,778
Salt Slags	35,829	–	–	35,829
Secondary Aluminium	8,957	–	–	8,957
	335,564	**228,674**	**8,913**	**573,151**

The increase in goodwill is a result of the business combination described in note 6.

Impairment analysis

The Group has implemented a procedure whereby at each year-end any impairment of goodwill and licences with indefinite useful life (Note 8) is analysed.

The recoverable amount is the higher of fair value less costs to sell and value in use, which is taken to be the present value of estimated future cash flows.

The measurement methods indicated in Note 2.4 led to discount rates used to perform the impairment test in a range for each CGU as follow: Steel Dust 6.20%-15.32% (2020: 6.73%-15.32%), Salt Slags 6.73%-7.30% (2020: 6.73%-7.30%) and Secondary Aluminium 6.73%-7.25% (2020: 6.73%-7.25%). The discount rates used are net of taxes and reflect the risks specific to the significant CGU segments. The Directors consider that a change in the discount rate used (approximately 50 basis points) would not have a significant impact on these consolidated financial statements.

The cash flow budget is determined by Group's management in their strategic plans, considering a similar activity structure as the present one and based on previous years' experience.

At the end of 2021 and 2020, estimates were made of the recoverable amounts of the CGUs to which goodwill and/or licences with indefinite useful life had been allocated in accordance with Note 3.5 and 3.6 and the methods described above. No impairment has been recognised in 2021 and 2020.

The Group's management carried out a sensitivity analysis of the recoverable amount of goodwill and licences (Note 8) in the event of variations of ±5% in key assumptions, and no signs of impairment were identified.

8. Other intangible assets

Movements in "Other intangible assets" in the consolidated statement of financial position as at 31 December 2021 and 2020 are as follows:

	Development expenditure	Licences	Computer software	Administrative concessions and others	Total
Cost:					
Balance at 31/12/20	**12,314**	**81,000**	**8,403**	**1,821**	**103,538**
Additions	1,291	–	174	691	2,156
Business combination (Note 6)	–	15,945	–	–	15,945
Disposals	–	–	(47)	–	(47)
Transfers	–	–	44	(18)	26
Translation differences	–	621	11	–	632
Balance at 31/12/21	**13,605**	**97,566**	**8,585**	**2,494**	**122,250**
Accumulated amortisation					
Balance at 31/12/20	**(7,523)**	**–**	**(6,736)**	**(1,821)**	**(16,080)**
Additions (Note 22.6)	(1,345)	–	(445)	(1)	(1,791)
Transfers	–	–	48	9	57
Translation differences	–	–	(8)	(10)	(18)
Balance at 31/12/21	**(8,868)**	**–**	**(7,141)**	**(1,823)**	**(17,832)**
Other intangible assets, net at 31/12/20	**4,791**	**81,000**	**1,667**	**–**	**87,458**
Other intangible assets, net at 31/12/21	**4,737**	**97,566**	**1,444**	**671**	**104,418**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

8. Other intangible assets continued

	Development expenditure	Licences	Computer software	Administrative concessions and others	Total
Cost:					
Balance at 31/12/19	**10,480**	**81,000**	**16,203**	**1,966**	**109,649**
Additions	1,805	–	201	–	2,006
Disposals	–	–	(8,308)	–	(8,308)
Transfers	29	–	281	(145)	165
Translation differences	–	–	26	–	26
Balance at 31/12/20	**12,314**	**81,000**	**8,403**	**1,821**	**103,538**
Accumulated amortisation					
Balance at 31/12/19	**(6,278)**	**–**	**(14,580)**	**(1,879)**	**(22,737)**
Additions (Note 22.6)	(1,216)	–	(420)	(2)	(1,638)
Disposals	–	–	8,308	–	8,308
Transfers	(29)	–	(31)	60	–
Translation differences	–	–	(13)	–	(13)
Balance at 31/12/20	**(7.523)**	**–**	**(6,736)**	**(1,821)**	**(16,080)**
Other intangible assets, net at 31/12/19	**4,202**	**81,000**	**1,623**	**87**	**86,912**
Other intangible assets, net at 31/12/20	**4,791**	**81,000**	**1,667**	**–**	**87,458**

Licences are intangible assets with an indefinite useful life. The recoverability of these licences has been evaluated by the Group's management based on impairment tests disclosure in Note 7.

2021
The most significant additions for the year relate to development expenses capitalised in the "Secondary Aluminium" segment amounting to €1,291 thousand and to ERP implementation in the "Steel Dust" segment, €174 thousand. The additions of €691 thousand are related to the recognition of emission rights.

2020
The most significant additions for the year relate to development expenses capitalised in the "Secondary Aluminium" segment amounting to €1,805 thousand and to ERP implementation in the "Steel Dust" segment, €191 thousand.

The most significant disposal for the year relates to the disposal of the SAP (prior ERP) fully amortised amounting to €7,101 thousand in the subsidiary Befesa Medioambiente, S.L.U.

Investment commitments
At 31 December 2021 and 2020, the Group had no significant investment commitments.

9. Property, plant and equipment

Movements in this consolidated statement of financial position as at 31 December 2021 and 2020 are as follows:

2021

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:						
Balance at 31/12/20	**38,788**	**136,012**	**489,536**	**31,968**	**34,987**	**731,291**
Additions	941	505	3,654	1,315	75,484	81,899
Business combination (Note 6)	4,454	9,926	132,331	653	25,479	172,843
Disposals	(18)	(287)	(17,555)	(711)	(3)	(18,574)
Transfers	11	16,453	17,151	36,639	(70,280)	(26)
Translation differences	103	(142)	1,749	(55)	6,872	8,527
Balance at 31/12/21	**44,279**	**162,467**	**626,866**	**69,809**	**72,539**	**975,960**
Accumulated depreciation and provisions:						
Balance at 31/12/20	**–**	**(68,572)**	**(318,842)**	**(20,391)**	**–**	**(407,805)**
Additions (Note 22.6)	–	(5,090)	(33,741)	(6,807)	–	(45,638)
Disposals	–	264	17,484	707	–	18,455
Translation differences	–	(220)	(2,613)	(12)	–	(2,845)
Balance at 31/12/21	**–**	**(73,618)**	**(337,712)**	**(26,503)**	**–**	**(437,833)**
Impairment losses at 31/12/20	**–**	**–**	**(28,151)**	**(27)**	**–**	**(28,178)**
Additions (Note 22.6)	(874)	–	–	–	–	(874)
Impairment losses at 31/12/21	**(874)**	**–**	**(28,151)**	**(27)**	**–**	**(29,052)**
Carrying amount at 31/12/20	**38,788**	**67,440**	**142,543**	**11,550**	**34,987**	**295,308**
Carrying amount at 31/12/21	**43,405**	**88,849**	**261,003**	**43,279**	**72,539**	**509,075**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

9. Property, plant and equipment continued

2020

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:						
Balance at 31/12/19	**39,006**	**123,705**	**464,109**	**30,272**	**45,235**	**702,327**
Additions	–	702	8,875	1,533	36,299	47,409
Disposals	–	(91)	(1,832)	(234)	(3,641)	(5,798)
Transfers	9	11,988	26,869	440	(41,769)	(2,463)
Translation differences (net)	(227)	(292)	(8,485)	(43)	(1,137)	(10,184)
Balance at 31/12/20	**38,788**	**136,012**	**489,536**	**31,968**	**34,987**	**731,291**
Accumulated depreciation and provisions:						
Balance at 31/12/19	**–**	**(64,308)**	**(296,775)**	**(19,061)**	**–**	**(380,144)**
Additions (Note 22.6)	–	(4,334)	(25,505)	(1,590)	–	(31,429)
Disposals	–	83	1,790	245	–	2,118
Translation differences (net)	–	(13)	1,648	15	–	1,650
Balance at 31/12/20	**–**	**(68,572)**	**(318,842)**	**(20,391)**	**–**	**(407,805)**
Impairment losses at 31/12/19	**–**	**–**	**(12,616)**	**–**	**(975)**	**(13,591)**
Additions (Note 22.6)	–	–	(15,535)	(27)	(2,545)	(18,107)
Disposals	–	–	–	–	3,520	3,520
Impairment losses at 31/12/20	**–**	**–**	**(28,151)**	**(27)**	**–**	**(28,178)**
Carrying amount at 31/12/19	**39,006**	**59,397**	**154,718**	**11,211**	**44,260**	**308,592**
Carrying amount at 31/12/20	**38,788**	**67,440**	**142,543**	**11,550**	**34,987**	**295,308**

2021

The main additions for the year are related to the construction of the two new plants in China (€45.0 million), the investments made by the new company Befesa Holding US, Inc. (€9.0 million), and the annual recurrent environmental and maintenance investments made at each plant.

As at 31 December 2021, the main "fixed assets in progress" are related to the construction of one of the China plants (Henan) and the construction of one kiln in Calumet by Befesa Holdings US, Inc.

2020

The main additions for the year are related to the construction of the two new plants in China (€20.0 million) and the annual recurrent environmental and maintenance investments made at each plant.

Impairment losses

As at 31 December 2021, the Company has impaired a land by €0.8 million.

As at 31 December 2020, the Company, due to the lower customer demand in light of Brexit, the automotive slowdown, the impact of COVID-19, as well as other industry trends, decided to close the plant located in the UK (Befesa Salt Slags, Ltd.). The Company registered an impairment of €13.3 million and presented an adjustment to the EBITDA of €3.5 million as "non-recurrent charges" related to this closure (costs related to the closure of the plant).

In addition, the Company, as a result of the "impairment review process", registered an impairment loss of €4.7 million in the plant located in Sweden (Befesa Scandust AB) after estimating the future cash flows generated by the subsidiary would be insufficient to recover the carrying amount of the plant.

Insurance
The Group takes out insurance policies to cover possible risks to which its property, plant and equipment are subject. The coverage is considered to be sufficient.

Capitalisation of borrowing costs
There are no significant borrowing costs capitalised in 2021 and 2020.

Mortgaged property, plant and equipment
At 31 December 2021 and 2020, there are no significant fixed assets pledged to secure loans.

Investment commitments
At 31 December 2021, the Group had investment commitments amounting to €33.7 million (2020: €61.5 million) mainly due to the expansion project in China.

10. Financial assets by category and class

The classification of financial assets by category and class is as follows:

	2021		2020	
	Current	Non-current	Current	Non-current
Financial assets measured at fair value through profit or loss				
Equity instruments (Note 6)	–	8,829	–	–
Financial assets at amortised cost				
Loans				
Variable rate	–	4,724	–	3,410
Impairment	–	–	–	(1,537)
Trade and other receivables (Note 13)	145,378	–	83,663	–
Security deposits	825	1,200	64	424
Financial assets measured at fair value				
Hedging derivatives (Note 17)	–	1,200	–	249
Total financial assets	**146,203**	**15,953**	**83,727**	**2,546**

The fair value of financial assets does not differ significantly from their carrying amount.

As part of the agreements explain in note 6, Befesa has also acquired a minority stake of 6.9% of the equity interests in American Zinc Products LLC (AZP), AZR's zinc refining subsidiary, for €8.5 million (USD 10 million).

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

10. Financial assets by category and class continued

This agreement includes put options held by the shareholders of AZP and call options held by the Befesa Group. The put and call options depend on the certain achievement of the capacity utilisation, and operating costs of the plant. The main characteristics of these put and call options, which can be exercised until 31 December 2023, are as follows:

- First put option: The shareholders will have the option to sell their shares up to a total of 27.6% for a total price of USD 40 million
- First call option: if any seller has not exercised its put option indicated in the previous point, the Group may exercise its call option at the same price.
- Second put option: The shareholders will have the option to sell their shares up to a total of 65.5% for a total price of USD 95 million.
- Second call option: if any seller has not exercised its put option indicated in the previous point, the purchaser may exercise its call option at the same price.

Each seller may choose to receive the amount of the sale in cash or in Befesa shares, dividing the total price by the value of the Befesa share stipulated at USD 71.11.

These financial instruments have not been valued at 31 December 2021 since the price at which they are exercised is the same as that paid by the Group for the stake it currently holds, and since there have been no significant changes in the business, the directors continue to consider this to be market value. Furthermore, the share price of the Parent Company is in line with USD 71.11.

11. Right-of-use assets and lease liabilities

Details of and movement in classes of right-of-use assets during 2021 and 2020 are as follows:

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Total
Cost:					
Balance at 01/01/20	**11,729**	**3,225**	**5,001**	**1,451**	**21,406**
Additions	495	764	2,055	383	3,697
Disposals	–	(123)	–	(32)	(155)
Transfers	3,754	–	–	–	3,754
Balance at 31/12/20	**15,978**	**3,866**	**7,056**	**1,802**	**28,702**
Additions	474	1,234	3,038	1,964	6,710
Business combination (Note 6)	356	1,031	638	6,072	8,097
Disposals	(338)	(73)	(1,420)	(892)	(2,723)
Translation differences	980	186	27	453	1,646
Balance at 31/12/21	**17,450**	**6,244**	**9,339**	**9,399**	**42,432**
Accumulated amortisation					
Balance at 01/01/20	**(717)**	**(807)**	**(1,991)**	**(482)**	**(3,997)**
Additions (Note 22.6)	(673)	(852)	(2,338)	(510)	(4,373)
Disposals	–	55	–	14	69
Balance at 31/12/20	**(1,390)**	**(1,604)**	**(4,329)**	**(978)**	**(8,301)**
Additions (Note 22.6)	(783)	(994)	2,304	(1,741)	(5,822)
Disposals	338	20	1,423	892	2,673
Translation differences	(314)	(36)	12	(309)	(647)
Balance at 31/12/21	**(2,149)**	**(2,614)**	**(5,198)**	**(2,136)**	**(12,097)**
Right-of-use assets net at 31/12/2020	**14,588**	**2,262**	**2,727**	**824**	**20,401**
Right-of-use assets net at 31/12/2021	**15,301**	**3,630**	**4,141**	**7,263**	**30,335**

The short-term lease expense for 2021 amounts to €1,268 thousand (2020: €359 thousand).

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

11. Right-of-use assets and lease liabilities continued

Details of lease payments and liabilities

An analysis of the contractual maturity of lease liabilities, including future interest payable, is as follows:

	2021	2020
Within 1 year	7,612	3,124
Between 1 and 2 years	5,587	2,151
Between 2 and 3 years	2,817	1,668
More than 3 years	7,352	7,041
	23,368	**13,984**

The changes in this liability from 1 January to 31 December are as follows:

	2021	2020
Balance as at 1 January	13,984	14,585
Increase	6,877	3,653
Business combination (Note 6)	8,097	–
Lease payments	(6,417)	(4,672)
Interest	563	418
Disposal	(50)	–
Translation differences	314	–
	23,368	**13,984**

12. Inventories

Details of inventories in the accompanying consolidated statement of financial position as at 31 December 2021 and 2020 are as follows:

	2021	2020
Finished goods	28,858	15,225
Goods in progress and semi-finished goods	1,238	1,749
Raw materials	20,014	9,376
Other	17,367	13,000
Total	**67,477**	**39,350**

"Other" at 31 December 2021 and 2020 mainly includes spare parts for the Group's facilities.

The Group has taken out insurance policies to cover risks relating to inventories. The coverage provided by these policies is considered to be sufficient.

13. Accounts receivable

The breakdown of accounts receivable in the accompanying consolidated statement of financial position as at 31 December 2021 and 2020 is as follows:

	2021	2020
Contract assets	2,492	2,691
Trade and other receivables	112,412	53,069
Trade receivables from related companies (Note 25)	917	1,003
Other receivables (Note 21)	12,791	16,285
Public authorities (Note 20)	10,671	9,621
Advances to suppliers	7,770	2,532
Loss-allowance for doubtful debts	(1,675)	(1,538)
Total	**145,378**	**83,663**

No significant impact of the applicability of the expected credit loss model has been identified on trade receivables.

Changes in the allowances for doubtful debts relating to the Group's trade and other receivables for 2021 and 2020 are as follows:

	2021	2020
Opening balance	**(1,538)**	**(1,594)**
Write-off uncollectible accounts receivable and other transfers	–	56
Business combination (Note 6)	(137)	–
Closing balance	**(1,675)**	**(1,538)**

The credit quality of trade receivables that have not become impaired can be classified as highly satisfactory, since in substantially all of the cases the risks are accepted and covered by credit risk insurers and/or banks and financial institutions.

The maximum exposure to credit risk at the date of presentation of the financial information is the fair value of each of the accounts receivable disclosed above and, in all cases, taking into consideration the aforementioned credit insurance coverage.

14. Equity

a) Share capital

The number of shares as at 31 December 2021 is 39,999,998 with a par value of €2.78 each. (2020: 34,066,705, with a par value of €2.78 each). All the shares are listed in the Frankfurt Stock Exchange and have the same rights.

The authorised capital of the Company (including, for the avoidance of doubt, the Company's issued share capital) is set at 39,999,998 shares.

On 16 June 2021, the Company issued 5,933,293 new shares each with par value of €2.78 (€16,472 thousand) and share premium of €53.22 (€315,792 thousand) (Note 6). The new shares were included in the existing listing of Befesa's shares in the Frankfurt Stock Exchange. The Company has recognised €3,648 thousand of issuance costs as a reduction in equity instruments issued.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

14. Equity continued

The shareholder structure as at 31 December 2021 and 2020 is as follows:

	Percentage of ownership	
	2021	**2020**
Free-float (including management)	100%	100%
Total	**100%**	**100%**

b) Share premium and other reserves

Details in the consolidated financial statement are as follows:

	2021	**2020**
Share premium	532,867	263,875
Hedging reserves	(96,830)	(9,509)
Other reserves	(19,915)	(54,306)
Total	**416,122**	**200,060**

Share premium

The share premium may be used to provide for the payment of any shares that the Parent Company may repurchase from its shareholders, to offset any net realised losses, to make distributions to its shareholders, in the form of a dividend, or to allocate funds to the legal reserve.

On 14 July 2021, Befesa distributed to its shareholders a dividend of €1.17 per share (repayment of the share premium), amounting to €46.8 million, as approved by the AGM held on 30 June 2021.

Other reserves

The Parent Company is required to transfer a minimum of 5% of its net statutory profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net statutory profits must be allocated again toward the reserve. The legal reserve is not available for distribution to the shareholders.

In June 2020, the shareholders at their AGM resolved to approve the distribution of a dividend of €14,989 thousand from the net profit of the year 2019.

In November 2020, the Board of Directors resolved to approve an interim dividend of €9,880 thousand. On 14 July 2021, the AGM approved the interim dividend of €9,880 thousand approved by the Board of Directors in November 2020.

c) Translation differences

The breakdown, by company, of "Translation differences" at 31 December 2021 and 2020 is as follows:

Company or group of companies	2021	2020
Befesa Zinc Korea, Ltd.	1,489	2,012
Befesa Salt Slags, Ltd.	(1,541)	(1,255)
Befesa Scandust, AB	(1,757)	(1,330)
Befesa Silvermet Iskenderum Celik Tozu Geri Donusumu, A.S.	(18,828)	(12,355)
Befesa Silvermet Dis Ticaret A.S.	(1,813)	(845)
Befesa Zinc Environmental Protection Technology (Jiangsu) Co. Ltd.	1,685	(652)
Befesa Zinc Environmental Protection Technology (Henan) Co. Ltd.	1,209	(327)
Befesa Holding US, Inc.	15,556	–
Other	(80)	(325)
Total	**(4,080)**	**(15,077)**

d) Non-controlling interests

Details of equity – non-controlling interests are as follows:

	2021	2020
Steel Dust:		
Befesa Silvermet Turkey, S.L. and subsidiaries	8,712	10,294
Total	**8,712**	**10,294**

Summary information on subsidiaries with non-controlling material shareholdings

Below are the main figures of Befesa Silvermet Turkey, S.L. and its subsidiaries, expressed in thousands of euros.

	Befesa Silvermet Turkey, S.L. and its subsidiaries	
	2021	2020
Non-current assets	22,418	34,030
Current assets	14,888	11,418
Non-current liabilities	688	11,640
Current liabilities	17,819	11,595
Equity	18,799	22,213
Sales	29,348	22,053
Profit before taxes	7,624	(1,970)
Profit after taxes	5,625	(1,561)

At 31 December 2021 and 2020, the percentages of non-controlling interests of Befesa Silvermet Turkey, S.L. amounted to 46.4%.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

14. Equity continued

e) Capital management

The Group's capital management focuses on achieving a financial structure that optimises the cost of capital while maintaining a solid financial position. This policy reconciles the creation of value for the shareholders with access to financial markets at a competitive cost in order to cover both debt refinancing requirements and investment plan financing needs not covered by the funds generated by the business (Note 4.1.d.).

The Group's management considers that the leverage ratio (Note 2.6) is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2021 and 2020, most of the debts are related to business acquisitions made in prior years.

15. Financial debt

Details of the related line items in the accompanying consolidated statement of financial position as at 31 December 2021 and 2020 are as follows:

	2021		2020	
	Current maturity	**Non-current maturity**	**Current maturity**	**Non-current maturity**
Bank loans and credit facilities	12,010	653,571	7,818	520,602
Unmatured accrued interest	5,781	–	5,811	–
Finance lease payables	7,612	15,756	3,124	10,860
Total	**25,403**	**669,327**	**16,753**	**531,462**

The fair values of borrowings are not materially different from their carrying amounts since the interest payable is close to current market rates.

The main terms and conditions of borrowings are as follows:

				2021		2020	
Type	**Limit in nominal currency (thousands of currency)**	**Interest rate**	**Maturity date**	**Current maturity**	**Non-current maturity**	**Current maturity**	**Non-current maturity**
Facilities Agreement	€736,000	Euribor+1.75%	2026	5,691	608,901	5,798	506,350
Jiangsu	CNY 220,000	LPR(NBIC)+25pbt	2026	3,513	22,058	1,246	1,739
Henan	CNY 260,000	LPR(NBIC)+25pbt	2027	1,591	18,610	–	12,465
Other				14,608	19,758	9,709	10,908
				25,403	**669,327**	**16,753**	**531,462**

On 19 October 2017, in order to standardise the financial structure of the Group, the Company as Parent and certain subsidiaries as borrowers and guarantors entered into a €636,000 thousand Facilities Agreement. This post-IPO agreement is intended to raise financing for the entire Group and cancel the Group's previous current and non-current borrowings in connection with the €300.0 million Zinc Notes, €150.0 million PIK Notes and the €167.5 million Syndicated Loan.

Upon completion of the IPO on 3 November 2017 (Note 1), the Facilities Agreement took effect on 7 December 2017.

On 9 July 2019, the refinancing of the existing capital structure was successfully completed in a leverage-neutral transaction that a) extends Befesa's debt maturity up to July 2026 with a seven-year tenor of the covenant-lite TLB at attractive interest rates, and b) increases loan baskets to accommodate Befesa's growth roadmap including China.

The Facility Agreement has been signed by the Parent of the Group (Befesa, S.A.) and has been designed to meet the financing needs of all Group companies.

The Facilities Agreement comprises:

– Term Loan B (TLB) Facility Commitment in an amount of €526 million, which is a bullet with a maturity of seven years.

– Revolving Credit Facility (RCF) in an amount of €75 million with a maturity of six years.

– A Guarantee Facility Commitment in an amount of €35 million with a maturity of six years.

Interest on the initial TLB facility was Euribor plus a spread of 2.75%, and 2.50% in the case of the RCF. These spreads could be adjusted depending on the ratio of net financial debt/EBITDA.

After the refinancing in July 2019, the margin was set to 250 bps for the following nine months.

On 17 February 2020, Befesa repriced its TLB reducing its interest rate by 50 bps to Euribor plus 200 bps with a floor of 0%. The facility's long-term July 2026 maturity date and all other documentation terms remain without further amendment.

The Group analysed in 2020 whether there was a substantial modification of the conditions, having concluded that there was no cancellation of the original liabilities because the only change corresponds to the reduction in the nominal interest rate (repricing) and, the discounted present value of the cash flows under the new terms is a 3% from the discounted present value of the remaining cash flows of the original financial liability. However, this modification entailed recognising finance income of €15 million as the new future cash flows were discounted at the original effective rate of 2.7%.

On 2 July 2021, with the purpose of Financing the Acquisition of AZR (including but not limited to any costs and expenses relating to the Acquisition and any refinancing of Financial Indebtedness of the target group), and general corporate purposes, together with the accelerated equity offering (AEO) Befesa signed an Incremental Term Facility for an addittional €100 million Add-On TLB (Note 6). The maturity and rest of documentation terms remain in line with existing TLB.

In August 2021, the margin applicable to TLB was reduced by 25 bps to Euribor plus 175 bps due to the decrease on the leverage ratio.

The Facilities Agreement provides a financial covenant based on the net leverage which shall not exceed the ratio 4.5:1 for any relevant period. The covenant only applies if the total amount of all drawings under the RCF exceeds 40% of the commitments under the RCF. At 31 December 2021 and 2020, the RCF has not yet been drawn and no financial covenant applies.

The Facilities Agreement limits dividend distribution if any Group company incurs an event of default as defined in the agreement.

In 2020, Befesa closed the financing structure for both plants under construction in China (Jiangsu and Henan). The notional and the rest of the conditions signed are shown in the table above. At December 2021, there is pending debt which will be drawn during 2022 as constructions progress.

At 31 December 2021, "Other" mainly includes short-term financing of Befesa Silvermet Iskenderun, debt related to the financial leases and incorporation of Befesa Zinc US to the consolidation perimeter (2020 includes short-term payables for leases and the short-term financing of Befesa Silvermet Iskenderun in connection with the revamping project).

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

15. Financial debt continued

At 31 December 2021 and 2020, an amount of €75 million was undrawn from the syndicated financing arrangement (Note 4.c).

The evolution of net financial debt during the 2021 and 2020 is as follows:

	Cash and cash equivalents (Note 4)	Other current financial assets (Note 10)	Financial debt (Note 15)	Total
Net financial debt as at 31 December 2019	**(125,460)**	**(61)**	**542,416**	**416,895**
Cash flows	(28,702)	(3)	15,705	(13,000)
Exchange rate adjustments	(396)	–	–	(396)
Other non-monetary movements (*)	–	–	(9,906)	(9,906)
Net financial debt as at 31 December 2020	**(154,558)**	**(64)**	**548,215**	**393,593**
Cash flows	(49,548)	3	119,956	70,411
Exchange rate adjustments	(671)	–	4,509	3,838
Other non-monetary movements (**)	(19.312)	–	22,050	2,738
Net financial debt as at 31 December 2021	**(224,089)**	**(61)**	**694,730**	**470,580**

(*) Mainly due to the impact of the repricing and the new contracts under IFRS 16.
(**) Mainly due to the impact of the new contracts under IFRS 16 and the incorporation of Befesa Holding US to the consolidation perimeter (Note 6)

16. Other current and non-current payables

	2021		2020	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Payable to asset suppliers	10,017	–	3,806	–
Accounts payable to public authorities (Note 20)	17,855	–	11,432	–
Remuneration payable (Note 18)	21,561	–	13,333	–
Other	16,465	4,621	706	4,905
Total	**65,898**	**4,621**	**29,277**	**4,905**

“Other” mainly includes the current financial liabilities related to the last derivative settlements of the year amounting to €14.3 million (2020: €0.5 million) and the capital grants not yet released to income and debts with official bodies amounting to approximately €4.2 million (2020: €5.1 million).

17. Financial derivatives

The Group uses derivative financial instruments to hedge the risks to which its activities, operations and future cash flows are exposed, which are mainly risks arising from changes in exchange rates, interest rates and the market price of certain metals, mainly zinc. Details of the balances that reflect the measurement of derivatives in the accompanying consolidated statement of financial position as at 31 December 2021 and 2020 are as follows:

	2021	2020
Cash flow hedges non-current assets (Note 10)		
SWAP contracts for zinc	–	249
Interest rate SWAP	1,200	–
Total assets	**1,200**	**249**
Cash flow hedges non-current liabilities:		
SWAP contracts for zinc	56,700	1,025
Interest rate SWAP	–	3,589
	56,700	**4,614**
Cash flow hedges current liabilities:		
SWAP contracts for zinc	75,573	8,775
Foreign currency SWAP	77	67
	75,650	**8,842**
Total liabilities	**132,350**	**13,456**

- Zinc derivative contracts

Details of the tonnes hedged and of the maturity of the related contracts at 31 December 2020 and 2019 are as follows:

	Tonnes			
	31 December 2021		31 December 2020	
	2022	2023 and subsequent years	2021	2022 and subsequent years
Hedge (in tonnes)				
Swap contract for zinc	92,405	221,700	92,400	123,005
	92,405	**221,700**	**92,400**	**123,005**

During 2021, Befesa has extended its zinc hedges until and including September 2024 (2020: July 2023).

Derivatives are designated to hedge highly probable forecast transactions (sales) and the full effect of the hedge is recognised in equity, net of the tax effect, considering its assessment as highly effective hedging instruments. The portion transferred to profit/(loss) each year is recognised under "Revenue" in the income statement at each settlement date.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

17. Financial derivatives continued

- Interest rate swaps (floating to fixed)

The Company arranged an interest rate swap during 2017. The notional amounts of the IRSs outstanding at 31 December 2021 and 31 December 2020 totalled €316,000 thousand (Note 4.1), which were classified as highly effective hedging instruments. The fixed interest rate is 0.3580% and the main benchmark floating rate was Euribor. This derivative matures in 2022.

On March 2020, Befesa arranged another interest rate swap in order to fix the interest for the extension period of the refinancing signed on 9 July 2019 (Note 15). The notional amount of the IRSs outstanding at 31 December 2021 totalled €316,000 thousand (Note 4.1), which was classified as a highly effective hedging instrument. The fix interest rate is 0.236%, and the main benchmark floating rate was Euribor. This derivative matures in July 2026.

- Foreign currency cash flow hedges

At 31 December 2021, currency purchase contracts (swaps or forwards) amounted to:

- US dollar sales: USD 57,401 thousand.
- AED sales: AED 164 thousand.
- US dollar purchases: USD 20,636 thousand.

At 31 December 2020, currency purchase contracts (swaps or forwards) amounted to:

- US dollar sales: USD 25,913 thousand.
- US dollar purchases: USD 9,450 thousand.

Highly probable future hedged transactions denominated in foreign currency are expected to take place on various dates within the next 12 months. The gains and losses recognised in the hedging reserve in equity in connection with forward foreign currency contracts at 31 December 2021 and 2020 are recognised in profit or loss in the year in which the hedged transactions affect the income statement. Gains and losses in equity in respect of currency forwards at 31 December 2021 will be transferred to the income statement over the next 12 months.

18. Long-term provisions

Details of long-term provisions on the liability side of the accompanying consolidated financial statements and of movements in 2021 and 2020 are as follows:

	Provisions for litigation, pensions and similar obligations	Other provisions for contingencies and charges	Total long-term provisions
Balance at 31 December 2019	**6,585**	**2,174**	**8,759**
Profit and loss impact	8,961	–	8,961
Payment (Note 24)	(3,014)	–	(3,014)
Transfers (Note 16)	(4,616)	(122)	(4,738)
Balance at 31 December 2020	**7,916**	**2,052**	**9,968**
Business combination (Note 6)	3,642	5,882	9,524
Profit and loss impact	9,961	139	10,100
Transfers (Note 16)	(7,702)	–	(7,702)
Conversion differences	119	258	377
Balance at 31 December 2021	**13,936**	**8,331**	**22,267**

Provisions for litigation, pensions and similar obligations

At 31 December 2021, the Group recognised a provision of €7.5 million (2020: €5.2 million) related to the compensation plans described in Note 24. "Transfer" in 2021 and 2020 corresponds to the liability payable in 2022 and 2021, which has been recognised as "Remuneration payable" at 31 December 2021 and 2020.

In 2021 and 2020, the profit and loss impacts are also mainly related to the compensations plans described in Note 24.

Other provisions for contingencies and charges

The Group company Befesa Valera, S.A.S. recognised a provision of approximately €1.9 million at 31 December 2021 and 2020 for the present value of the estimated costs of dismantling the concession for the performance of their activities at the Port of Dunkirk (France) following its termination.

In addition, the Group recognised other provisions under "Other provisions for contingencies and charges" to meet liabilities, whether legal or implicit, probable or certain, due to contingencies, ongoing litigations and tax obligations, which arise as the result of past events and are more likely than not to require an outflow of resources embodying economic benefits from the Group to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Befesa Zinc US, Inc. recognised asset retirement obligations linked to its different facilities in the US of €5.6 million at December 2021 for the present value of estimated costs. The main asset retirement obligation relates to the ultimate closure of the former Monaca facility.

19. Income tax

The Group's Parent Company, Befesa, S.A., is subject to Luxembourg Law (Note 1).

Befesa Medio Ambiente, S.L.U. heads the fiscal group of companies subject to Biscay tax regulation. That tax group comprises Befesa Medio Ambiente, S.L.U., MRH Residuos Metálicos, S.L.U., Befesa Aluminio, S.L.U., Befesa Aluminio Comercializadora, S.L.U., Befesa Zinc, S.A.U., Befesa Zinc Comercial, S.A.U., Befesa Zinc Óxido, S.A.U., Befesa Zinc Aser, S.A.U., Befesa Steel R&D, S.L.U., Befesa Zinc Sur, S.L.U. and Befesa Stainless Recycling, S.L.U..

The German companies Befesa Zinc Germany GmbH, Befesa Steel Services GmbH, Befesa Zinc Freiberg GmbH and Befesa Zinc Duisburg GmbH file consolidated tax returns under the tax legislation applicable to them in Germany; Befesa Zinc Gravelines, S.A.S. and Befesa Valera S.A.S. file consolidated tax returns under the tax legislation applicable to them in France; the German companies Befesa Salzschlacke GmbH and Befesa Aluminium Germany GmbH file consolidated tax returns under the tax legislation applicable to them in Germany; in the US, the companies Befesa Holding US, Inc., Befesa Zinc US, Inc., and Chesnut Ridge Railroad Corp. file consolidate tax returns under the tax legislation applicable to them in the US.

The remaining Group companies file individual income tax returns in accordance with the tax legislation applicable to them.

Group companies subject to Biscay tax legislation, including those which form part of the tax group, generally have the years that have not become statute-barred, 2016 onwards, open for review by the tax authorities for income tax and the last four years for the other main taxes and tax obligations applicable to them, in accordance with current legislation.

On 16 January 2020, Befesa Medio Ambiente, S.L., as successor to the representative of the Basque tax group (i.e. Befesa Medioambiente Holdco, S.L.), was notified by the Bizkaia's regional taxation authorities of the commencement of inspection proceedings for corporate income tax for the years 2015, 2016, 2017 and 2018. The scope of the proceedings has been partial and mainly focus on the adaptation of the structure of the acquisition of the Befesa Group by Befesa Medioambiente Holdco, S.L. in 2013 and subsequent reverse merger in 2018, assessment of management support services provided between related parties and verification of the origin of the tax credits pending application of the Group.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

19. Income tax continued

On 21 September 2021, minutes have been signed in accordance, ending the aforementioned proceedings. Tax credits amounting to €53 million have been eliminated and due to provisions kept by the Company regarding the tax credits regularised and non-recorded tax credits, the impact in results and cash has been nil. In addition, certain criteria have been set with regard to the applicability of tax credits. In this regard, the Group has capitalised all tax credits generated in the Basque Tax Group at 31 December 2021 amounting to €21.7 million.

Fully consolidated foreign subsidiaries calculate income tax expense and tax charges for the taxes applicable to them in conformity with the legislation of, and at the tax rates in force in, their respective countries (Note 3.19).

The reconciliation of accounting profit/(loss) for the year to income tax expense for the year is as follows:

	2021	2020
Profit/(loss) before tax	111,852	58,634
Total accounting profit/(loss) before tax	**111,852**	**58,634**
Tax charge at the tax rate in force in each territory	(30,632)	(17,501)
Tax credits generated/(used) in the year and not capitalised	336	(287)
Off-balance tax credits recognition	21,683	–
Non-deductible expenses and non-computable income	(528)	(92)
Tax deductions generated/(used) in the year	618	2,100
Others	(977)	4,031
Income tax expense	**(9,500)**	**(11,749)**

At 31 December 2021, uncapitalised tax credits amount to €106 million, of which €77 million correspond to Befesa Zinc US, Inc. (€105.4 million in 2020, of which €80.5 million corresponded to the Basque tax group). The majority of these tax credits (€97.4 million) expire in 2043 (2020: €77.2 million).

The Directors of the Group companies and of the Parent Company consider that the tax assets recognised in all the circumstances described above will be offset in the income tax returns of the Group companies taken individually or of the companies forming the consolidated tax group, as appropriate, within the applicable deadlines and limits.

Regarding the tax credits corresponding to Befesa Zinc US, Inc., the directors consider that there is no convincing evidence that future taxable profits will be available, given that this company (Note 6) and the company to which it belonged was making losses.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the income taxes levied by the same tax authority. At 31 December 2021 and 2020, there was no material offset of deferred tax assets and liabilities.

The Group recognises deferred tax assets, tax loss carry-forwards and unused tax credits and tax relief to the extent that their future realisation or utilisation is sufficiently assured.

Details of deferred tax assets and deferred tax liabilities in the accompanying consolidated financial statements for 2021 and 2020 are as follows:

	2021	2020
Deferred tax assets arising from:		
Tax loss carry-forwards and tax credits and tax relief	69,357	59,320
Revaluation of derivative financial instruments	34,000	3,472
Other deferred tax assets	22,105	18,577
Total deferred tax assets	**125,462**	**81,369**
Deferred tax liabilities arising from:		
Asset revaluation	46,554	30,532
Revaluation of derivative financial instruments	270	–
Deferred tax liability arising from the tax deductibility of goodwill	39,362	32,079
Other deferred tax liabilities	5,760	5,682
Total deferred tax liabilities	**91,946**	**68,293**

Amounts corresponding to deferred tax assets are as follows:

	2021	2020
Deferred tax assets		
Deferred tax assets recoverable in more than 12 months	121,704	73,118
Deferred tax assets recoverable within 12 months	3,758	8,251
Total deferred tax assets	**125,462**	**81,369**

Movements in deferred tax assets and liabilities in 2021 and 2020 relate to:

2021

		Recognised in			
	Balance at 31/12/20	Income statement	Equity	Business combination (Note 6)	Balance at 31/12/21
Deferred tax assets					
Tax loss carry-forwards and deductions	59,320	13,307	(3,270)	–	69,357
Derivatives	3,472	(18,021)	48,549	–	34,000
Other	18,577	3,566	(38)	–	22,105
Total deferred tax assets	**81,369**	**(1,148)**	**45,241**	**–**	**125,462**
Deferred tax liabilities					
Revaluations	30,532	(861)	619	16,264	46,554
Derivatives	–	–	270	–	270
Goodwill	32,079	7,283	–	–	39,362
Other (temporary differences)	5,682	82	(4)	–	5,760
Total deferred tax liabilities	**68,293**	**6,504**	**885**	**16,264**	**91,946**

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

19. Income tax continued

2020

	Balance at 31/12/19	Recognised in: Income statement	Recognised in: Equity	Balance at 31/12/20
Deferred tax assets				
Tax loss carry-forwards and deductions	59,699	2,992	(3,371)	59,320
Derivatives	762	–	2,710	3,472
Other	10,452	8,083	42	18,577
Total deferred tax assets	**70,913**	**11,075**	**(619)**	**81,369**
Deferred tax liabilities				
Revaluations	31,080	(548)	–	30,532
Derivatives	10,752	(4,405)	(6,347)	–
Goodwill	24,743	7,336	–	32,079
Other (temporary differences)	1,478	4,209	(5)	5,682
Total deferred tax liabilities	**68,053**	**6,592**	**(6,352)**	**68,293**

The main amounts and changes in deferred tax assets and liabilities in 2021 and 2020, were as follows:

2021

- Movements recognised in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 17), and to the impact of conversion difference from deductions in Turkey (€3.3 million) in Assets, and from Revaluations of Befesa Zinc US, Inc. assests (€0.6 million) in Liabilities.
- The movement in the income statement in tax loss carry-forwards and deductions is mainly related to the recognition of tax credits from tax loss carry-forwards in the Biscay tax group for an amount of €21 million and the application of tax credits of €7 million.
- The tax depreciation of the goodwill by Befesa Zinc has generated an increase in deferred tax liabilities amounting to €7.3 million.
- The movement in Business combinations comes from the acquisition of Befesa Zinc US, Inc. (Note 6).

2020

- The tax depreciation of the goodwill by Befesa Zinc has generated an increase in deferred tax liabilities amounting to €7.3 million.
- Movements recognised in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 17) and to the impact of conversion difference from deductions recorded in 2019 in Turkey (€3.3 million).
- The increase of "Others" deferred tax assets comes principally from the impairment of intragroup receivable account of Befesa Salt Slags, Ltd. in Befesa Aluminio S.L.U. (€5.0 million).
- Movement in "Others" deferred tax liabilities is related mainly to the repricing of the Group's TLB on 17 February 2020 amounting €3.3 million (Note 15).

20. Public administrations

Details of tax receivables and tax payables on the asset and liability sides, respectively, of the accompanying consolidated statement of financial position as at 31 December 2021 and 2020 are as follows:

	2021		2020	
	Receivable (Note 13)	**Payable (Note 16)**	**Receivable (Note 13)**	**Payable (Note 16)**
VAT	8,093	6,187	6,522	3,091
Withholdings and interim payments	148	1,031	–	1,072
Corporate income tax	1,502	8,333	1,778	5,326
Social security	9	1,736	10	1,855
Other	919	568	1,311	88
Total	**10,671**	**17,855**	**9,621**	**11,432**

"Accounts payable to public authorities" on the liability side of the accompanying consolidated financial statements includes the liability relating to applicable taxes, mainly personal income tax withholdings, VAT and projected income tax relating to the profit for each year, mainly net of tax withholdings and pre-payments made each year.

21. Guarantee commitments to third parties and contingencies

At 31 December 2021 and 2020, a number of Group companies had provided guarantees for an overall amount of approximately €50.7 million (31 December 2020: €34.8 million) to guarantee their operations vis-à-vis customers, banks, government agencies and other third parties.

The Group has contingent liabilities for litigation arising in the ordinary course of business from which no significant liabilities are expected to arise other than those for which provisions have already been recognised.

In December 2016, there was a temporary stoppage at the Scandust plant (Sweden) as a result of action related to the update of the activity licence, initiated by the local country council. The Group's management commissioned several advisors to assess the environmental risk and potential economic effect of the corrective measures and invested in measures required to reopen the plant. As a consequence, the plant reopened in May 2017. The Group has an insurance policy which was expected to mitigate the relevant expenses incurred and at 31 December 2020 recognised €7.9 million under "Other receivables" (Note 13) as the best estimate of the expected outcome on the ongoing litigation.

On 27 January 2022, the Group received notification from Bilbao Court of First Instance No. 7 that the claim filed by the Group was dismissed in its entirety. In accordance with this judgment, the Company registered a €7.9 million write-off under "Amortisation/depreciation, impairment and provisions" (Note 22.6).

In November 2021, a fire broke out at our plant in Hanover (Germany), which belongs to the subsidiary Befesa Salzschalcke GmbH. Because of this fire some parts of the plant were seriously damaged and consequently been amortised, amounting to €6,018 thousand (Note 22.6). The insurance policy in place fully covers the damage suffered, so the same amount was recorded under "Other operating income" (Note 22.3).

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

22. Income and expenses

22.1 Revenues

Details of revenues by category for 2021 and 2020 are as follows:

	2021	%	2020	%
Steel Dust	**455,836**	**56%**	**345,762**	**57%**
– Sale of WOX and other metals	385,701	47%	284,477	47%
– Service fees	70,135	9%	61,285	10%
Salt Slags	**77,349**	**10%**	**66,977**	**11%**
– Sale of aluminium concentrates and melting salt	47,239	6%	37,969	6%
– Fees for recycling salt slag and SPL	30,110	4%	29,008	5%
Secondary Aluminium	**329,860**	**40%**	**223,900**	**37%**
– Sale of secondary aluminium alloys	313,245	38%	212,670	35%
– Technology division & Others	16,615	2%	11,230	2%
Corporate, other minor eliminations	**(41,432)**		**(32,309)**	
Total	**821,613**		**604,330**	

The Group discloses revenue by reporting segment and geographical area in Note 5.

22.2 Raw materials and consumables

Details of procurements in the consolidated income statements for 2021 and 2020 are as follows:

	2021	2020
Cost of raw materials and other supplies used	386,048	250,745
Changes in goods held for resale, raw materials and other inventories	(15,351)	(1,032)
Total	**370,697**	**249,713**

22.3 Other operating income

Details of other operating income in the consolidated income statements for 2021 and 2020 are as follows:

	2021	2020
In-house work on non-current assets (Note 3.7)	3,467	1,506
Income from income-related grants	2,242	2,305
Services and other operating income (Note 21)	9,280	2,012
Total	**14,989**	**5,823**

22.4 Personnel expenses

Details of personnel expenses in the consolidated income statement for 2021 and 2020 are as follows:

	2021	2020
Wages and salaries	82,778	68,118
Employer's social security contributions	13,260	12,347
Other welfare costs	2,781	2,524
Total	**98,819**	**82,989**

Of the Group's average headcount in 2021, 165 employees had temporary employment contracts (2020: 103 employees).

In 2021, the average number of employees of the joint operations amounted to 47 (2020: 47 employees).

The number of employees at the 2021 and 2020 year-end, by gender, was as follows:

	2021		2020	
	Male	**Female**	**Male**	**Female**
Management	36	7	32	6
Experts	168	48	107	38
Professionals	220	91	172	65
Operators and assistants	936	44	666	51
Total	**1,360**	**190**	**977**	**160**

22.5 Other operating expenses

	2021	2020
External services	178,799	140,814
Taxes other than income tax	2,408	1,975
Other current operating expenses	6,980	5,633
Total	**188,187**	**148,422**

22.6 Amortisation/depreciation, impairment and provisions

	2021	2020
Amortisation of intangible assets (Note 8)	1,791	1,638
Depreciation of property, plant and equipment (Note 9)	45,638	31,429
Amortisation of right-of-use assets (Note 11)	5,822	4,373
Impairment of fixed assets (Note 9)	874	18,107
Other (Note 21)	8,030	20
Total	**62,155**	**55,567**

23. Finance costs

The breakdown of this balance in the 2021 and 2020 consolidated income statements is as follows:

	2021	2020
Interest expense	15,362	15,251
Other finance costs	9,221	7,044
Total	**24,583**	**22,295**

Interest expense includes swap settlement expenses amounting to €1,147 thousand (2020: €1,150 thousand).

In 2021, Other financial costs includes €5,288 thousand of finance cost related to the finance impact of compensation plans described in Note 24 (2020: €3,946 thousand).

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

24. Remuneration of the Board of Directors

Directors' remuneration and other benefits

In 2021, the members of the Parent's Board of Directors (including Executive Director members of the Board of Directors) earned approximately €11,131 thousand for salaries and attendance fees for discharging their duties in Group companies (2020: €6,914 thousand).

Also, as at 31 December 2021 and 2020 and during the year then ended, the Parent Company had not granted any loans, advances or other benefits to its former or current Directors.

In addition, the Parent Company did not have any pension or guarantee obligations with any current members of the Board of Directors.

Incentives to executives and other matters

In 2021 and 2020, there were no transactions with senior executives outside the normal course of business.

In January 2018, the Parent Company approved two different compensation plans for certain members of Group management:

– A compensation plan linked to the evolution of the share price consisting of 79,018 shares that can be executed as of three years from the signing of the agreement (November 2017). This agreed remuneration was paid in 2020 for an amount of €3 million.

– A compensation plan linked to the evolution of certain key indicators determined in the agreement (cumulative EBIT and EBITDA, cumulative cash flows, return on strategic projects, ESG: environmental, health and safety, corporate governance). The plan consists of four tranches of three years each and considers 89,107 shares per tranche. The agreed remuneration plan is conditioned to the continuation of the beneficiaries as senior management and managers of the Group. The agreed remuneration related to the first tranche was paid in 2021 for an amount of €4.3 million.

The main assumptions correspond to the estimation of the degree of achievement of the key indicators and the fair value of the shares. In this regard, the Group's Directors estimate a degree of achievement of these indicators of 100% and take as reference the market value of Befesa, S.A. shares at 31 December 2021.

On 26 April 2021, the Board of Directors of the Company granted a Transformational Growth Incentive Plan (TGIP) incentivising a transformational acquisition opportunity (Note 6). This TGIP is linked to the evolution of the share price consisting of 187,500 shares that can be executed one-third in 2021, one-third in 2022 and the remaining one-third in 2023. The first one-third was paid in 2021 for an amount of €4.4 million.

In addition, in 2020 the Non-Executive Directors (NEDs) were granted a one-time, long-term incentive plan vesting over 2019, 2020 and 2021. This plan consists of 9,975 shares and is linked to the same indicators of the four tranches described before.

25. Balances and transactions with related parties

All significant balances at period end between the consolidated companies and the effect of the transactions between them were eliminated on consolidation.

Details of balances and transactions with shareholders and Group and related companies at 31 December 2021 and 2020 are as follows:

2021

	Accounts receivable and other current financial assets (Note 13)	Long-term loans	Accounts payable	Sales and other income	Purchases and other expenses
Recytech, S.A.	258	–	1,436	1,758	11,831
Befesa Zinc (Thailand) Ltd.	659	–	–	–	–
Other	–	–	–	–	50
Total	**917**	**–**	**1,436**	**1,758**	**11,881**

2020

	Accounts receivable and other current financial assets (Note 13)	Long-term loans	Accounts payable	Sales and other income	Purchases and other expenses
Recytech, S.A.	344	–	613	1,506	6,475
Befesa Zinc (Thailand) Ltd.	659	–	–	–	–
Other	–	65	–	–	–
Total	**1,003**	**65**	**613**	**1,506**	**6,475**

The balances and transactions of Group companies relate to sale and purchase transactions and other commercial operations are done on an arm's length basis.

All transactions are commercial and do not accrue interest, except for loans and the above credit facilities with the Group, carried out on an arm's length basis, the maturities of which are ordinary for these types of transactions.

As transactions with related parties are carried out on an arm's length basis, the Parent Company's Directors do not consider that this could give rise to significant liabilities in the future.

26. Information on the environment

The Parent Company and its subsidiaries maintain their production facilities in such a way as to meet the standards established by the environmental legislation of the countries in which the facilities are located.

Property, plant and equipment include investments made in assets intended to minimise the environmental impact and protect and improve the environment (Note 1).

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

27. Auditors' fees

Fees for services rendered by the audit firm (KPMG) for the audit of the Group's financial statements for the years ended 31 December 2021 and 2020, irrespective of the date of invoice, are as follows:

	Thousands of euros	
	2021	**2020**
Audit services	502	426
Other assurance services	9	21
Tax advisory services and others	36	119
	547	**566**

Other auditors have invoiced the Group net fees for professional services during the years ended 31 December 2021 and 2020, as follows:

	Thousands of euros	
	2021	**2020**
Audit services	373	107
Other assurance services	773	94
Tax advisory services	198	334
	1,344	**535**

28. Earnings per share

a) Basic earnings/(losses) per share (€ per share)

	2021	**2020**
From continuing operations attributable to the ordinary equity holders of the Company	2.68	1.40
From discontinued operations	–	–
Total basic earnings/(losses) per share attributable to the ordinary equity holders of the Company	**2.68**	**1.40**

b) Diluted earnings/(losses) per share (€ per share)

As at 31 December 2021 and 2020, there are no differences between basic and diluted earnings/(losses) per share.

c) Reconciliation of earnings used in calculating earnings per share

	Thousands of euros	
	2021	**2020**
Profit/(loss) for the year	102,352	46,885
Less non-controlling interests	(2,607)	723
Profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company	99,745	47,608
Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	**99,745**	**47,608**

d) Weighted average number of shares used as the denominator

	Number in thousand	
	2021	2020
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (Note 14)	37,285	34,067

As at 31 December 2021 there are no financial instruments or other contracts that might have a significant dilutive effect on the calculation of earnings per share.

29. Subsequent events

There are no events between the financial statement date (31 December 2021) and the date of the presentation of the accounts (29 March 2022) that would materially affect the Group's assets or the Group's financial and/or earnings position.

With regards to the invasion of Ukraine by Russia, Befesa has no direct customers, suppliers, employees nor production sites in Russia nor Ukraine, referring to our main activities, environmental services to the steel and aluminium industries. Therefore, Befesa is not being directly affected by this event. The latter is affecting the global economy and indirectly Befesa, most notably for Befesa resulting in higher volatility in the prices of commodities, such as energy inflation and higher base metal prices. Befesa is closely monitoring the evolution of energy prices as well as of base metal prices, especially zinc and aluminium. Befesa has 60% to 75% of its zinc payable annual output hedged at attractive price levels up to January 2025, approximately three years forward. Furthermore, various industries observe supply chain disruptions. However, Befesa's business model is regionally focused and as a result the impact is not direct but again rather indirect. Also, Befesa's geographic footprint is globally well diversified and balanced across Europe, Asia and North America. The most relevant future growth initiatives are outside of Europe, rather in Asia and in the US, therefore these are not directly impacted. As of the date of this Annual Report, Befesa has not been materially impacted. Befesa closely monitors potential indirect impacts but those can not be properly quantified at this stage and are depending highly on the duration of the invasion of Ukraine by Russia. Most importantly, Befesa hopes the invasion to end very soon.

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

Appendix
Subsidiaries and joint operations
2021

Entity	Country	Activity	% Interest	Auditor	Thousands of euros (31/12/2021) Capital	Reserves	Translation differences	Results	Interim dividend
Subsidiaries									
Befesa Management Services GmbH	Germany	Holding	100%	KPMG	25	1,594	–	344	–
Befesa Medio Ambiente, S.L.U.	Spain	Holding	100%	KPMG	150,003	788,140	–	25,107	–
MRH Residuos Metálicos S.L.U.	Spain	Holding	100%	(1)	15,600	10,931	–	5.665	–
– Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	1,953	–	5,544	(5,288)
– Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	303	–	328	–
– Befesa Aluminio, S.L.U.	Spain	Recovery of metals	100%	KPMG	4,767	61,335	1,558	12,258	–
Befesa Aluminio Comercializadora, S.L.	Spain	Marketing company	100%	(1)	90	21	–	–	–
Befesa Salt Slags, Ltd	UK	Recovery of metals	100%	CURO	27,108	(50,436)	(3,390)	(1,174)	–
Befesa Zinc, S.A.U.	Spain	Holding	100%	KPMG	25,010	53,005	–	85,910	–
– Befesa Zinc Comercial, S.A., (Sociedad Unipersonal)	Spain	Sale of recycled waste	100%	KPMG	60	11,352	–	1,026	–
– Befesa Zinc Aser, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	4,260	(18,113)	–	41,468	(37,000)
– Befesa Zinc Sur, S.L., (Sociedad Unipersonal)	Spain	Recovery of metals	100%	(1)	605	240	–	(24)	–
– Befesa Zinc Óxido, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	1,102	4,810	–	703	–
– Befesa Steel R&D, S.L., (Sociedad Unipersonal)	Spain	Development of projects and technology innovation	100%	(1)	3	2,603	–	(2,007)	–
– Befesa Stainless Recycling, S.L.	Spain	Holding	100%	(1)	3	12,579	–	(4)	–
Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	(1,231)	–	18,673	(14,956)
Befesa ScanDust AB	Sweden	Recovery of metals	100%	KPMG	5,309	1,000	(327)	(11,509)	–

Entity	Country	Activity	% Interest	Auditor	Capital	Reserves	Translation differences	Results	Interim dividend
					Thousands of euros (31/12/2021)				
– Befesa Silvermet Turkey, S.L.	Spain	Holding	53.60%	(1)	9,175	(363)	–	(1,860)	–
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	2,672	22,112	(17,813)	4,660	–
Befesa Silvermet DisTicaret, A.S.	Turkey	Recovery of metals	100%	(1)	1,198	2,561	(3,378)	2,824	–
– Befesa Zinc Germany GmbH	Germany	Holding	100%	KPMG	25	1,951	–	21,179	(16,000)
Befesa Steel Services GmbH	Germany	Sales and logistics	100%	KPMG	2,045	67,842	–	24	–
Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	KPMG	5,113	2,915	–	32	–
Befesa Zinc Korea Ltd	South Korea	Recovery of metals	100%	KPMG	17,015	21,512	1,489	5,768	–
Befesa Pohang Co. Ltd	South Korea	Recovery of metals	100%	KPMG	1,770	4,929	(296)	(1,532)	–
Befesa Zinc Freiberg GmbH & Co, KG	Germany	Recovery of metals	100%	KPMG	1,000	(9,724)	–	49	–
Befesa Zinc Environmental Protection Technology (Jiangsu) Co. Ltd	China	Recovery of metals	100%	PAF	21,407	(188)	1,685	(486)	–
Befesa (China) Investment Co. Ltd	China	Holding	100%	PAF	17,390	(595)	249	229	–
Befesa Zinc Environmental Protection Technology (Henan) Co. Ltd	China	Recovery of metals	100%	PAF	14,761	(311)	1,209	(166)	–
Befesa Zinc Gravelines S,A,S,	France	Waelz oxide treatment	100%	PwC	8,000	1,100	–	534	–
Befesa Holding US, Inc (Consolidated)	United States	Waelz oxide treatment	100%	Grant Thornton LLP	134,152	(6,397)	4,816	(2,770)	–
Joint operations									
– Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	7,526	–	19,450	–

(1) Companies not subject to statutory audit

Notes to the consolidated financial statements as at 31 December 2021 (thousands of euros) continued

Appendix continued
Subsidiaries and joint operations
2020

Entity	Country	Activity	% Interest	Auditor	Thousands of euros (31/12/2020)				
					Capital	Reserves	Translation differences	Results	Interim dividend
Subsidiaries									
Befesa Management Services GmbH	Germany	Holding	100%	KPMG	25	1,331	–	263	–
Befesa Medio Ambiente, S.L.U.	Spain	Holding	100%	KPMG	150,003	453,978	–	31,139	–
MRH Residuos Metálicos S.L.U.	Spain	Holding	100%	(1)	15,600	11,666	–	(735)	–
– Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	3,429	–	1,236	–
– Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	303	–	–	–
– Befesa Aluminio, S.L.U.	Spain	Recovery of metals	100%	KPMG	4,767	74,870	–	(11,969)	–
Befesa Aluminio Comercializadora, S.L.	Spain	Marketing company	100%	(1)	90	21	–	–	–
Befesa Salt Slags, Ltd	UK	Recovery of metals	100%	CURO	27,108	(30,512)	(1,619)	(19,924)	–
Befesa Zinc, S.A.U.	Spain	Holding	100%	KPMG	25,010	48,098	–	19,907	(15,000)
– Befesa Zinc Comercial, S.A., (Sociedad Unipersonal)	Spain	Sale of recycled waste	100%	KPMG	60	10,118	–	1,234	–
– Befesa Zinc Aser, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	4,260	11,503	–	32,803	(30,000)
– Befesa Zinc Sur, S.L., (Sociedad Unipersonal)	Spain	Recovery of metals	100%	(1)	605	242	–	(2)	–
– Befesa Zinc Óxido, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	1,102	5,818	–	(1,008)	–
– Befesa Steel R&D, S.L., (Sociedad Unipersonal)	Spain	Development of projects and technology innovation	100%	(1)	3	2,266	–	271	–
– Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	3,641	–	(2,322)	–
Befesa Zinc Gravelines S,A,S,	France	Waelz oxide treatment	100%	PwC	8,000	4,519	–	581	–
Befesa ScanDust AB	Sweden	Recovery of metals	100%	KPMG	5,309	3,053	(358)	(5,503)	–

Entity	Country	Activity	% Interest	Auditor	Thousands of euros (31/12/2020)				
					Capital	Reserves	Translation differences	Results	Interim dividend
– Befesa Silvermet Turkey, S.L.	Spain	Holding	53.60%	(1)	9,175	1,102	–	(1,465)	–
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	2,672	23,540	(10,842)	(1,164)	–
Befesa Silvermet DisTicaret, A.S.	Turkey	Recovery of metals	100%	(1)	1,198	1,492	(1,574)	1,068	–
– Befesa Zinc Germany GmbH	Germany	Holding	100%	KPMG	25	6,569	–	26,382	–
Befesa Steel Services GmbH	Germany	Sales and logistics	100%	KPMG	2,045	67,819	–	23	–
Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	KPMG	5,113	14,922	–	50	–
Befesa Zinc Korea Ltd	South Korea	Recovery of metals	100%	KPMG	17,015	40,796	2,012	555	–
Befesa Pohang Co. Ltd	South Korea	Recovery of metals	100%	KPMG	1,770	7,023	(238)	(2,099)	–
Befesa Zinc Freiberg GmbH & Co, KG	Germany	Recovery of metals	100%	KPMG	1,000	14,518	–	(164)	–
Befesa Zinc Environmental Protection Technology (Jiangsu) Co. Ltd	China	Recovery of metals	100%	PAF	21,407	101	(652)	(319)	–
Befesa (China) Investment Co. Ltd	China	Holding	100%	PAF	17,390	(321)	(70)	(273)	–
Befesa Zinc Environmental Protection Technology (Henan) Co. Ltd	China	Recovery of metals	100%	PAF	13,319	(102)	(327)	(213)	–
Joint operations									
– Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	7,230	–	5,796	–

(1) Companies not subject to statutory audit

Responsibility statement

Consolidated financial statement

We, Javier Molina Montes and Wolf Uwe Lehmann, respectively Chief Executive Officer and Chief Financial Officer, confirm, to the best of our knowledge, that:

- the 2021 consolidated financial statements of Befesa S.A. presented in this Annual Report, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of Befesa S.A. and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of Befesa S.A. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Luxembourg, 29 March 2022

Javier Molina
CEO

Wolf Uwe Lehmann
CFO

Independent auditor's report

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Befesa S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report continued

Acquisition of American Zinc Recycling Corp. (AZR)

a. Why the matter was considered to be one of the most significant in our audit of the consolidated financial statements of the current period

On 17 August 2021 the Group acquired from an unrelated third party a 100% interest in American Zinc Recycling Corp. (AZR), currently Befesa Zinc US, Inc. The purchase price amounted to EUR 130,563 thousand. The transaction is considered a business combination and is accounted for according to IFRS 3.

The assets, liabilities and contingent liabilities acquired were stated at their fair values which were determined in the course of the purchase price allocation performed by management. This resulted in preliminary net assets measured at fair value in the amount of EUR (98,111) thousand and goodwill in the amount of EUR 228,674 thousand.

The purchase price allocation performed requires the management to make discretionary decisions, estimates and assumptions. Changes in these assumptions may have a material impact on the fair values.

We identified the acquisition of American Zinc Recycling Corp. (AZR) and in particular the purchase price allocation as a key audit matter because of its significance to the consolidated financial statements and because of the significant judgement of the management and estimation required in performing the purchase price allocation which could be subject to error or potential management bias.

b. How the matter was addressed in our audit

Our audit procedures concerning the acquisition of American Zinc Recycling Corp. (AZR) and the purchase price allocation included, but were not limited to, the following:

- Obtaining an understanding of management's process related to the purchase price allocation.
- Assessing the appropriateness of the accounting treatment applied to the acquisition.
- With the involvement of our valuation specialist:
  - Evaluating the methodology applied by management for the valuation of assets, liabilities and contingent liabilities acquired;
  - Testing the mathematical accuracy of the models used for the valuation;
  - Assessing the key valuation assumptions;
  - Validating key inputs and data used in the valuation model.
- Assessing whether the Group's disclosures in the consolidated financial statements reflect the business combination with reference to the requirements of the prevailing accounting standards.

Recoverability of deferred tax assets

a. Why the matter was considered to be one of the most significant in our audit of the consolidated financial statements of the current period

The consolidated statement of financial position of the Group includes deferred tax assets amounting to EUR 125,462 thousand as at 31 December 2021. This amount includes EUR 69,357 thousand relating to tax loss carryforwards and tax credits and tax relief.

Deferred tax assets may be recognised based on a number of factors, including whether the Group will have sufficient tax profits in future periods against which tax loss carryforwards and tax credits and tax relief can be utilised.

The recognition of deferred tax assets relies on the exercise of significant judgement by the Board of Directors in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated and future reversals of existing taxable temporary differences.

We identified the recognition of deferred tax assets as a key audit matter because of its significance to the consolidated financial statements and because of the significant judgement of the Board of Directors and estimation required in the forecasting future taxable profits which could be subject to error or potential management bias.

b. How the matter was addressed in our audit

Our audit procedures concerning the recoverability of deferred tax assets included, but were not limited to, the following:

- Testing the design and implementation of the key controls on recognition and valuation of deferred tax assets.
- Inspecting management's assessment of the recoverability of the deferred tax assets by testing the assumptions supporting projected forecasts.
- Challenging the reasonability of the deferred tax assets which are expected to be recovered annually, by reference to the applicable tax legislation.
- Assessing whether the Group's disclosures in the consolidated financial statements of the application of judgement in estimating recognised and unrecognised deferred tax asset balances appropriately reflect the Group's deferred tax position with reference to the requirements of the prevailing accounting standards.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated report including the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of

Independent auditor's report continued

consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors is responsible for presenting and marking up the consolidated financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format ("ESEF Regulation").

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the réviseur d'entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Our responsibility is to assess whether the consolidated financial statements have been prepared in all material respects with the requirements laid down in the ESEF Regulation.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Shareholders on 30 June 2021 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is three years.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the management report. The information required by Article 68ter paragraph (1) letter d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as

Independent auditor's report continued

amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

We have checked the compliance of the consolidated financial statements of the Group as at 31 December 2021 with relevant statutory requirements set out in the ESEF Regulation that are applicable to consolidated financial statements.

For the Group it relates to:

- Consolidated financial statements prepared in a valid xHTML format;
- The XBRL markup of the consolidated financial statements using the core taxonomy and the common rules on markups specified in the ESEF Regulation.

In our opinion, the consolidated financial statements of Befesa S.A. as at 31 December 2021, identified as LU1704650164-JA-EQ-2021-12-31-en.ZIP, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

Luxembourg, 29 March 2022

KPMG Luxembourg
Société anonyme
Cabinet de révision agréé

Stephan Lego-Deiber

Partner

Reintroduce

Recovered materials into the market.

Statutory financial statements

Balance sheet for the year ended 31 December 2021

(Expressed in euros)

	Note(s)	2021	2020
Assets			
A. Subscribed capital unpaid		–	–
I. Subscribed capital not called		–	–
II. Subscribed capital called but unpaid		–	–
B. Formation expenses		3,253,437.40	–
C. Fixed assets		1,223,051,150.60	768,667,511.59
I. Intangible assets		–	–
1. Costs of development		–	–
2. Concessions, patents, licences, trade marks and similar rights and assets, if they were		–	–
a) acquired for valuable consideration and need not be shown under C.I.3		–	–
b) created by the undertaking itself		–	–
3. Goodwill, to the extent that it was acquired for valuable consideration		–	–
4. Payments on account and intangible assets under development		–	–
II. Tangible assets		–	–
1. Land and buildings		–	–
2. Plant and machinery		–	–
3. Other fixtures and fittings, tools and equipment		–	–
4. Payments on account and tangible assets in the course of construction		–	–
III. Financial assets	4	1,223,051,150.60	768,667,511.59
1. Shares in affiliated undertakings		597,051,150.60	242,667,511.59
2. Loans to affiliated undertakings		626,000,000.00	526,000,000.00
3. Participating interests		–	–
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests		–	–
5. Investments held as fixed assets		–	–
6. Other loans		–	–
D. Current assets		6,066,419.91	21,071,518.05
I. Stocks		–	–
1. Raw materials and consumables		–	–
2. Work in progress		–	–
3. Finished goods and goods for resale		–	–
4. Payments on account		–	–

	Note(s)	2021	2020
II. Debtors	5	6,006,508.47	21,051,202.22
1. Trade debtors		–	–
a) becoming due and payable within one year		–	–
b) becoming due and payable after more than one year		–	–
2. Amounts owed by affiliated undertakings		5,914,893.47	21,051,202.22
a) becoming due and payable within one year		5,219,696.51	12,189,307.60
b) becoming due and payable after more than one year		695,196.96	8,861,894.62
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests		–	–
a) becoming due and payable within one year		–	–
b) becoming due and payable after more than one year		–	–
4. Other debtors		91,615.00	–
a) becoming due and payable within one year		91,615.00	–
b) becoming due and payable after more than one year		–	–
III. Investments		–	–
1. Shares in affiliated undertakings		–	–
2. Own shares		–	–
3. Other investments		–	–
IV. Cash at bank and in hand		59,911.44	20,315.83
E. Prepayments	6	5,727,894.43	6,020,966.01
Total assets		1,238,098,902.34	795,759,995.65

	Note(s)	2021	2020
Capital, reserves and liabilities			
A Capital and reserves	7	600,169,051.10	258,016,079.13

Balance sheet for the year ended 31 December 2021 (expressed in euros) continued

	Note(s)	2021	2020
I. Subscribed capital		111,047,595.14	94,575,646.35
II. Share premium account		532,868,267.82	263,875,806.27
III. Revaluation reserve		–	–
IV. Reserves		29,556,938.60	39,436,283.05
1. Legal reserve		9,457,564.64	9,457,564/64
2. Reserve for own shares		–	–
3. Reserves provided for by the articles of association		–	–
4. Other reserves, including the fair value reserve		20,099,373.96	29,978,718.41
a) other available reserves		20,099,373.96	29,978,718.41
b) other non available reserves		–	–
V. Profit or loss brought forward		-129,992,312.09	-136,538,432.30
VI. Profit or loss for the financial year		56,688,561.63	6,546,120.21
VII. Interim dividends		–	-9,879,344.45
VIII. Capital investment subsidies		–	–
B. Provisions	8	806,273.00	438,589.00
1. Provisions for pensions and similar obligations		–	–
2. Provisions for taxation		–	–
3. Other provisions		806,273.00	438,589.00
C. Creditors	9	631,395,683.81	531,284,361.51
1. Debenture loans		–	–
a) Convertible loans		–	–
i) becoming due and payable within one year		–	–
ii) becoming due and payable after more than one year		–	–
b) Non convertible loans		–	–
i) becoming due and payable within one year		–	–
ii) becoming due and payable after more than one year		–	–
2. Amounts owed to credit institutions		631,219,696.51	531,189,307.60
a) becoming due and payable within one year		5,219,696.51	5,189,307.60
b) becoming due and payable after more than one year		626,000,000.00	526,000,000.00

	Note(s)	2021	2020
3. Payments received on account of orders in so far as they are shown separately as deductions from stocks		–	–
a) becoming due and payable within one year		–	–
b) becoming due and payable after more than one year		–	–
4. Trade creditors		13,248.85	42,402.52
a) becoming due and payable within one year		13,248.85	42,402.52
b) becoming due and payable after more than one year		–	–
5. Bills of exchange payable		–	–
a) becoming due and payable within one year		–	–
b) becoming due and payable after more than one year		–	–
6. Amounts owed to affiliated undertakings		–	–
a) becoming due and payable within one year		–	–
b) becoming due and payable after more than one year		–	–
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests		–	–
a) becoming due and payable within one year		–	–
b) becoming due and payable after more than one year		–	–
8. Other creditors		162,738.45	52,651.39
a) Tax authorities		120,738.45	40,651.39
b) Social security authorities		–	–
c) Other creditors		42,000.00	12,000.00
i) becoming due and payable within one year		42,000.00	12,000.00
ii) becoming due and payable after more than one year		–	–
D. Deferred income	10	5,727,894.43	6,020,966.01
Total capital, reserves and liabilities		1,238,098,902.34	795,759,995.65

Profit and loss account for the year ended 31 December 2021

(Expressed in euros)

		Note(s)	2021	2020
1.	**Net turnover**		–	–
2.	**Variation in stocks of finished goods and in work in progress**		–	–
3.	**Work performed by the undertaking for its own purposes and capitalised**		–	–
4.	**Other operating income**	11	1,198,248.03	1,097,451.51
5.	**Raw materials and consumables and other external expenses**	12	-833,638.73	-730,871.87
	a) Raw materials and consumables		–	–
	b) Other external expenses		-833,638.73	-730,871.87
6.	**Staff costs**	13		
	a) Wages and salaries		–	–
	b) Social security costs		–	–
	i) relating to pensions		–	–
	ii) other social security costs		–	–
	c) Other staff costs		–	–
7.	**Value adjustments**		-395,688.33	–
	a) in respect of formation expenses and of tangible and intangible fixed assets	14	-395,688.33	–
	b) in respect of current assets		–	–
8.	**Other operating expenses**	15	-771,508.12	-783,133.30
9.	**Income from participating interests**	16	55,000,000.00	7,000,000.00
	a) derived from affiliated undertakings		55,000,000.00	7,000,000.00
	b) other income from participating interests		–	–
10.	**Income from other investments and loans forming part of the fixed assets**	17	13,505,817.15	11,046,032.29
	a) derived from affiliated undertakings		13,505,817.15	11,046,032.29
	b) other income not included under a)		–	–
11.	**Other interest receivable and similar income**	18	2,525,229.62	2,577,756.49
	a) derived from affiliated undertakings		2,525,229.62	2,577,756.49

			Note(s)	2021	2020
	b)	other interest and similar income		–	–
12.	Share of profit or loss of undertakings accounted for under the equity method			–	–
13.	Value adjustments in respect of financial assets and of investments held as current assets			–	–
14.	Interest payable and similar expenses		19	-13,463,157.99	-13,492,759.91
	a)	concerning affiliated undertakings		–	–
	b)	other interest and similar expenses		-13,463,157.99	-13,492,759.91
15.	Tax on profit or loss			–	–
16.	Profit or loss after taxation			56,765,301.63	6,714,475.21
17.	Other taxes not shown under items 1 to 16		20	-76,740.00	-168,355.00
18.	Profit or loss for the financial year			56,688,561.63	6,546,120.21

Notes to the statutory financial statements as at 31 December 2021

(Expressed in euros)

1. General information

Befesa S.A. (the "Company") (formerly Bilbao Midco S.à r.l.) was incorporated in Luxembourg on 31 May 2013 as a "société à responsabilité limitée" subject to the Luxembourg law for an unlimited period of time. On 18 October 2017, the shareholders resolved to convert the Company from its current form of a "société à responsabilité limitée" into a "société anonyme" without creating a new legal entity or affecting the legal existence or personality of the Company in any manner, and to change the name of the Company into Befesa S.A.. The registered office of the Company was established at 46, Boulevard Grande-Duchesse Charlotte, L-1330 Luxembourg, and on January 2022 it was transferred to 68-70 Boulevard de la Pétrusse, L-2320 Luxembourg.

The registered office of the Company is established in Luxembourg and the Company number with the Registre de Commerce is B177697. The financial year of the Company starts on 1 January 2021 and ends on 31 December 2021.

The object of the Company is the acquisition, holding and disposal of interests in Luxembourg and/or in foreign companies and undertakings, as well as the administration, development and management of such interests. The Company may provide loans and financing in any other kind or form, or grant guarantees or security in any kind or form, for the benefit of the companies and undertakings forming part of the group of which the Company is a member. The Company may also invest in real estate, in intellectual property rights or any other movable or immovable assets in any kind or form. The Company may borrow in any kind or form and issue bonds, notes or any other debt instruments as well as warrants or other share subscription rights. In a general fashion, the Company may carry out any commercial, industrial or financial operation, which it may deem useful in the accomplishment and development of its object.

Following the Initial Public Offer (IPO) held on 3 November 2017, the Company is listed on the Frankfurt Stock Exchange (ISIN number: LU1704650164).

The Company also prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The consolidated financial statements and the management report are available at the registered office of the Company.

2. Summary of significant accounting policies

2.1 Basis of preparation

The annual accounts of the Company are prepared in accordance with Luxembourg legal and regulatory requirements.

Accounting policies and valuation rules follow the historical cost convention and are, besides the ones laid down by the law of December 19, 2002 as amended on December 18, 2015, determined and applied by the Board of Directors.

The preparation of annual accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the annual accounts in the period in which the assumptions changed. The Board of Directors believes that the underlying assumptions are appropriate and that the annual accounts therefore present the financial position and results fairly.

The Board of Directors makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

The Company's annual accounts have been prepared on a going concern basis which assumes that the Company will be able to meet its liabilities as they fall due.

2.2 Foreign currency translation

The Company maintains its books and records in Euro ("EUR") and the Balance Sheet and the Profit and Loss account are expressed in this currency.

Other assets and other liabilities (except specific cases) denominated in currencies other than EUR are translated at the exchange rates prevailing at the date of the balance sheet, unless this would lead to an unrealised exchange gain.

As a result, realised exchange gains and losses and unrealised exchange losses are recorded in the profit and loss account. Unrealised exchange gains are not recorded.

Specific cases:

Where there is an economic link between an asset and liability, these are valued in total according to the method described above and the net unrealised exchange losses are recorded in the profit or loss accounts whereas the net unrealised exchange gains are not recognised.

2.3 Formation expenses

Formation expenses are written off within a period of five years.

2.4 Financial assets

Shares in affiliated undertakings are valued at purchase price including the expenses incidental thereto.

Loans to affiliated undertakings are valued at nominal value including the expenses incidental thereto.

In case of a durable depreciation in value according to the opinion of the Board of Directors, value adjustments are made in respect of financial assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.5 Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.6 Prepayments

This asset item includes expenditure incurred but relating to a subsequent financial year.

2.7 Provisions

Provisions are intended to cover losses or debts of which the nature is clearly defined and which, at the date of the balance sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

Provisions may also be created in order to cover charges which have their origin in the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

Provision for taxation

Provisions for taxation corresponding to the difference between the tax liability estimated by the Company and the advance payments for the financial years for which the tax return has not yet been filed are recorded under the caption "Provisions".

Notes to the statutory financial statements as at 31 December 2021 (expressed in euros) continued

2. Summary of significant accounting policies continued

2.8 Creditors

Creditors are recorded at their reimbursement value. When the amount repayable on account is greater than the amount received, the difference is shown as an asset and is written off over the period of the debt.

2.9 Deferred income

This liability item includes income received but relating to a subsequent financial year.

2.10 Value adjustments

Value adjustments are deducted directly from the related asset.

2.11 Income from dividend

Income from dividends is recognised when the shareholder's right to receive payment is established.

2.12 Interest income and charges

Interest income and interest charges are accrued on a timely basis, by reference to the principal outstanding and at the nominal interest rate applicable.

3. Formation expenses

The increase in the capital and reserves of the 16 June 2021 had formation expenses of 3,649,125.73 EUR. As of 31 December 2021, 395,688.33 EUR have been amortised leaving 3,253,437.40 EUR in the balance sheet.

4. Financial assets

Financial assets held at cost less impairment – movements gross book value	Gross book value – opening balance	Additions	Disposals	Transfers	Gross book value – closing balance
Shares in affiliated undertakings	242,667,511.59	354,383,639.01	–	–	**597,051,150.60**
Loans to affiliated undertakings	526,000,000.00	100,000,000.00	–	–	**626,000,000.00**
Total	768,667,511.59	454,383,639.01	–	–	**1,223,051,150.60**

Financial assets held at cost less impairment – movements net book value	Net book value opening balance	Additions	Disposals	Transfers	Net book value – closing balance
Shares in affiliated undertakings	242,667,511.59	354,383,639.01	–	–	**597,051,150.60**
Loans to affiliated undertakings	526,000,000.00	100,000,000.00	–	–	**626,000,000.00**
Total	768,667,511.59	454,383,639.01	–	–	**1,223,051,150.60**

In the opinion of the Board of Directors, no durable depreciation in value has occurred on shares in affiliated undertakings as at 31 December 2021 neither as at 31 December 2020, accordingly no value adjustment was recorded.

In December 2021, the Company used the capital increase proceeds (Note 7) to finance Befesa Medio Ambiente, S.L.U. through a cash contribution of 55,000,000.00 EUR. In addition, a loan receivable from an agreement with Befesa Medio Ambiente S.L.U. from 14 July 2021 in the amount of 293,483,638.47 EUR (Note 16) and a receivable from the "Reciprocal Credit Agreement" mentioned in Note 5 in the amount of 5,900,000.54 EUR were converted into equity of Befesa Medio Ambiente, S.L.U.

Undertakings in which the Company holds at least 20% in their share capital are as follows:

				As at 31/12/2020		
Name		Registered Office	% holding	Net book value (EUR)	Net equity (EUR)	Net result (EUR)
Befesa Management Services GmbH	audited account	Germany	100%	25,000.00	1,356,415.13	262,601.15
Befesa Medio Ambiente, S.L.U.	audited account	Spain	100%	597,026,150.60	445,746,000.00	-13,873,000.00

Loans to affiliated undertakings

Counterparty	Currency	Amount	Interest rate	Maturity date
Loan to Befesa Medio Ambiente S.L.U	EUR	626,000,000.00	1.75%	09.07.2026

The Facility agreement granted to the Company on 7 December 2017 (Note 9) and the loan granted to Befesa Medio Ambiente, S.L.U. have the same principal economic terms.

The refinancing of the existing capital structure was successfully completed on 9 July 2019 in a transaction that extends Befesa's debt maturity up to June 2026 with a seven-year TLB.

In February 2020, the Company repriced the loan granted to Befesa Medio Ambiente, S.L.U., reducing its interest rate, in order to have the same principal economic terms as the Facility agreement granted to the Company (Note 9).

On 16 August 2021, the parties signed an amendment n°3 for an additional amount of EUR 100,000,000.00 (Note 9). In August 2021, the margin applicable to this loan was reduced by 25 bps to Euribor plus 175 bps.

As at 31 December 2021, the nominal amount of this loan is EUR 626,000,000.00 (2020: EUR 526,000,000.00) and accrued interest amount to EUR 5,144,277.81 (2020: EUR 5,113,889.91) (Note 5).

In the opinion of the Board of Directors, no durable depreciation in value has occurred on loans to affiliated undertakings as at 31 December 2021 neither as at 31 December 2020, accordingly no value adjustment was recorded.

5. Debtors

Debtors by category	Within one year	More than one year	As at 31/12/2021	As at 31/12/2020
Amounts owed by affiliated undertakings	5,219,696.51	695,196.96	5,914,893.47	21,051,202.22
Other debtors	91,615.00	–	91,615.00	–
Total	5,311,311.51	695,196.96	6,006,508.47	21,051,202.22

Notes to the statutory financial statements as at 31 December 2021 (expressed in euros) continued

5.1 Debtors – Becoming due and payable within one year

The detail of debtors is the following:

Becoming due and payable within one year	As at 31/12/2021	As at 31/12/2020
Dividend receivable from Befesa Medio Ambiente S.L.U.	–	7,000,000.00
Accrued Interest – Interest Rate Swap Befesa Medio Ambiente S.L.U.	**75,418.70**	75,418.69
Accrued Interest Loan Befesa Medio Ambiente S.L.U.	**5,144,277.81**	5,113,888.91
Other debtors:		
Advances NWT	**91,615.00**	–
Total	**5,311,311.51**	12,189,307.60

5.2 Debtors – Becoming due and payable within more than one year

Becoming due and payable within more than one year	As at 31/12/2021	As at 31/12/2020
Receivable from Befesa Medio Ambiente S.L.U.	**695,196.96**	8,861,894.62
Total	**695,196.96**	8,861,894.62

As at 1 December 2020, the Company signed a "Reciprocal Credit Agreement" with Befesa Medio Ambiente, S.L.U. The interest is Euribor plus a margin of 0.50% and the maturity is indefinite.

As at 31 December 2021 the "Reciprocal Credit Agreement" amounts EUR 695,196.96 (2020: EUR 8,861,894.62).

In the opinion of the Board of Directors, the recovery of debtors is not compromised as at 31 December 2021, accordingly no value adjustment was recorded.

6. Prepayments

Prepayments	As at 31/12/2021	As at 31/12/2020
Transaction costs	**5,727,894.43**	6,020,966.01
Total	**5,727,894.43**	6,020,966.01

Transaction costs of EUR 10,847,833.35 were paid in relation to the Facility agreement granted to the Company (Note 9). These transactions costs have been recognised and are amortised all along the length of the facility.

As at 31 December 2021, the accumulated prorated amortisation amounts to EUR 5,119,938.92 (2020: EUR 3,963,695.34).

7. Capital and reserves

Movements in capital and reserves	Balance as at 31/12/2020	Increase of equity	Allocation of preceding result	Dividend	Result of current year	Balance as at 31/12/2021
Subscribed capital	94,575,646.35	16,471,948.79	–	–	–	**111,047,595.14**
Share premium	263,875,806.27	315,792,459.21	–	-46,799,997.66	–	**532,868,267.82**
Legal reserve	9,457,564.64	–	–	–	–	**9,457,564.64**
Other avalaible reserves	29,978,718.41	–	–	-9,879,344.45	–	**20,099,373.96**
Profit or loss brought forward	-136,538,432.30	–	6,546,120.21	–	–	**-129,992,312.09**
Profit or loss for the financial year	6,546,120.21	–	-6,546,120.21	–	56,688,561.63	**56,688,561.63**
Interim dividend	-9,879,344.45	–	–	9,879,344.45	–	**–**
Total	258,016,079.13	332,264,408.00	–	-46,799,997.66	56,688,561.63	**600,169,051.10**

The number of shares as at 31 December 2021 is 39,999,998 (34,066,705 at 31 December 2020) with a par value of 2,78 EUR each and fully paid up.

On 16 June 2021, the Company issued 5,933,293 new shares each with par value of 2.78 EUR (16,471,948.79 EUR) and share premium of 53.22 EUR (315,792,459.21 EUR). The new shares were included in the existing listing of Befesa's shares in the Frankfurt Stock Exchange.

On 14 July 2021, Befesa distributed to its shareholders a dividend of 1.17 EUR per share (repayment of the share premium), amounting to 46,799,997.66 EUR, as approved by the AGM held on 30 June 2021. The AGM also approved the interim dividend of 9,879,344.45 EUR approved by the Board of Directors in November 2020.

On 2 July 2020, Befesa distributed to its shareholders a dividend of 0.44 EUR per share, amounting to 14,989,350.20 EUR, as approved by the AGM.

In November 2020, the Board of Directors resolved to approve an interim dividend of 9,879,344.45 EUR.

Legal reserve

In accordance with Luxembourg relevant law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net profits must be allocated again toward the reserve. The legal reserve is not available for distribution to the shareholders.

Notes to the statutory financial statements as at 31 December 2021 (expressed in euros)
continued

8. Provisions

Provisions	As at 31/12/2021	As at 31/12/2020
Other provisions	**115,006.00**	87,502.00
Long-term provision	**–**	351,087.00
Short-term provision	**691,267.00**	–
Total	**806,273.00**	438,589.00

Other provisions
As at 31 December 2021 and 31 December 2020, the other provisions consist mainly of provision for other operating expenses not yet invoiced.

Short-term provision
As at 31 December 2021, Short-term provision relate to "Multi-Year Variable compensation (Long-Term Incentive Plan)" for the Non-Executive Directors.

Long-term provision
As at 31 December 2020, Long-term provision relate to "Multi-Year Variable compensation (Long-Term Incentive Plan)" for the Non-Executive Directors.

9. Creditors

Creditors by category	Within one year	More than one year	More than five years	As at 31/12/2021	As at 31/12/2020
Amounts owed to credit institutions	5,219,696.51	626,000,000.00	–	**631,219,696.51**	531,189,307.60
Trade creditors	13,248.85	–	–	**13,248.85**	42,402.52
Other creditors	162,738.45	–	–	**162,738.45**	52,651.39
Total	5,395,683.81	626,000,000.00	–	**631,395,683.81**	531,284,361.51

Amounts owed to credit institutions
On 19 October 2017, the Company entered into a Facility agreement of EUR 636,000,000.00. An amount of EUR 526,000,000.00 was drawdown on 7 December 2017. The Facility bears interests at 2.50% margin plus three-months Euribor "0" Floor, and matures on 7 December 2022. Simultaneously, the Company also entered into an Interest Rate Swap agreement ("IRS"), also maturing on 7 December 2022. This IRS covers notional amount of EUR 316,000,000.00, and the fixed rate is 0.358%, and the benchmark floating rate is Euribor. The fair value of this IRS is EUR -1,180,620.89 as at 31 December 2021 (2020: EUR -2,305,326.63).

On 9 July 2019, the Group successfully completed the refinancing of the EUR 636 million Facilities Agreement. The new Facilities Agreement comprises:

- Term Loan B ("facility" or "TLB") in an amount of EUR 526 million, which is a bullet with a maturity date of seven years.
- Revolving Credit Facility (RCF) in an amount of EUR 75 million with a maturity of six years.
- A guarantee Facility Commitment in an amount of EUR 35 million with a maturity of six years.

On 17 February 2020, Befesa successfully repriced its TLB, reducing its interest rate by 50 bps to Euribor plus 200 bps.

The facility's maturity date and all other terms remain in place without further amendment.

In March 2020, Befesa arranged an interest rate swap in order to fix the interest for the extension period of the refinancing signed on 9 July 2019. The fix interest rate is 0.236% and the notional on the amount totalled EUR 316.000.000. The fair value of this IRS is EUR 2,381,114.48 as at 31 December 2021.

On 2 July 2021, the Company entered into an incremental facility notice under the facilities Agreement for an additional amount of EUR 100,000,000. As at 31 December 2021, the principal amount is EUR 626,000,000. Simultaneously, the Company increased the loan to Befesa Medio Ambiente, S.L.U. in this amount.

As at 31 December 2021, interest on the Facility is Euribor plus a margin of 1.75% and 2.00% in the case of RCF, these margins can be adjusted depending on the ratio of net financial debt/EBITDA.

In August 2021, the margin applicable to TLB was reduced by 25 bps to Euribor plus 175 bps due to the decrease on the leverage ratio.

As at 31 December 2021, the amounts becoming due and payable within one year are composed of EUR 5,144,277.82 (2020: EUR 5,113,888.91) accrued interest on the facility, and of EUR 75,418.69 (2020: EUR 75,418.69) accrued interest on the IRS.

10. Deferred income

Deferred income	As at 31/12/2021	As at 31/12/2020
Deferred Income – Transaction costs	**5,727,894.43**	6,020,966.01
Total	**5,727,894.43**	6,020,966.01

The Facility agreement granted to the Company (Note 9) and the loan granted to Befesa Medio Ambiente, S.L.U. (Note 4) have the same principal economic terms. The transaction costs of EUR 10,847,833.75 on the Facility (Note 6) have been accounted for equally on the loan granted to Befesa Medio Ambiente, S.L.U..

11. Other operating income

The other operating income consists of the management fee for the costs the Company recharged to its subsidiary Befesa Medio Ambiente, S.L.U..

12. Raw materials and consumables and other external expenses

Other external expenses	As at 31/12/2021	As at 31/12/2020
Accounting, auditing and domiciliation fees	**128,243.28**	86,489.00
Banking and similar services	**1,063.52**	768.49
Legal fees	**252,015.77**	198,102.84
Other commisions and professional fees	**451,444.55**	438,938.47
Miscellaneous	**871.61**	6,573.07
Total	**833,638.73**	730,871.87

Notes to the statutory financial statements as at 31 December 2021 (expressed in euros) continued

13. Staff costs

The average number of employees for the year 2021 was nil (2020: nil).

14 Value adjustments

	As at 31/12/2021	As at 31/12/2020
Formation expenses	**395,688.33**	–
Total	**395,688.33**	–

15. Other operating expenses

The other operating expenses consists mainly of Directors´ fees.

16. Income from participating interests

The income from participating interests derived from affiliated undertakings consists of dividend received: EUR 55,000,000.00 from Befesa Medio Ambiente S.L.U. (2020: 7,000,000.00 from Befesa Medio Ambiente S.L.U.)

17. Income from other investments and loans forming part of the fixed assets

Details of income from other investments and loans forming part of the fixed assets for 2021 and 2020 are follows:

	As at 31/12/2021	As at 31/12/2020
Loans to affiliated undertakings (Principal 626 million EUR)	**10,784,166.67**	11,046,000.00
Loan agreement 14 July 2021	**2,683,636.14**	–
Reciprocal Credit Agreement	**38,014.34**	32.29
Total	**13,505,817.15**	11,046,032.29

The three loans are signed with Befesa Medio Ambiente, S.L.U.

The “loan agreement 14 July 2021” has the same interest rate that the the other loans to affiliated undertakings. This loan was offset in December 2021 by a non cash contribution to the equity of Befesa Medio Ambiente, S.L.U. (Note 4).

18. Other interest receivable and similar income

The Other interest receivable and similar income consists of the costs the Company recharged to its subsidiary Befesa Medio Ambiente, S.L.U.

	As at 31/12/2021	As at 31/12/2020
Amortisation costs	**1,156,243.58**	1,086,046.09
Cost of IRS	**1,146,992.22**	1,150,134.67
Invoices for management of financing activities recharged to affiliated undertakings	**221,993.82**	341,575.73
Total	**2,525,229.62**	2,577,756.49

18. Other interest receivable and similar income

The Other interest receivable and similar income consists of the costs the Company recharged to its subsidiary Befesa Medio Ambiente, S.L.U.

19. Interest payable and similar expenses

As at 31 December 2021, the EUR 13,463,157.99 are mainly related to the interest cost of Facility Agreement of EUR 636.000.000,00 (Note 9), cost of the Interest Rate Swap ("IRS") agreement (Note 9) and prorated amortisation costs related to this Facility Agreement (Note 6).

20. Taxation

The Company is subject to the general tax regulation applicable in Luxembourg.

21. Off-balance sheet commitments and transactions

On 19 October 2017, the Company entered into a Facility agreement of EUR 636.000.000,00 (Note 9). In this context, the Company pledged the shares of Befesa Medio Ambiente, S.L.U..

22. Related-party transactions

There were no direct nor indirect transactions with main shareholders and members of its administrative, management and supervisory bodies that would be material and not concluded under normal market conditions unless previously disclosed.

23. Advances and loans granted to the members of the managing and supervisory bodies

There are no advances, loans or commitments given on their behalf by way of guarantee of any kind granted to the members of the management and supervisory bodies during the financial year (2020: nil).

24. Subsequent events

There are no events between the balance sheet date (31 December 2021) and the date of the presentation of the accounts (29 March 2022) that would materially impact the Company's assets or the Company's financial and/or earnings position.

With regards to the invasion of Ukraine by Russia, Befesa has no direct customers, suppliers, employees nor production sites in Russia nor Ukraine, referring to our main activities, environmental services to the steel and aluminium industries. Therefore, Befesa is not being directly affected by this event. The latter is affecting the global economy and indirectly Befesa, most notably for Befesa resulting in higher volatility in the prices of commodities, such as energy inflation and higher base metal prices. Befesa is closely monitoring the evolution of energy prices as well as of base metal prices, especially zinc and aluminium. Befesa has 60% to 75% of its zinc payable annual output hedged at attractive price levels up to January 2025, approximately three years forward. Furthermore, various industries observe supply chain disruptions. However, Befesa's business model is regionally focused and as a result the impact is not direct but again rather indirect. Also, Befesa's geographic footprint is globally well diversified and balanced across Europe, Asia and North America. The most relevant future growth initiatives are outside of Europe, rather in Asia and in the US, therefore these are not directly impacted. As of the date of this Annual Report, Befesa has not been materially impacted. Befesa closely monitors potential indirect impacts but those can not be properly quantified at this stage and are depending highly on the duration of the invasion of Ukraine by Russia. Most importantly, Befesa hopes the invasion to end very soon.

Responsibility statement

Statutory financial statements

We, Javier Molina Montes and Wolf Uwe Lehmann, respectively Chief Executive Officer and Chief Financial Officer, confirm, to the best of our knowledge, that:

- the 2021 statutory annual accounts of Befesa S.A. presented in this Annual Report, which have been prepared in accordance with Luxembourg legal and regulatory requirements, give a true and fair view of the assets, liabilities, financial position and profit or loss of Befesa S.A.; and
- the management report of the annual accounts included in this Annual Report, which has been combined with the management report on the consolidated financial statements included in this Annual Report, gives a fair review of the development and performance of the business and the position of Befesa S.A., or Befesa S.A. and its consolidated subsidiaries, taken as a whole, as applicable, together with a description of the principal risks and uncertainties that they face.

Luxembourg, 29 March 2022

Javier Molina
CEO

Wolf Uwe Lehmann
CFO

Independent auditor's report

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the annual accounts

Opinion

We have audited the annual accounts of Befesa S.A. (the "Company"), which comprise the balance sheet as at 31 December 2021, and the profit and loss account for the year then ended, and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of the Company as at 31 December 2021 and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of the "réviseur d'entreprises agréé" for the audit of the annual accounts » section of our report. We are also independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of the audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Independent auditor's report continued

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the management report and the Corporate Governance Statement but does not include the annual accounts and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

The Board of Directors is responsible for presenting and marking up the annual accounts in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format ("ESEF Regulation").

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the réviseur d'entreprises agréé for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

Our responsibility is to assess whether the annual accounts have been prepared in all material respects with the requirements laid down in the ESEF Regulation.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period

Independent auditor's report continued

and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Shareholders on 30 June 2021 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is three years.

The management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the management report. The information required by Article 68ter paragraph (1) letter d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

We have checked the compliance of the annual accounts of the Group as at 31 December 2021 with relevant statutory requirements set out in the ESEF Regulation that are applicable to annual accounts.

For the Company it relates to:

- Annual accounts prepared in a valid xHTML format.

In our opinion, the annual accounts of Befesa S.A. as at 31 December 2021, identified as LU1704650164-JA-EQ-2021-12-31-en.ZIP, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

Luxembourg, 29 March 2022

KPMG Luxembourg
Société anonyme
Cabinet de révision agréé

Stephan Lego-Deiber

Partner

Additional information

Glossary

Aluminium alloy	A mixture of two or more elements in which aluminium is the predominant metal
Aluminium concentrate	Secondary aluminium residue generated during the recycling process of salt slags and SPL, which can either be landfilled or sold to various industries as an input material for further production cycles
Aluminium residue	Aluminium scrap and other residues mainly containing aluminium, such as drosses, shavings and cuttings, which can be recycled
Aluminium scrap	Material from various goods that have reached completion of their useful lives, which mainly contain aluminium and can be recycled
Basic oxygen furnace (BOF)	A type of metallurgical furnace that uses iron ore as its base raw material to produce steel
Coke	An input material used in the processes to recycle steel residues
Electric arc furnace (EAF)	A furnace used by mini-mills to melt scrap steel, using electric arc technology
EAF steel dust (EAFD)	Hazardous waste resulting from the production of crude steel by mini-mills
Galvanised steel	Steel with a protective coating containing zinc, which protects against corrosion
Leaching	A hydrometallurgical process that increases the zinc content of Waelz oxide (WOX) by removing impurities like fluorides and chlorines
Lime	An input material used in the steel dust recycling process
Mini-mill	A steel production facility for the production of steel. This is done by melting recycled scrap steel in EAF, as opposed to directly from iron ore (which is the primary iron resource used in traditional BOF steel factories)
Rotary furnace	A tube-shaped furnace that rotates around a central axis as materials are being treated

Salt slags	A hazardous waste generated by the production of secondary aluminium
Scrap steel	Recycled steel that serves as an input material for steel manufacturers, using mini-mill facilities
Spent pot linings (SPL)	Spent pot linings of aluminium electrolysis cells are hazardous waste materials generated in the production process of primary aluminium
Stainless steel residue	A hazardous residue resulting from the stainless steel production from scrap stainless steel
Steel residue	Electric arc furnace steel dust and stainless steel residue
Tolling fee	In the Steel Dust segment, it refers to the fee charged to stainless steel manufacturers to collect and treat stainless steel residue, returning to them metals (mainly nickel, chromium and molybdenum) recovered in the process. In the Secondary Aluminium subsegment of Aluminium Salt Slags Recycling Services, it refers to the service fee charged for collecting and treating aluminium residues and returning the recovered aluminium to customers.
Valorisation	The recovery of valuable materials from waste
Waelz kiln	A kiln used for processing crude steel dust by mixing crude steel dust, coke and lime in a kiln containing a rotating furnace, which primarily vaporises the zinc and lead components contained in the crude steel dust, producing Waelz oxide (WOX)
Waelz oxide (WOX)	A product with a high concentration of zinc that is generated in the crude steel-dust recycling process and that is used in the production of zinc
Zinc smelter	A type of industrial plant or establishment that engages in zinc smelting, i.e. the conversion of zinc ore concentrates and WOX into zinc metal

Financial calendar

Q1 2022 Statement & Conference Call	Tuesday, 26 April 2022
Annual General Meeting	Thursday, 16 June 2022
H1 2022 Interim Report & Conference Call	Thursday, 28 July 2022
Q3 2022 Statement & Conference Call	Thursday, 27 October 2022

Note: Befesa cannot rule out changes of dates and recommends checking them at the Investor relations/Investor's agenda section of Befesa's website (www.befesa.com).

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Disclaimer

This report contains forward-looking statements and information relating to Befesa and its affiliates that are based on the beliefs of its management, including assumptions, opinions and views of Befesa and its affiliates as well as information cited from third-party sources. Such statements reflect the current views of Befesa and its affiliates or of such third parties with respect to future events and are subject to risks, uncertainties and assumptions.

Many factors could cause the actual results, performance or achievements of Befesa and its affiliates to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. This includes, among others, changes in general economic, political, governmental and business conditions globally and in the countries in which Befesa and its affiliates do business; changes in interest rates; changes in inflation rates; changes in prices; changes to national and international laws and policies that support industrial waste recycling; legal challenges to regulations, subsidies and incentives that support industrial waste recycling; extensive governmental regulation in a number of different jurisdictions, including stringent environmental regulation; management of exposure to credit, interest rate, exchange rate and commodity price risks; acquisitions or investments in joint ventures with third parties; inability to obtain new sites and expand existing ones; failure to maintain safe work environments; effects of catastrophes, natural disasters, adverse weather conditions, unexpected geological or other physical conditions, or criminal or terrorist acts at one or more of Befesa's plants; insufficient insurance coverage and increases in insurance costs; loss of senior management and key personnel; unauthorised use of Befesa's intellectual property and claims of infringement by Befesa of others' intellectual property; Befesa's ability to generate cash to service its indebtedness changes in business strategy; and various other factors.

Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or targeted.

Befesa and its affiliates do not assume any guarantee that the assumptions underlying forward-looking statements are free of errors, nor do they accept any responsibility for the future accuracy of the opinions expressed herein or the actual occurrence of the forecasted developments. No representation (express or implied) is made as to, and no reliance should be placed on, any information, including projections, estimates, targets and opinions contained herein, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained herein or otherwise resulting, directly or indirectly, from the use of this document. Befesa and its subsidiaries do not intend, and do not assume any obligations, to update these forward-looking statements.

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BEFESA

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