

BEFESA



Annual Report

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



BEFESA

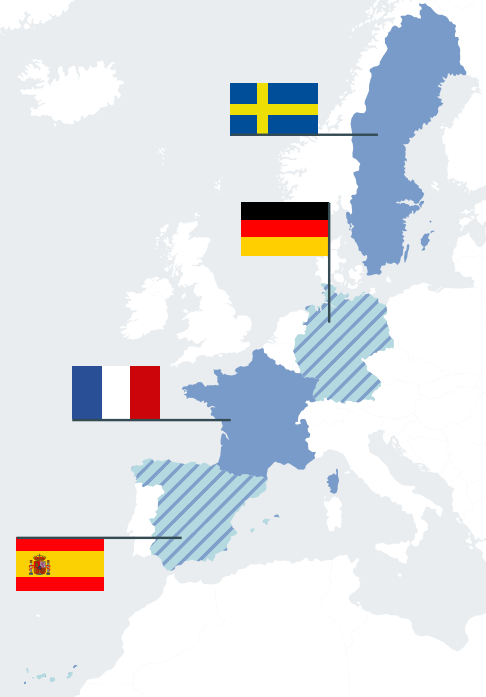
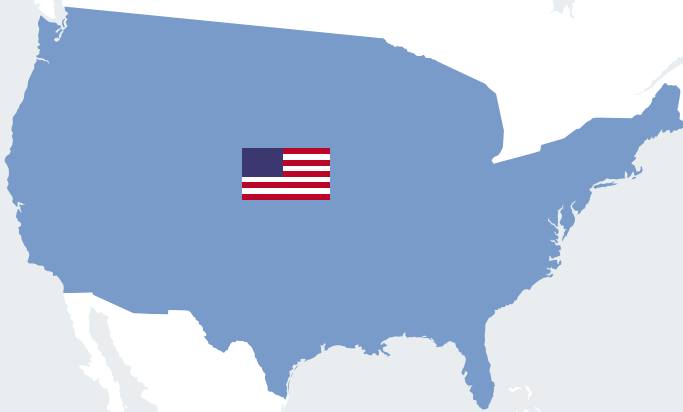
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Befesa at a glance

Befesa is the global leader in 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.



- Steel Dust
- Aluminium Salt Slags
- ▨ Both

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

1.8m

TONNES OF RESIDUES RECYCLED IN 2022

1.5m

TONNES OF RECOVERED NEW MATERIALS IN 2022 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.



2,514,300 tonnes

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

1,839,300 TONNES¹

Steel dust (crude and stainless) from electric arc furnaces (EAF)

470,000 TONNES

Aluminium salt slags & spent pot linings (SPL)

205,000 TONNES²

Secondary aluminium alloys

24

RECYCLING PLANTS

18

6

1,847

EMPLOYEES⁵

1,333

475

€1,136m

REVENUE IN 2022

€730M

€407M³

€215m

ADJUSTED EBITDA IN 2022⁴

€169M

€46M

¹ Total annually installed capacity to recycle 1,839,300 tonnes of EAF steel dust (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 of 205,000 tonnes is based on secondary aluminium alloys produced ³ Revenue of the Aluminium Salt Slags segment is after €46.3m of intersegment eliminations ⁴ €164.8m reported total EBIT + €70.1m D&A = €234.9m reported total EBITDA – €20.3m adjustments, mainly driven by zinc-refining acquisition impacts = €214.6m adjusted total EBITDA ⁵ Includes 39 employees in Corporate



Reduce

the consumption of natural resources to prevent around 1.8 million tonnes of residue from reaching landfills each year.



To Befesa's shareholders

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Letter from the Executive Chair

€1,136m

REVENUE IN 2022
(€822M IN 2021)

€215m

ADJUSTED EBITDA IN 2022
(€198M IN 2021)



Javier Molina
Executive Chair

DEAR SHAREHOLDERS,

In 2022, we achieved record financial results, mainly driven by the positive contribution of the US operations as well as higher metal prices, which have been partially compensated by higher inflation.

Despite these record results, 2022 has been a very challenging year for Befesa, affected by high energy prices, a weak economic environment and a difficult COVID situation in China.

From the macroeconomic point of view, 2022 has been characterised by the war in Ukraine, which started in February 2022 with the invasion of Ukraine by Russia. This is causing a terrible humanitarian catastrophe, the end of which is still difficult to foresee. The conflict is creating great instability in the global economy and especially in the energy market in Europe, which had enjoyed stability over many years. The situation has created uncertainty in the supply of energy, especially natural gas, and a strong increase in the price of gas and electricity. At the same time, general inflation has also increased significantly. All these factors have created a very challenging economic environment.

The main industries that have an impact on the business of Befesa – the steel industry and the automotive industry – have also experienced a challenging 2022 year, caused by a global economic slowdown and uncertainty in the economic outlook, which influences the demand for steel and cars.

The total world production of crude steel decreased by 4% compared to 2021. In Europe, steel production decreased by 11%, whereas in the US, the decrease was 6%. China continued to be the largest producer of steel worldwide, with more than 55% of the total global production in 2022, despite a decrease of 2% in 2022.

In 2022, the European passenger car market contracted by 5%, the lowest level since 1993, mainly caused by the impact of

In 2022, Befesa achieved record levels of revenue, EBITDA, net profit and operating cash flow, mainly driven by the positive contribution of the US operations and higher metal prices, which were partially offset by higher inflation.

component shortages in the first half of the year. In the European largest markets, only Germany managed to show growth in 2022 of 1%.

As explained at the Capital Markets Day, our Sustainable Global Growth Plan (SGGP) is a five-year growth plan that is already underway. The zinc smelter plant in the US was already acquired in 2022 and we are working on the refurbishment of the US plant in Palmerton, Pennsylvania, as well as on the expansion of our geographical footprint into a third province in China, in Guangdong.

Decarbonisation is one of the most pressing issues of our time and clearly brings great opportunities for Befesa. Most of the companies around the world are making strong commitments to reducing their CO₂ footprint. As the steel industry looks to decarbonise its operations, it needs to move to production technologies that are less CO₂-intensive. EAF produces seven times less CO₂ per tonne of steel compared to basic oxygen furnace (BOF).

Decarbonisation will drive EAF steel growth globally. Over the next 10 years, EAF penetration is expected to increase from 29% to 37% globally. This will represent tangible growth opportunities for

Befesa in all its markets: Europe, the US and Asia.

Similarly, the decarbonisation trend is driving the transition to electric vehicles (EVs), which require higher aluminium content per car to achieve light-weight targets. This will drive higher aluminium demand in Europe and increase the need for salt slags recycling capacity.

We have a strong growth plan to invest between €400 and €450 million over the next five years to achieve high-rate earnings growth. This is a similar scale to our investment over the past five years.

With this capex plan, we are targeting +€125-€155 million of incremental EBITDA from 2022 baseline over the next five years.

The plan is globally well-balanced, with investment split in approximately equal thirds between Asia/China, US and Europe.

Our target is to fund 100% of the plan organically with our own resources, with no capital increase required. At the same time, we will keep the leverage at or below 2.5x, as well as maintaining our dividend policy of distributing 40%-50% of net profit per year. The growth plan is fully modular, and it is 100% in our control.

We will continue our prudent approach and adjust timing as required, as per the market environment.

In the capital markets space, the year 2022 was a historically poor year, not only for equities in general but also for bonds, driven by the uncertainty and instability in the global economy.

In 2022, the Befesa share decreased by 33% (in 2021, the Befesa share increased by 30%), underperforming the MDAX index, which lost 29% in 2022.

As a vital part of the circular economy, we are very committed to making a strong contribution to creating a more sustainable world. Our business strategy is fully aligned with our ESG strategy and is rooted in an increased contribution to the circular economy as we deploy our business model in new markets and geographies.

The secondary materials created by Befesa's recycling processes are a substitute for more carbon-intensive processes used to mine and process virgin raw materials.

Furthermore, at Befesa we are committed to supporting climate goals that are based on widely agreed

Letter from the Executive Chair **continued**

climate science and embedding sustainability further into our strategy.

As a result, we are committing to a 20% GHG emissions intensity reduction by 2030, supported by a realistic roadmap to achieve this target. Notably, this plan revolves around green energy sourcing, electricity efficiency, process optimisation and raw material substitution.

Also, Befesa is targeting net zero emissions by 2050. This goal is contingent on certain technologies currently under development becoming technically viable and economically feasible by investing today in new technologies, partnering with relevant stakeholders and reinforcing the sustainability ecosystem (e.g. biocoke, hydrogen, carbon capture).

Finally, the Board of Befesa has made sustainability governance a top priority. A Sustainability Committee has been established to discuss sustainability plans and progress within Befesa on a quarterly basis, comprising directors of Befesa with strong experience in ESG, technology and the energy transition.

Yours sincerely,

Javier Molina
Executive Chair



Letter from the CEO

€106m

NET PROFIT IN 2022
(€100M IN 2021)

€2.66

EPS IN 2022
(€2.68 IN 2021)

DEAR SHAREHOLDERS,

It is a pleasure to address my first letter to you as the CEO of Befesa.

In 2022, we achieved record levels of revenue, EBITDA, net profit and operating cash flow. Total revenue reached €1.1 billion, up 38% compared to 2021. Adjusted EBITDA amounted to €215 million, up 9% compared to 2021. We had a net profit of €106 million, up 6% and equal to a €2.66 EPS.

The results are affected by the positive contribution of the US operations and higher metal prices, which have been partially compensated by much higher inflation – especially energy prices and in particular the coke price -, a weak economic environment and a difficult COVID situation in China. We can say that 2022 has been a very challenging year for Befesa ended with a remarkable level of financial results.

Generally, until the third quarter, Befesa was able to compensate for all the inflation and energy price increases through the increase in the metal prices. However, the last quarter of the year was more challenging than what was originally expected. As a result, Befesa closed the year with an adjusted EBITDA of €215 million.

There were three main reasons for this. The first was high energy prices in Q4, especially coke, which accounted for about 50% of Befesa's total energy cost. The second was a lower zinc price, and the third was weak steel production in the markets where we operate. As a reference, steel production decreased in Q4 by 18% in Europe, 24% in Turkey, 12% in Korea and 11% in the US on a year-on-year basis.

In the full year 2022, total EAF steel dust throughput was up by 35% reaching 1,194 thousand tonnes. This was driven by the contribution of the recycling plants in the US.

From the price point of view, blended zinc price - considering the weighted average of LME and hedging - increased on average 15% year-on-year. However, these positive volume and price effects were partially offset by higher inflation across the business, mainly in energy prices and more specifically coke.



Asier Zarraonandia
Chief Executive Officer

As a result, total EBITDA in the Steel Dust recycling business segment amounted to €169 million in the full year, up 14% compared to the previous year.

In the US, the integration of AZR into Befesa is developing successfully across all fronts. The team is working well, delivering the expected results. The refining facility that was acquired in September is also being integrated into Befesa. The plant is still in ramp-up mode and a positive EBITDA contribution is expected in 2023. In addition, we are working on various efficiency projects in the US that will drive synergies to be captured in 2023. At the same time, the Palmerton plant is being prepared for refurbishment to free up capacity and capture future market growth. The zinc-refining business provides Befesa with a strategic vertical integration opportunity in the US, addressing the shortage of smelting capacity in the North American market. Furthermore, the refining facility is the only one of its kind in the world, producing green zinc from 100% recycled raw materials.

In China, the government has changed its COVID strategy. Nevertheless, Q4 2022 suffered from the very challenging operating environment created by the zero COVID policy. As a consequence, Befesa was not able to operate the plant in Jiangsu properly as the zero COVID policy caused the Chinese economy to slow down, influencing steel production and its utilisation rate.

Befesa's second plant in the province of Henan is completed, and commissioning of the plant was finished in December.

The two Chinese plants in the provinces of Jiangsu and Henan are fully ready to operate in 2023. In addition, Befesa is working in the province of Guangdong to build a third plant in China as part of our five-year growth plan.

In the traditional business areas of Befesa, good volumes have been achieved.

Befesa's Aluminium Salt Slags recycling business segment performed well and despite the high energy prices, it was able to transfer the cost increases to the market. As such, this business segment delivered a strong year in this challenging environment.

In 2022, 322 thousand tonnes of salt slags were recycled, representing an 18% decrease compared to the previous year, driven by the temporary shutdown of the plant in Hanover, which has been under repair after the fire in 2021. Normalising for this one-off operating effect, the volume of salt slags would be 7% up year-on-year.

The production of secondary aluminum alloys in 2022 was 161 thousand tonnes, a 14% decrease year-on-year, having also been affected by the shutdown of the Hanover plant. The plant has been fully refurbished and we are now in the process of ramping up operations.

From the price point of view, the aluminium price increased on average 15% in the year.

The high energy inflation had a total impact of more than €26 million in the year, the majority of which was possible to pass on to customers via

increases in prices, collections fees and margins.

As a result, in the Aluminium Salt Slags recycling business segment, a total EBITDA of €46 million has been achieved, down 6% compared to the prior year.

For the total Befesa, the operating cash flow amounted to €137 million in 2022 and cash on hand ended at €162 million at year end, which represents a strong liquidity of above €230 million. Net debt amounted to €549 million, resulting in a leverage of x2.56 at year-end closing.

Our hedging strategy remains unchanged with our zinc hedge book up to and including July 2025 at increasing average prices over the next three years of around €2,450/t in 2023, around €2,550/t in 2024 and around €2,650/t for the first half of 2025. This strong hedging book will provide earnings growth and visibility over the next three years.

In summary, Befesa demonstrated a strong performance in 2022, achieving record levels of EBITDA in an extremely challenging year that was affected by market conditions and a difficult environment.

Yours sincerely,



Asier Zorraonandia
Chief Executive Officer

Befesa in the capital markets

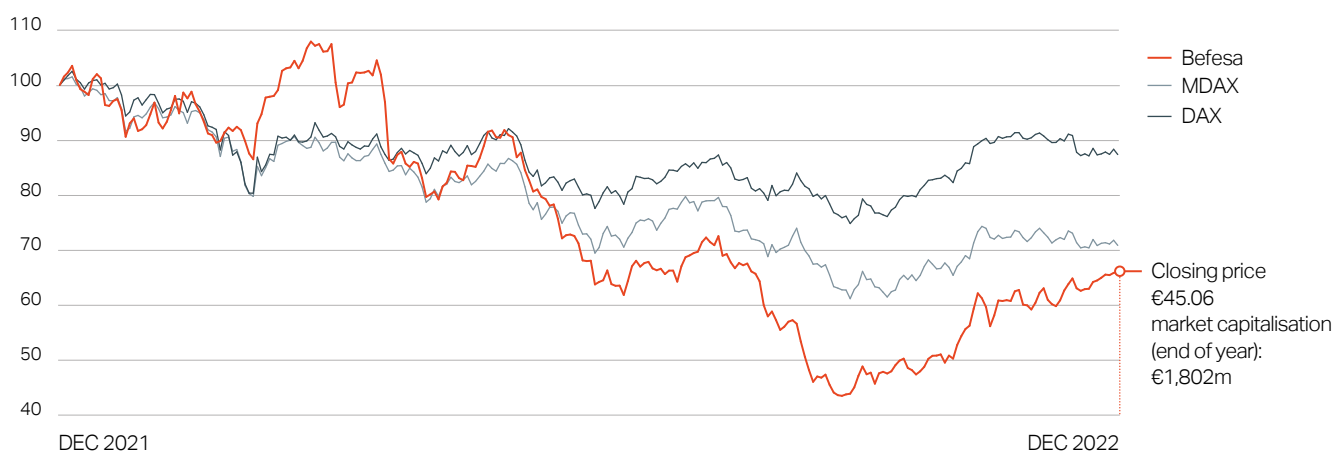
Share data

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 €	2022	2021	2020
Free-float (end of year)	100.0%	100.0%	100.0%
Closing price	45.06	67.40	51.70
Highest price	72.60	72.50	51.70
Lowest price	30.18	49.75	23.25
Dividends	1.25 ¹	1.25	1.17
Dividend yield (based on closing price)	2.8% ¹	1.9%	2.3%
Market capitalisation (end of year)	1,802,399,910	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 2022



Share performance in 2022

	Befesa	DAX	MDAX
30 December 2021	67.40	15,884.86	35,123.25
30 December 2022	45.06	13,923.59	25,117.57
Change	-33.1%	-12.3%	-28.5%

The year 2022 was a historically weak year in the capital markets.

The Befesa share started the year 2022 at a price of €67.40. Over the course of the first few weeks, the development was slightly negative, in line with the indices. However, Russia's invasion of Ukraine on 24 February 2022 marked an inflection point. The energy market in Europe, which had enjoyed great stability over many years, started a challenging period characterised by uncertainty of the supply of energy, especially natural gas, and a strong increase in the price of gas and electricity. At the same time, general inflation also increased significantly. All these factors created a very challenging environment for the capital markets, with defence and oil and gas companies seemingly the only sectors able to perform well. During this time, Befesa could outperform the indices and was able to gain significantly against the indices. The Befesa share even reached an all-time high of €72.60 on 28 March 2022. After reporting Q1 2022 and announcing the guidance for the full year 2022, the Befesa share came back and lost its outperformance and remained in line with the MDAX. The development in the second half of 2022 showed a continuous underperformance of the Befesa share. For the first time, ESG funds were faced with cash outflows and

had to sell shares, which had an impact on Befesa. In autumn, the Befesa share experienced a negative momentum, which ended at a low of €30.18 on 27 September 2022. In October, the Befesa share started an intensive, clear and sustainable reversal trend. The first Befesa Capital Markets Day on 8 November 2022 fuelled the positive development and drove the significant recovery until the end of the year. This compensated for some losses that occurred in August and September, gaining clearly especially against the MDAX.

In summary, over the course of the year 2022, Befesa's share price decreased by 33.1% after the Befesa share gained 30.4% in 2021. Befesa underperformed compared to the DAX (-12.3%) and MDAX (-28.5%). Also, Befesa shareholders received a dividend of €1.25 per share, which was distributed in July 2022. Befesa's daily average volume traded on XETRA increased significantly to 75,502 shares (2021: 62,124 Befesa shares were traded daily).

Based on additional figures, Befesa estimates that the XETRA trading volumes represent around 55% of the real daily trades of Befesa shares. Alternative trading platforms were again important trading places for Befesa shares. According to the figures from XETRA, as well as other trading places and platforms, the average daily volume of Befesa shares traded amounted to around 135,000 shares.

The market capitalisation of Befesa decreased in 2022 by 33.1% to €1,802 million (end of 2021: €2,696 million).

SHAREHOLDER STRUCTURE

Befesa's shares are owned by international investors and by many retail shareholders. Since 6 June 2019, 100% of shares in Befesa S.A. have been free-floating.

According to the voting rights notifications received, as of 31 December 2022, the following shareholders held (or were attributed to) five per cent (5%) or more of the total voting rights attached to Befesa shares (see table below).

Based on voting rights notifications, other publicly available data sources (especially public filings) and own research, institutional shareholders in five countries own in total 74.4%

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	10.02% attached to shares	15 December 2022

Befesa in the capital markets *continued*

of Befesa. The biggest country is Germany, with a stake of 24.6% in Befesa, followed by Spain (15.6%), the UK (14.8%), the US (11.7%) and France (7.7%). The 10 largest investors own almost 43% and the 25 largest investors have a stake of more than 61% in Befesa.

DIVIDEND

Befesa's dividend policy, which has been consistent since the IPO, is a payout ratio of 40% to 50% of EPS, among others.

The Board of Directors of Befesa will propose to the Annual General Meeting (AGM) of 2023 to distribute a total dividend of €50 million, or €1.25 per share (2022: €1.25).

This would result in a dividend payout ratio of 47.1% of the 2022 reported net profit. Based on the 2022 closing price, the proposed dividend payment would result in a

dividend yield of 2.8%. On 15 June 2023, the Befesa shareholders will decide on the dividend proposal as part of the AGM agenda.

INDICES

Since Befesa is listed in the Prime Standard of the Frankfurt Stock Exchange, the indices of Deutsche Börse are very relevant for Befesa. Starting in September 2018, Befesa was listed in the **SDAX**. 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 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 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 declined from rank #73 as of the end of December 2021 to #79 as of the end of December 2022 in terms of market capitalisation. Despite this deterioration, the membership of Befesa in the MDAX is considered likely. 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) must include the index members.

Befesa has been a member of the Global Challenges Index (GCX) since September 2020. The GCX comprises shares of 50 international



Analysts' recommendations

Institution	Analyst	Recommendation	Target price (€)
Bank of America	Cameron Needham	Buy	63,00
Berenberg	Lasse Stueben	Buy	55,00
Citi	Paul L Bradley	Neutral	39,00
Exane BNP Paribas	Ingo-Martin Schachel	Reduce	30,00
Goldman Sachs	Moomal Irfan	Buy	45,00
JP Morgan	Sylvia P Barker	Neutral	44,00
Kepler Cheuvreux	Juan Rodríguez	Buy	60,00
Morgan Stanley	Sandeep Peety	Buy	50,00
Oddo	Anis Zgaya	Buy	61,00
Santander	Jaime Escribano	Buy	56,00
Stifel	Michael E Hoffman	Buy	54,00

As of 31 December 2022

companies in total, selected according to very strict criteria from a total number of around 6,000 corporations. In 2022, the inclusion of Befesa was again confirmed.

The GCX was initiated by Boersen AG, the parent company of the Hamburg and Hanover 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; 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 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 were also 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 14% at the end of 2022.

ANALYSTS' COVERAGE

In 2022, a total of 11 equity analysts published regular reports and recommendations on Befesa.

This means that two new brokers started coverage during 2022. This shows the increasing interest in the Befesa share.

As of the end of 2022, 73% of the analysts recommended buying the Befesa share (2021: 67%), 18% to hold (2021: 33%) and 9% selling (2021: 0%). The median of the price targets was €54.00 (2021: €74.00) per share and followed the share price development of Befesa in 2022.

ESG RATINGS

Since 2019, several important international environmental, social and governance (ESG) rating agencies have published research on Befesa. The number increased in 2022 to six ratings. This highlights 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 discussions about climate action and the introduction of the EU taxonomy. Befesa, as part of the circular economy, can fulfil the needs of investors and also qualifies for impact investing.

ESG ratings are very important, but their approach differs greatly, and investors must 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 Report 2021.

The dialogue with the ESG rating agencies continued and helped to

Befesa in the capital markets **continued**

explain the business model and Befesa's role in protecting the environment.

In total, the ESG view on Befesa is very positive and the ESG rating results are encouraging, even resulting in Befesa 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 Update 2022, which will be issued in Q2 2023.

EU TAXONOMY

The Befesa ESG Report 2021 included an assessment using the EU taxonomy for the preliminary eligibility under all six environmental objectives. The results of applying a systemic approach imply that 100% of revenue, capex and opex of Befesa's operations in 2021 would be EU Taxonomy-eligible.

Befesa will disclose the eligibility and alignment reporting requirements for its activities, in accordance with the

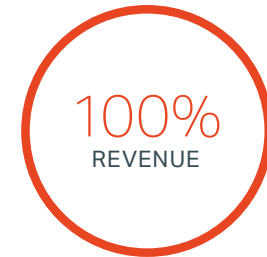
EU Taxonomy Regulation, in the Befesa ESG Update 2022. Befesa's activities are a vital part of the circular economy, and the Company is awaiting the publication of the technical criteria for the "Transition to Circular Economy" goal by the EU authorities.

INVESTOR RELATIONS ACTIVITIES

Befesa's investor relations provides comprehensive information for the capital markets. Fixed dates in the financial calendar 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 which can be followed on the Befesa website, and investor news with the relevant information about the Company.

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

Eligibility of Befesa



As of 31 December 2022, six ESG rating agencies following Befesa and their respective ESG ratings assigned to Befesa were:



Top 3 of 69
Metals processing & production



#181 of 430
Commercial services



#7 of 103
Business services



BBB
Commercial services & supplies



Top 5%
Industrial services



Top 15%



Befesa has continued the direct and intensive dialogue with existing shareholders, potential investors and analysts. The circumstances in 2022 were less challenging owing to the COVID-19 pandemic, and some roadshows and conferences took place virtually, in hybrid format and, again, in person. Investors have become used to virtual meetings and see the advantages, such as the possibility of holding more meetings at the same time since travel time, costs and the negative carbon footprint can be avoided.

During 2022, Befesa attended 29 investor conferences and roadshows. In total, 415 institutional investors from the relevant financial markets in Europe and North America were met (2021: 430). The interest in the Befesa share continued, also driven by the fact that Befesa fits into ESG and affects fund portfolios, and is a pioneer of the circular economy.

For the very first time since the IPO, Befesa hosted a Capital Markets Day. It took place in London on 8 November 2022. The purpose was to present the new Sustainable

Global Growth Plan (SGGP) for 2022 to 2027, highlighting the next five-year growth through the cycle. Almost 50 participants were informed in person of the details and that, despite the current volatile and challenging environment, Befesa has proven resilience and a growth track record through the cycles, driven by its leadership position in environmental services.

The entire event was webcast live and is accessible on the Befesa website, including the Q&A session.

All shareholders and also potential shareholders are welcome to obtain the relevant information on request by being added to the distribution list, or from Befesa's website. Retail investors are also important for Befesa and are one pillar of Befesa's shareholder base. The number of Befesa shareholders increased significantly, but, based on a shareholder identification, the total stake of retail shareholders in Befesa is less than 5%. Also, in 2022, several financial magazines for retail investors continued to follow the Befesa share and recommended to buy Befesa shares.

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



Recycle

hazardous residues from secondary
steel and aluminium producers



Management report

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About the Company

GENERAL INFORMATION

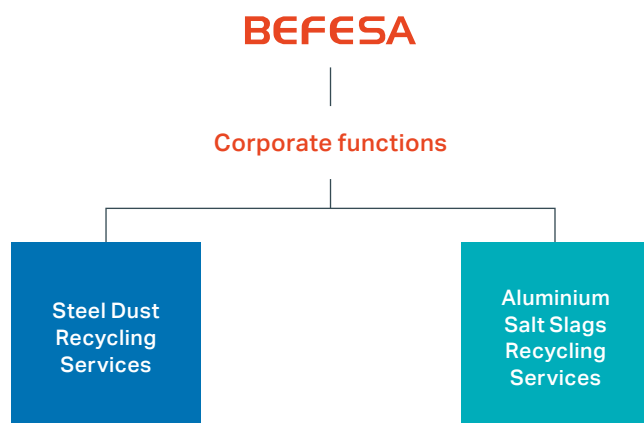
Befesa S.A. is a public limited company (*société anonyme*) incorporated in Luxembourg and governed by Luxembourg law. The registered office is located at 68-70, Boulevard de la Pétrusse, L-2320, Luxembourg, Grand Duchy of Luxembourg. Befesa S.A. is the Parent Company of the Befesa Group. Befesa's financial 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 2022, the Steel Dust Recycling Services segment represented 79% of Befesa's total adjusted EBITDA. The remaining 21% 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 serving its customers and 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 vital 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



Customer 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. The introduction of more stringent environmental regulations, along with an increasing focus on sustainability and circularity, have been the main growth drivers for Befesa since 1987. Befesa has been able to capture the opportunities these market/operational conditions create with a business model that has proven beneficial for the protection of the environment, at the same time delivering profitable growth. These factors will continue to support Befesa's growth as new geographies adopt tighter environmental regulations and Befesa's services become ever-more critical to operators in the steel and aluminium industries.

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) to zinc smelters. Furthermore, a portion of the revenue generated comes from the service fees charged for the collection and especially the treatment of crude steel dust. In the US, Befesa additionally generates revenues from the sale of special high-grade (SHG) zinc produced from the recycling of WOX sourced from Befesa's EAF steel dust recycling plants in the US.

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 spent pot linings (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 an improved environmental footprint.



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, such as decarbonisation and the transition to electric vehicles (EVs).



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 back 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.

Benefits to the environment

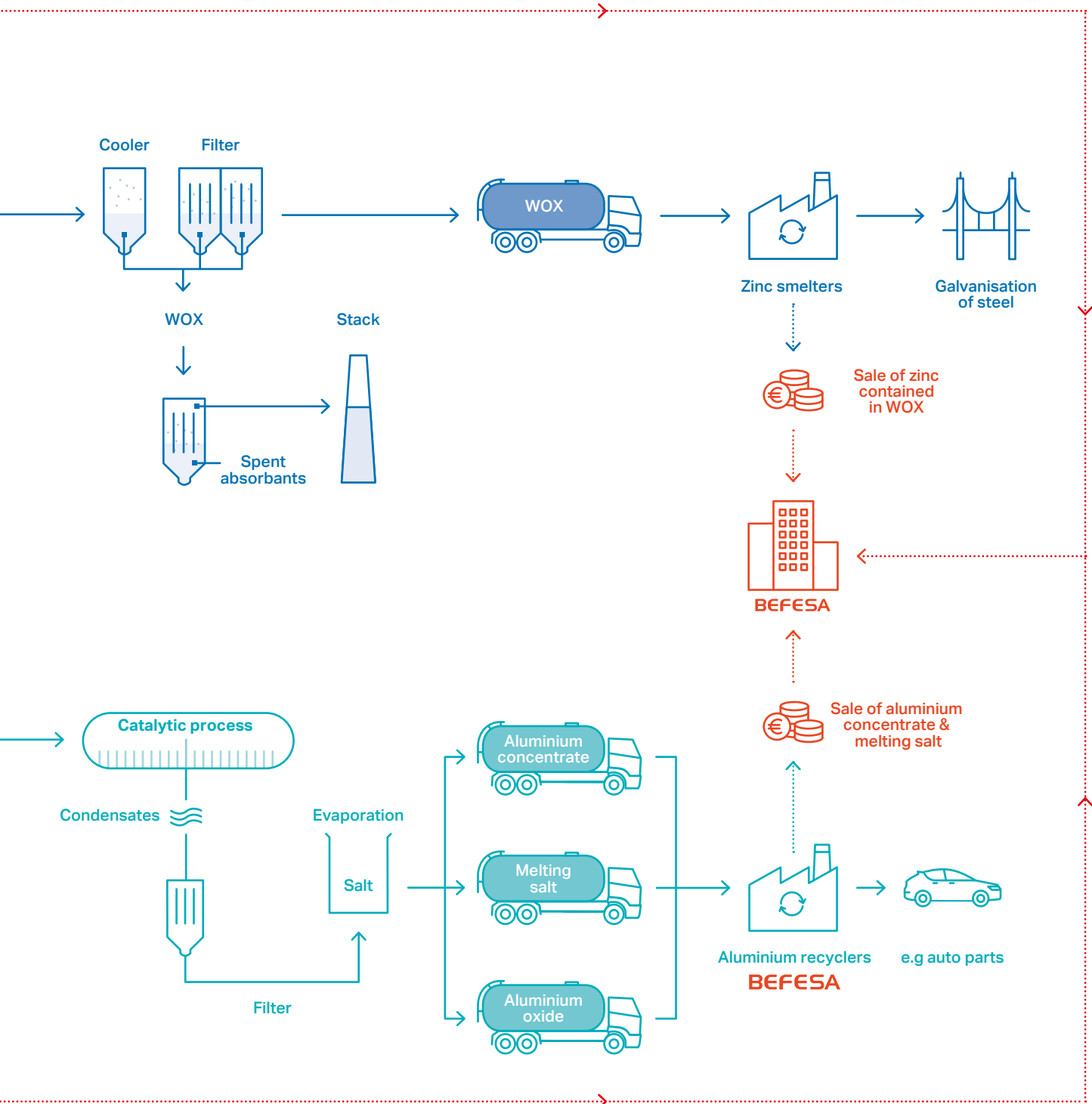
Befesa is continuously looking for new processes and services to help its customers make their businesses more sustainable. Befesa prevents the landfilling of around 1.8 million tonnes of residues each year, reducing the extraction of natural resources from the earth.

Customer satisfaction

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

Employee satisfaction

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

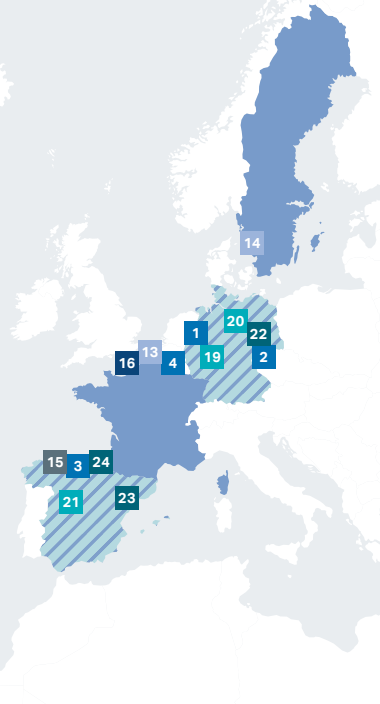
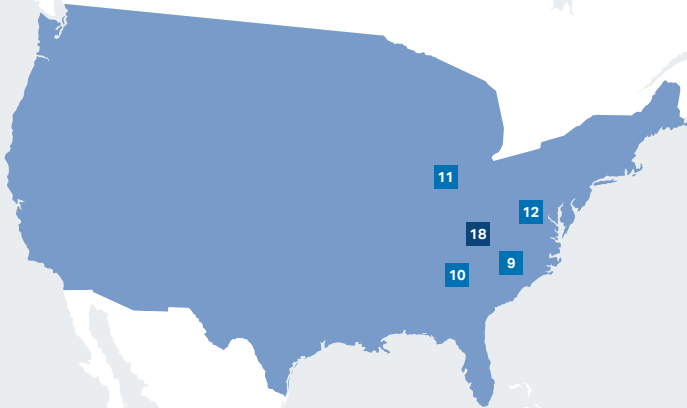


Recover Reintroduce



Business model

Markets & sites



Steel dust recycling plants

1,839 kt

ANNUALLY INSTALLED CAPACITY TO RECYCLE STEEL DUST (CRUDE AND STAINLESS)³

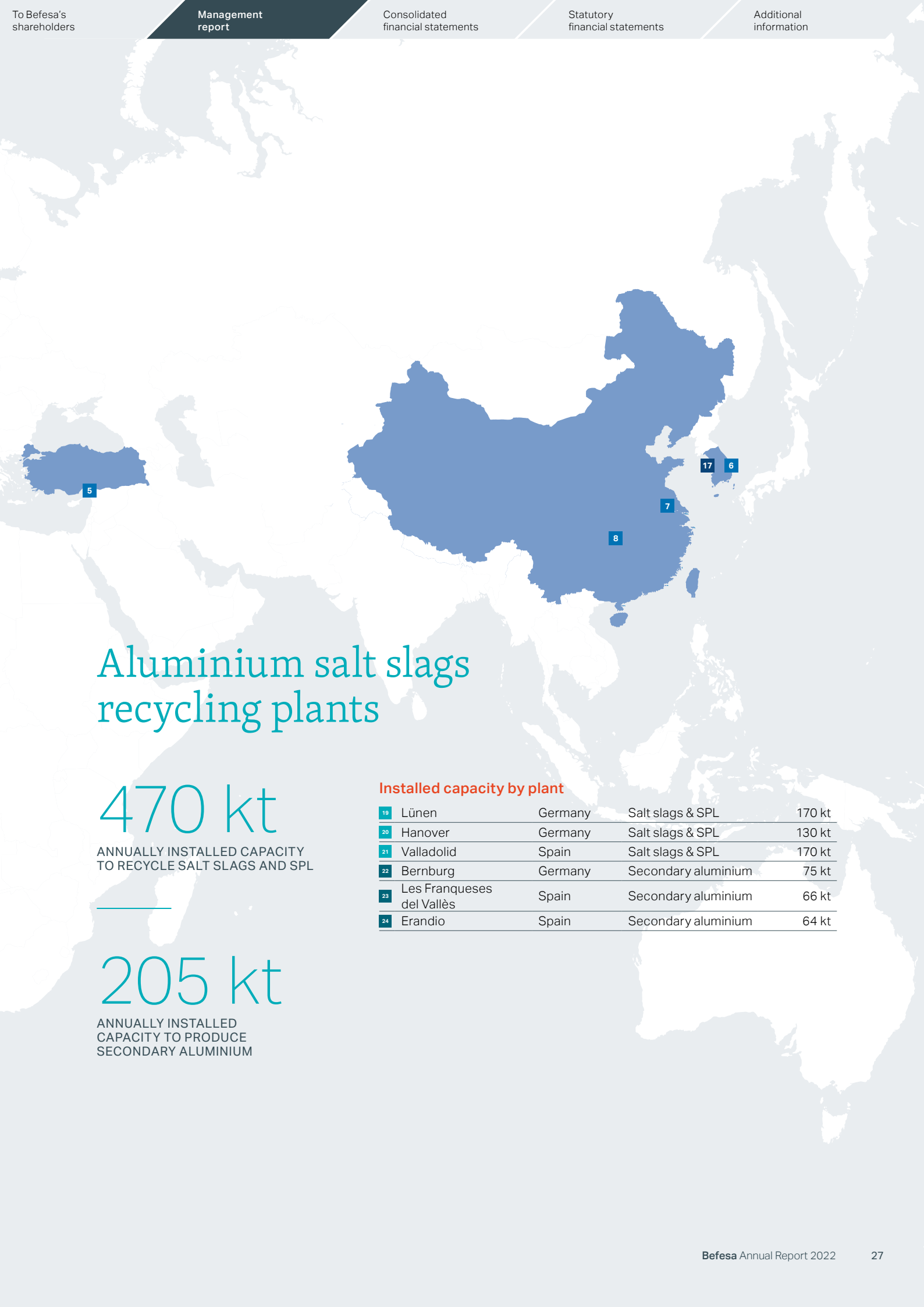
Installed capacity by plant

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	China	Crude steel dust	110 kt
8	Xuchang	China	Crude steel dust	110 kt
9	Barnwell, SC	US	Crude steel dust	163 kt
10	Rockwood, TN	US	Crude steel dust	145 kt
11	Calumet, IL	US	Crude steel dust	135 kt
12	Palmerton, PA	US	Crude steel dust	177 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
18	Rutherford County, NC	US	Zinc refining	141 kt

¹ 50/50 joint venture with Recylex; 55 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 Total annually installed capacity does not include the capacity of the oxide, WOX washing and zinc-refining plants



Aluminium salt slags recycling plants

470 kt

ANNUALLY INSTALLED CAPACITY TO RECYCLE SALT SLAGS AND SPL

205 kt

ANNUALLY INSTALLED CAPACITY TO PRODUCE SECONDARY ALUMINIUM

Installed capacity by plant

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

Decarbonisation

Greenhouse gas (GHG) emission controls are becoming stricter, and challenging CO₂ reduction targets are urging steel and aluminium producers to further innovate their processes with low-carbon technology deployment and resource efficiency.

Regarding the steel business, as the industry looks to decarbonise its operations, steelmakers are committing to move to production technologies that are less CO₂ intensive. Electric arc furnaces (EAF) – or the secondary steel production route – consume seven times less CO₂ per tonne of steel compared to blast oxygen furnaces (BOF) – or the primary steel production route.

The decarbonisation trend is favouring and driving EAF steel growth globally. The global penetration of the EAF steel production route is expected to increase from the current approximately 29% to about 37% of the global crude steel production by 2030. This will represent growth opportunities for Befesa in the US, Europe and Asia.

In the US, around 70% of steel is produced through EAF. The approved \$1.2 trillion infrastructure plan, together with the “Made in America” approach, are, on the one hand, driving more steel demand in the US and therefore requiring additional steel-making capacity. On the other hand, the majority of the additional steel-making capacity will be through new EAF projects, expected to start operations in 2025/26, to meet the decarbonisation commitments made by US steelmakers.

In Europe, the main steelmakers have announced investments to put in place new EAF steel-making capacity – mainly replacing existing BOF capacity – to meet their respective decarbonisation targets.

In China – the largest steel-producing country globally – the government is executing its masterplan to reduce CO₂ emissions and ensure the increasing steel scrap volumes are recycled. The ratio of EAF steel output is targeted to increase to 15%–20% of total crude steel output by 2025/30. China's government is encouraging steelmakers that are currently using BOF to increase their use of EAF, and is supporting them in establishing large-scale scrap recycling, processing and distribution centres.

In the aluminium business, the decarbonisation trend is driving the transition to electric vehicles (EVs), which requires higher aluminium content per car to achieve light-weight targets. This will drive higher aluminium demand in Europe and requires higher salt slags recycling capacity.

The decarbonisation megatrend is clearly benefiting Befesa as more EAF steel and secondary aluminium will be produced as the steelmakers and aluminium producers decarbonise their operations.

Electric vehicles

In Europe, newly registered cars will be required to have zero emissions from 2035 on. This will drive the transition from traditional combustion engine cars to EVs. The sale of EVs in Europe is expected

to increase by five times by 2030, from current two million units to around 11 million units in 2030.

Combustion engine cars and EVs need light-weight solutions in order to lower emissions and to increase the reach of one battery charge, respectively. To achieve that light-weight goal, aluminium is a key element. Aluminium weight is around one-third compared to steel. Consequently, the average aluminium content per car increased from around 120 kg per vehicle in 2006 to the current c. 190 kg per vehicle. This is expected to accelerate even more to around 250 kg per vehicle by 2030.

The EV megatrend will significantly drive aluminium demand in Europe, which is expected to increase by around 60% from the current levels of three million tonnes to five million tonnes by 2030. This will require more recycled aluminium as well as more salt slags recycling capacity in Europe, where the market is expected to grow from around one million tonnes of salt slags today to about 1.6 million tonnes by 2030.

Befesa's Sustainable Global Growth Plan (SGGP) over the next approximately five-year period, from 2022 to around 2027, is based on the decarbonisation and EV

megatrends, which are expected to drive the need for further recycling and, therefore, Befesa's services.

CRUDE STEEL PRODUCTION & DEMAND

Global crude steel production amounted to 1.83 billion tonnes in 2022, –4% YOY (2021: 1.91 billion tonnes).

China's crude steel production in 2022 was muted, mainly because of COVID-related restrictions and a slower property market, decreasing demand. However, China continued to lead the crude steel production globally with over 50% share of the global steel output, consolidating its one billion tonnes level of annual output (–2% YOY). The 2022 year-end saw a YOY slight rebounding trend driven by the lift of the COVID-related restrictions in December.

All the remaining steel markets currently served by Befesa – the EU, Turkey, South Korea and the US – also showed a declining production trend in 2022 and entered 2023 at a slower pace, driven by a deceleration of economic activity.

Looking into the year 2023, from a global perspective, crude steel production is expected to remain in line with 2022 levels. As to demand, the contraction in housing will likely slow down – after considerable decreases in 2021 and 2022 – whereas infrastructure should pick up further. Overall, the global demand for crude steel is expected to be flattish YOY.

In China, the government has shifted focus from zero COVID to the stabilisation of growth. Chinese demand for crude steel in 2023 is expected to improve YOY, driven by a rebound of China's economy on the gradual recovery from COVID, along with the stabilisation of the housing market and accelerated infrastructure project approval.



Market environment continued

In 2023, China is expected to consolidate the one billion tonnes of crude steel output reached for the first time in 2020, keeping supply and demand largely in balance.

The positive trend of crude steel production globally 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 and allow Befesa to continue to utilise its plants more efficiently in the medium-term.

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

SECONDARY ALUMINIUM PRODUCTION & DEMAND

In 2022, the trend in secondary aluminium production was under pressure globally and particularly in western Europe, as a result of rising energy prices.

For 2023, the secondary aluminium production trend should show a rebound YOY on the back of a moderation in energy prices and the continuation of the recovery of the automotive industry.

In the mid-term, a reversal in the automotive trend and the related aluminium demand is also expected, on the back of accelerating EV

demand, favoured by the decarbonisation megatrend, inventory restocking and normalised semiconductor production. Particularly in the EU, a new law was approved in 2022 to effectively ban the sale of new combustion-engine cars by 2035. The latter embraces the shift to zero-emission mobility, which will speed up the switch to EVs and therefore will drive the growth of the demand and production of secondary aluminium in the EU.

The estimated growth 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, so too are salt slags. 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 EAF steel dust recycling services since 2010 and 2013, respectively. In China, supported by the regulations, Befesa started offering its EAF steel dust 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 34 to 39).

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

Establishing a circular economy is a relevant and increasing trend across the world, with metal recycling being one of the most established 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 extracting metals from residues and other sources, and reintroducing the recovered materials into the market, Befesa prevents the extraction of finite virgin resources and positively contributes to the protection of the environment.

DEVELOPMENT OF ZINC TREATMENT CHARGES

The benchmark zinc treatment charge (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 customers, the zinc smelters, deduct the TC from the amount of zinc contained in WOX (typically 85% of the zinc LME price), which is payable to Befesa.

For 2022, the benchmark TC was settled at \$230 per tonne, \$89 per tonne higher YOY (2021: \$141 per tonne, the second-lowest level over the last decade).

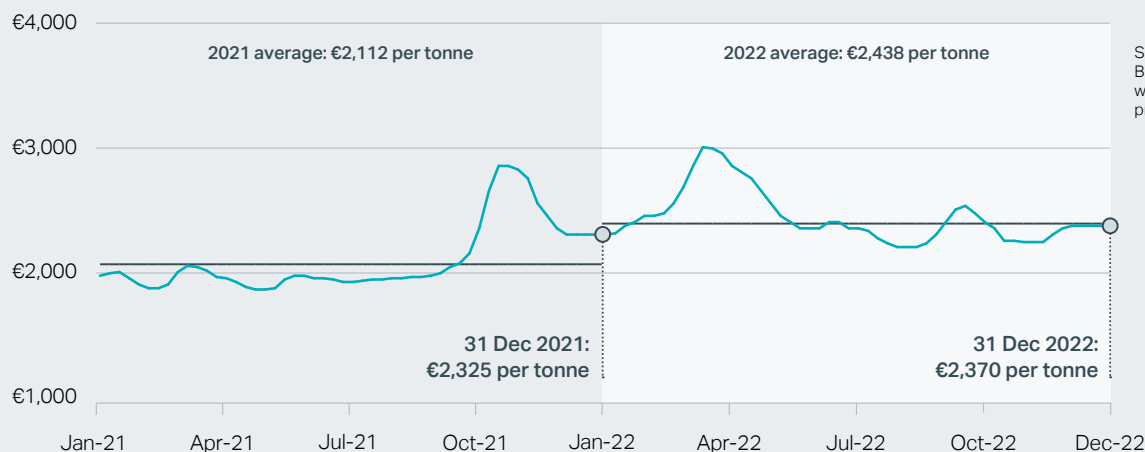
This resulted in around €16 million YOY lower EBITDA in 2022.

Aluminium alloy FMB average prices
€ per tonne

	2022	2021	Change	Change
Q1	€2,627	€1,982	€645	33%
Q2	€2,488	€1,947	€541	28%
Q3	€2,327	€2,012	€315	16%
Q4	€2,312	€2,506	-€194	-8%
Full year	€2,438	€2,112	€327	15%

Aluminium alloy FMB prices

(€ per tonne)



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

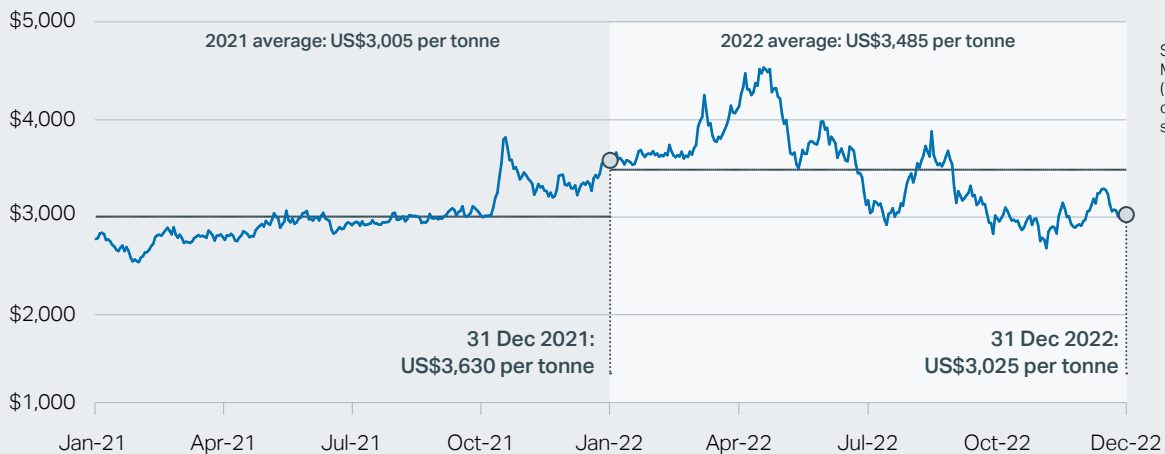
Market environment continued

Zinc LME average prices

	US\$ per tonne				€ per tonne			
	2022	2021	Change		2022	2021	Change	
Q1	\$3,743	\$2,748	\$995	36%	€3,337	€2,279	€1,058	46%
Q2	\$3,925	\$2,916	\$1,009	35%	€3,683	€2,418	€1,265	52%
Q3	\$3,269	\$2,991	\$278	9%	€3,245	€2,538	€707	28%
Q4	\$3,004	\$3,365	-\$361	-11%	€2,944	€2,942	€2	0%
Full year	\$3,485	\$3,005	\$480	16%	€3,302	€2,544	€758	30%

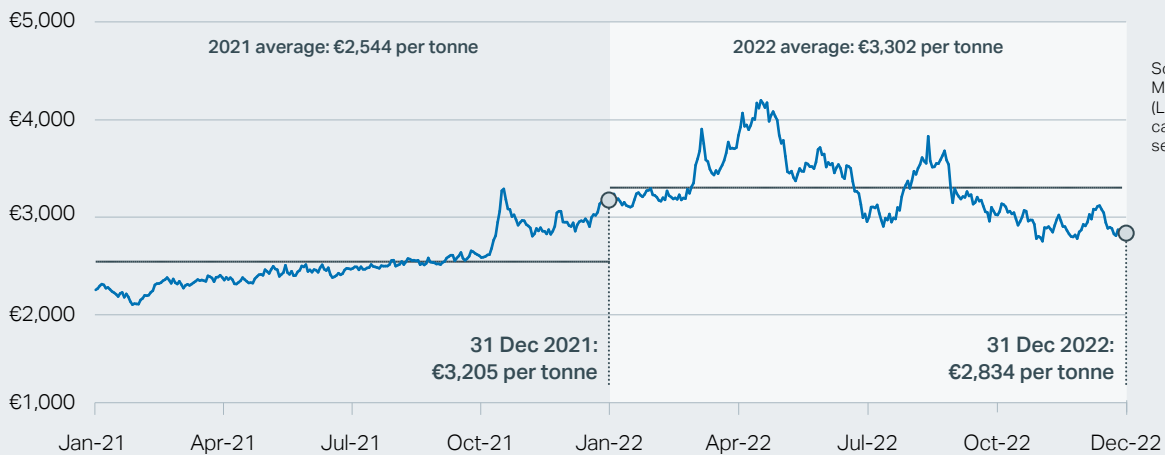
Zinc LME prices

(US\$ per tonne)



Zinc LME prices

(€ per tonne)



As of the date of publication of this Annual Report, the benchmark TC for 2023 has not yet been published in the zinc industry. Once available, Befesa will provide detailed earnings guidance for the full 2023 year – most likely with the Q1 2023 earnings release on 4 May 2023.

DEVELOPMENT OF ENERGY PRICES

Zinc and aluminium market prices have been strongly correlated with electricity and gas prices over the last >20 years. This strong correlation discontinued starting from Q4 2021, continued and emphasised during 2022 in the wake of the European energy crisis.

In 2022, the volatility and high levels of gas and electricity prices escalated with the start of the war in Ukraine in late February, and it reached peak levels in Q3. In Q4 2022, gas and electricity prices in Europe significantly reduced from the record-high levels in August.

As of the date of publication of this Annual Report, the volatility of the energy market remains high and there is still considerable uncertainty over energy prices in 2023.

DEVELOPMENT OF BASE METAL PRICES

The profitability of Befesa's steel dust recycling and aluminium salt slags recycling operations are partially influenced by the development of the supply and demand dynamics of certain base metals.

Zinc market prices in 2022 were less affected by the weaker Chinese demand for zinc – largely a result of the struggling property sector – but

rather by the simultaneous supply tightness in the rest of the world. The supply of zinc fell, reflecting an unprecedented year of smelter issues, particularly in Europe, as smelters faced margin challenges owing to high energy prices, with peak levels reached in Q3 2022. The low level of stocks of zinc and the supply curtailments and uncertainty over Europe's smelter sector led to zinc prices peaking in April 2022 to around \$4,500 per tonne.

After reaching its peak, zinc market prices decreased and trailed between \$2,900 and \$3,500 per tonne. Zinc market prices ended the year at US\$3,025 per tonne of zinc, as of 31 December 2022, US\$605 per tonne or 17% below the price of US\$3,630 per tonne of zinc as of 31 December 2021. Applying the US dollar/euro exchange rates for the respective dates, zinc market prices closed at €2,834 per tonne as of 31 December 2022, €371 per tonne or 12% below the price of €3,205 per tonne of zinc as of 31 December 2021.

The average cash seller daily price per tonne quoted on the LME for 2022 was US\$3,485 per tonne of zinc, representing a 16% or \$480 per tonne increase YOY (2021 average: US\$3,005 per tonne). Applying the US dollar/euro exchange rates for the respective periods, the average daily price in 2022 was €3,302 per tonne of zinc, representing a 30% or €758 per tonne increase YOY (2021 average: €2,544 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 34 to 39).

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 – rallied in March 2022 to a 15-year high of around €3,000 per tonne on the back of the deepening global energy crisis. Notwithstanding significant production losses in Europe and China, aluminium market prices declined later in the year to around €2,300–€2,500 per tonne levels as the focus increasingly shifted towards demand – which faced numerous headwinds – and inventories.

Prices closed at €2,370 per tonne of aluminium alloy FMB as of 31 December 2022, €45 per tonne or 2% above the price of €2,325 per tonne of aluminium alloy as of 31 December 2021.

The average weekly price per tonne of aluminium alloy FMB for 2022 was €2,438 per tonne, representing a 15% or €327 per tonne increase YOY (2021 average: €2,112 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 growing in the core business of the company – steel dust and salt slags recycling and secondary aluminium – in markets that present attractive growth opportunities. Befesa has 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 TWO MAIN PILLARS:



Sustainable Global Growth Plan (SGGP)



Hedging strategy

In 2022, Befesa made significant progress in the definition of its business strategy across all the dimensions, setting a solid foundation for future growth. Befesa has transformed from a purely European leader to the global leader in the steel dust recycling business, with a strong 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 over the coming years.

SUSTAINABLE GLOBAL GROWTH PLAN (SGGP)

The first pillar of Befesa's strategy is the new Sustainable Global Growth Plan, which is a roadmap for the next five years.

Most of the companies around the world are making strong commitments to reduce their carbon footprint and this decarbonisation megatrend clearly brings great opportunities for Befesa.

As the steel industry looks to decarbonise its operations, it needs to move to production technologies that are less CO₂-intensive.

Primary steel coming from blast furnaces (BOF) use iron ore as a raw material and coking coal as a reducing agent. This compares with electric arc furnaces (EAF), which use steel scrap as a raw material and electricity as an energy source. EAF steel-making produces seven times less CO₂ per tonne of steel compared to BOF, based on today's electricity energy mix. If the EAF is fed with renewable electricity,

this CO₂ advantage becomes significantly larger.

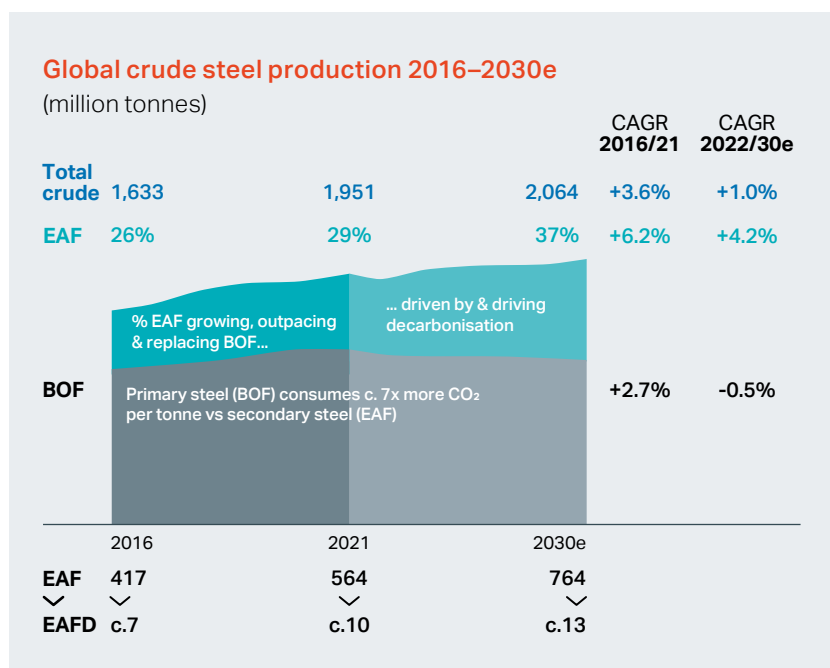
Befesa recycles steel dust coming from EAF steel producers that contains zinc, which is recovered by Befesa. Decarbonisation will drive EAF steel growth globally and over the next 10 years EAF penetration is expected to increase from 29% to 37% globally. This will represent tangible and sizeable growth opportunities for Befesa in Europe, the US and Asia.

Similarly, the decarbonisation trend drives a transition in the automotive industry from combustion engines to electric vehicles (EVs) to decarbonise the industry and move away from the use of fossil fuels. EVs will require a higher amount of aluminium content per car to achieve light-weight targets which at the same time will increase the efficiency of the electric motors.

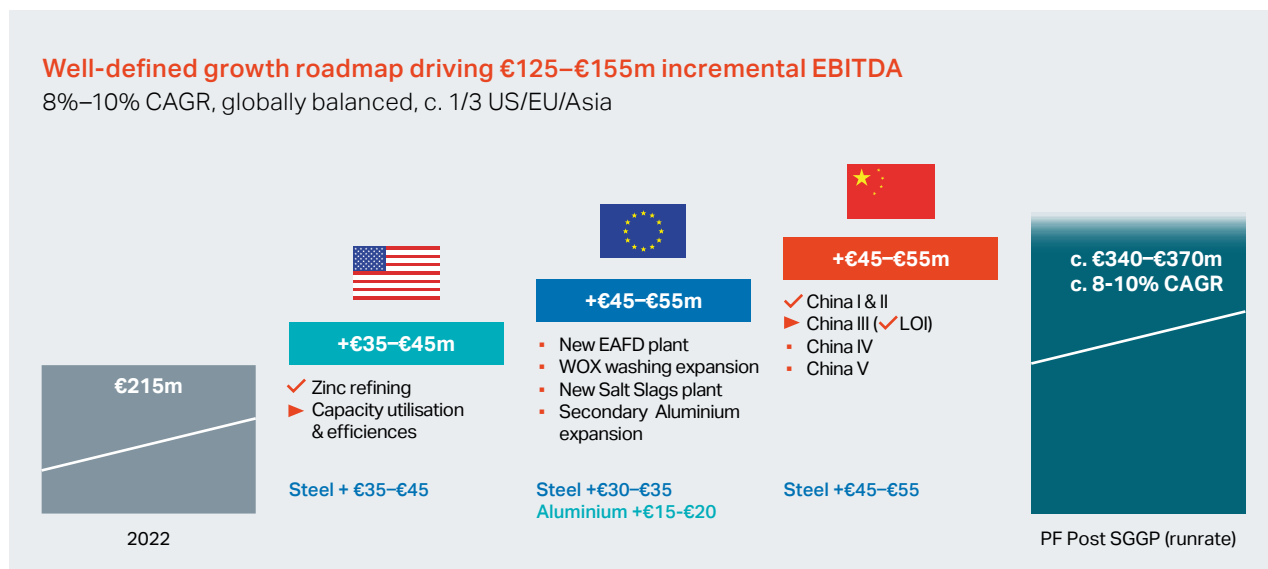
This megatrend will drive higher aluminium demand in Europe and increase the need for salt slags recycling capacity.

In Europe, the decarbonisation investments that all the steel producers are making will support EAF share, growing to more than 50% by 2030. This represents an increase in the market where Befesa operates of more than 350 thousand tonnes (approximately).

In China – the largest producer of steel in the world – the rapid transition from BOF to EAF represents a strong growth opportunity for Befesa. More than 60 million tonnes of new EAF capacity has been announced, which represents approximately one million tonnes of incremental steel dust generation.



Strategy continued



Based on this decarbonisation megatrend, Befesa has announced an ambitious growth plan to invest c. €410–€450 million over the next five years to grow earnings at a high rate.

With this capex plan, Befesa is targeting €125–€155 million of incremental EBITDA from the 2022 baseline, which would represent a growth in EBITDA of between 8% and 10% on an annual basis over the next five years.

The plan is globally well-balanced across the three main markets of Befesa, with around one-third in the US, Europe and Asia/China.

Befesa aims to fund the growth plan organically with Befesa's own resources, while keeping the leverage at or below x2.5, as well as maintaining the dividend policy of distributing 40%–50% of net profit per year. The growth plan is modular, and the execution is in control of Befesa, continuing a prudent approach and

adjusting timing as required as per the market environment.

North America

Befesa entered the North American market in August 2021 with the acquisition of American Zinc Recycling (AZR).

The US is a very attractive market for steel dust recycling. Although it has already a high EAF share penetration of around 70%, this is expected to increase even further, driven by two main trends.

First, the US government has agreed to spend \$1.2 trillion on infrastructure projects, which will drive higher steel demand. This will require additional steel production, and some of the largest steelmakers have already announced investments to increase steel production capacity.

The second trend is the decarbonisation, as most of this new steel will be produced using

EAF technology. Based on these trends, the steel production from EAF is estimated to increase by 20% by 2030, generating around 300 thousand tonnes of new steel dust to be recycled in the US annually.

In this market environment – in which Befesa already has c. 40%–50% of the market share – the SGGP includes two investments.

The first one already happened in September 2022 when Befesa acquired the remaining 93% stake in the US zinc-refining asset. Befesa already owned 7% of the asset, as part of the acquisition of the AZR deal closed in 2021.

The environment, dominated by high inflation and energy prices, provided Befesa with the opportunity to favourably renegotiate the terms and conditions of the agreement, reducing the acquisition price by 65% to \$47 million.

The zinc-refining business provides Befesa with a strategic vertical integration opportunity in the US, addressing the shortage of smelting capacity in the North American market. Furthermore, the zinc-refining facility is the only one of its kind in the world, producing green zinc from 100% recycled raw materials. The size of the refining plant is sufficient to process all the WOX coming from Befesa's four recycling plants in the US at full capacity, to produce pure zinc.

The second project in the US is the debottlenecking of the capacity that Befesa acquired in August 2021, by which Befesa expects to increase the volume by around 200 thousand tonnes of EAF steel dust throughput. The US is a growing market, and for Befesa to capture that growth, it is needed to invest to refurbish the plant in Palmerton, PA.

The existing installed capacity in Palmerton is underutilised and, in order to prepare the asset for further growth, Befesa plans to invest during the years 2023 and 2024. The investment will free up capacity and improve the efficiency of the plant significantly.

The total investment in the US will be €110–€120 million and is expected to drive incremental EBITDA of €35–€45 million per year. The timing of the debottlenecking and refurbishment of the Palmerton site will occur between 2023 and 2024, and Befesa will be ready to capture the new market volume from 2024 onwards.

Europe

In Europe, the situation is different to that in the US. In Europe today, the

penetration of EAF is around 45%. The steel industry is under pressure to decarbonise their operations in order to meet the CO₂ reduction target they have committed to. The reliable and fast way to decarbonise the steel industry is by transitioning from BOF to EAF, which produces seven times less CO₂ per tonne of steel.

More than 10 projects have been announced by steelmakers in Europe to increase the EAF steel production capacity over the coming years, which will represent a total of around €15 billion of total investment carried out by Befesa's existing customers to increase steel production using EAF technology. Consequently, there will be around 350 thousand tonnes of EAF steel dust annually available in Europe to be recycled.

It is the first time in the last 20 years that Befesa sees a sizeable growth opportunity in Europe and Befesa is ready to capture it. The share of EAF steel production in Europe is expected to grow from around 44% today to over 50% by 2030, which represents an increase of more than 20%. Befesa expects to carry out a capacity increase of 140–160 thousand tonnes of EAF steel dust recycling capacity and the corresponding expansion of the WOX washing capacity, by investing €105–€115 million. These investments are expected to deliver €30–€35 million of incremental EBITDA per year.

These represent a high return with limited risk investments, given the fact that Europe is a market that Befesa knows very well and where

Befesa has been operating for over 30 years. Befesa can accommodate the speed of the capex to the speed of the growth of the market at any time, having full flexibility in the investment programme.

China

Befesa has been present in China since 2008. However, it was only four years ago when Befesa started the investment process in this country after the Chinese government launched strict environmental rules and regulation.

China is very rapidly transitioning from BOF to EAF steel-making in order to reduce their carbon emissions. This, together with the fact that there is a proper environmental regulation in place, makes it a very attractive growth opportunity for Befesa. Befesa is already present in two Chinese provinces: Jiangsu and Henan.

China today is already by far the biggest steel dust recycling market in the world with around two million tonnes of steel dust generation every year. China produces over 50% of the crude steel in the world. Today, only 11% of the crude steel produced in China is through EAF technology. However, the EAF share is expected to increase to around 20% by 2030, driven by decarbonisation, CO₂ reduction and the targets that the Ministry of Environment has set. Today, there are over 40 projects announced to increase the EAF steel-making capacity by over 60 million tonnes in China. This will translate into over 200 million tonnes of EAF steel generation in China by 2030.

Strategy **continued**

Over the next years, the market of Befesa will grow to around 3.5 million tonnes of EAF steel dust per year, which will need to be recycled. To put things into context, the addressable market size in China is around three times that in the US or Europe.

Befesa expects to capture part of that market growth to have a market share of 15%–20% of the total addressable market. Befesa expects to do so by a combination of scaling up of existing plants and going into a new province.

Befesa aims to add around 330 thousand tonnes of new EAF steel dust recycling capacity in China. This will require a total investment of €115–€125 million, which is expected to deliver incremental EBITDA of €30–€35 million per year. Like in the US and Europe, Befesa can accelerate or slow down the speed of the investment depending on how the situation is evolving in China.

As in the US and Europe, Befesa can accelerate or slow down the speed of the investment depending on how the situation is evolving in China.

Befesa's existing plants in the provinces of Jiangsu and Henan are very well located, close to local steelmakers. Beyond the two existing plants, in February 2023 Befesa signed an investment agreement with local authorities to build a third plant at the city of Yunfu, in the province of Guangdong (located in the southern part of the country).

Aluminium

In the aluminium business, the decarbonisation and EV megatrends

will significantly drive aluminium demand in Europe. In the automotive industry, the decarbonisation and the ban to manufacture combustion engines by 2030 will drive the transition from traditional combustion engine cars to EVs. The sale of EVs in Europe is expected to increase by five times by 2030 to around 11 million units from the current two million units.

Electric vehicles need light-weight solutions in order to increase the efficiency of the car to prolong the life of the batteries, which is a key element in the new EV cars. To achieve this light-weight goal, aluminium is the solution as aluminium weight is around one-third less compared to that of steel.

The average aluminium content per car has been increasing, from 121 kg per car in 2006 to 193 kg per car today; this is expected to accelerate even more to around 250 kg per car by 2030.

Consequently, aluminium demand in Europe is expected to increase by 60% to around five million tonnes by 2030, from around three million tonnes today. This will require more recycled aluminium and more salt slags recycling capacity in Europe, where the market is expected to grow from around one million tonnes of salt slags today to 1.6 million tonnes by 2030.

Befesa is today the market leader in aluminium salt slags recycling in Europe, with around 50% of the market. In this market environment, Befesa plans to carry out two major investments.

First, Befesa aims to expand its secondary aluminium production capacity by around 90 thousand tonnes in the existing plant of Bernburg, Germany. This is in line with the expected volume growth in the European market.

Second, Befesa plans to invest in a new state-of-the-art salt slags recycling plant of 120 thousand tonnes annual capacity, in line with the incremental secondary aluminium capacity and corresponding salt slags generation.

Altogether, Befesa plans to spend a total of €80–€90 million capex, which is expected to deliver €15–€20 million of total incremental EBITDA per year.

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 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 2022, Befesa's hedges were locked in at €2,379 per tonne on average. This partly offset the increase of the zinc LME price, which averaged at €3,302 per tonne in the year. However, Befesa's hedging prices were €228 per tonne or 11% higher YOY (2021: 2,151 per tonne on average). Combined, the

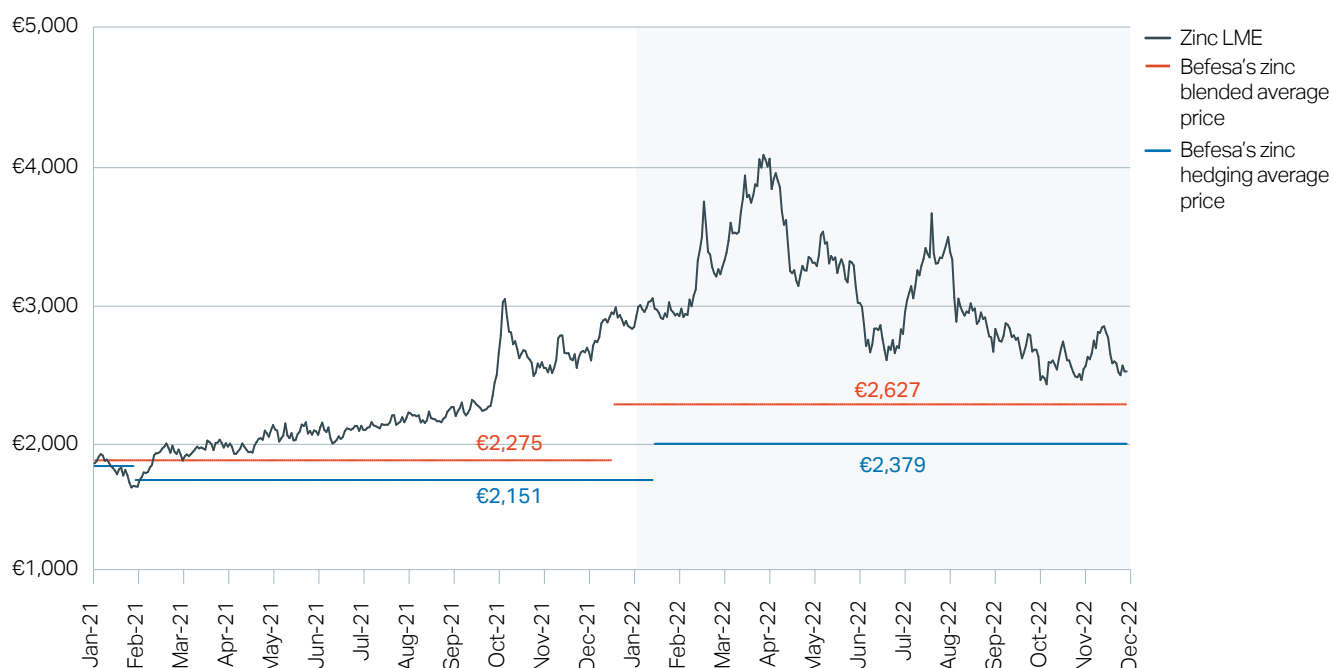
effective zinc average price (monthly blended rate between hedged volume and non-hedged volume) resulted in €2,627 per tonne in 2022, up €352 per tonne or 15.5% YOY (2021: €2,275 per tonne).

The combined global hedge book in place, as of the date of publication of this Annual Report, provides Befesa with improved pricing visibility up to July 2025, therefore for the following c. 2.5 years.

Period	Average hedged price (€ per tonne)	Zinc content in WOX hedged (thousand tonnes)
2022	€2,379	163
2023	c. €2,450 ¹	156
2024	c. €2,550 ¹	152
2025	c. €2,650 ¹	58

¹ FX US dollar/euro forward rate assumed of 1.08 for 2023 and 2024, and 1.10 for 2025

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



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 the remaining 93% stake in the US zinc-refining asset on 30 September 2022. Formerly known as American Zinc Products, LLC. (AZP), Befesa renamed it Befesa Zinc Metal (BZM). Befesa consolidates financials of BZM in accordance with the requirements of the International Financial Reporting Standards (IFRS) as adopted by EU from 30 September 2022 onwards. More detailed information on the consolidated financial statements is available on pages 105 to 187 of this Annual Report.

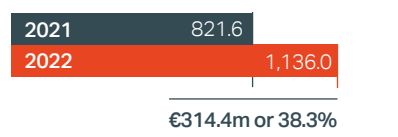
REVENUE

Total **revenue** increased in 2022 by 38.3% YOY to €1,136.0 million (2021: €821.6 million). The increase was primarily driven by volume growth in Steel Dust Recycling Services, including the contribution from the US zinc operations during the full year for the first time in 2022, the

stronger zinc and aluminium alloy market prices and the higher zinc hedging prices. These positive effects were partially offset by the unfavourable higher zinc treatment charge (TC), referenced at \$230 per tonne in 2022 (2021: \$159 per tonne), and the lower volumes treated in Aluminium Salt Slags.

Revenue

(€ million):



EBITDA & EBIT

Total **adjusted EBITDA** increased in 2022 by 8.6% YOY to €214.6 million (2021: €197.6 million). This was despite a very challenging environment that included factors such as the COVID pandemic and China enforcing a zero COVID policy, the war in Ukraine and the energy crisis.

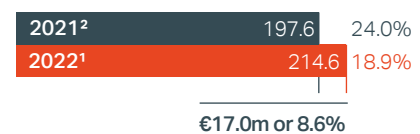
The €17.0 million adjusted EBITDA improvement YOY was driven mainly by the US zinc operations contributing during the full year for the first time in 2022. Downward pressure was because of unfavourable zinc TC and energy inflation, which partially offset the benefits of the YOY higher base

metal prices. The main components of the YOY €17.0 million adjusted EBITDA improvement were, in more detail, the following:

- Volumes (€23 million): higher in Steel Dust (€28 million) from the higher EAF steel dust throughput, including the US zinc operations contributing for the full year; lower in Aluminium Salt Slags, mainly driven by the lower activity of the European automotive and aluminium industries (–€5 million);
- Base metal prices (€39 million): higher zinc LME prices (€23 million); higher zinc hedging prices (€5 million); unfavourable higher zinc TC (–€16 million); higher aluminium FMB prices and aluminium metal margins (€27 million); and
- Higher inflation, mainly energy cost, which offset the YOY higher base metal prices (–€45 million).

Adjusted EBITDA & margin

(€ million, % margin of revenue):



¹ €234.9m total reported EBITDA 2022 – €20.3m adjustments, mainly driven by zinc-refining acquisition impacts = €214.6m total adjusted EBITDA 2022

² €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



Total **adjusted EBIT** came in slightly up YOY at €150.3 million in 2022 (2021: €149.3 million), mainly following the same drivers explained, referring to the EBITDA development.

Adjusted EBIT & margin

(€ million, % margin of revenue):

2021 ⁴	149.3	18.2%
2022 ³	150.3	13.2%
	€1.1m or 0.7%	

³ €164.8m total reported EBIT 2022 – €14.4m adjustments, mainly driven by zinc-refining acquisition impacts = €150.3m total adjusted EBIT 2022

⁴ €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

Total **EBITDA and EBIT** were adjusted for –€20.3 million and €5.9 million in 2022, respectively, largely attributable to impacts from the acquisition of the US zinc-refining asset and the insurance recovery at the Hanover plant.

Total **reported EBITDA** amounted to €234.9 million in 2022 (+23.9% YOY). Total reported EBIT amounted to €164.8 million in 2022 (+29.3% YOY). Further information regarding these adjustments is available in Note 2.6 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 117 and 118.

FINANCIAL RESULT & NET PROFIT

Total **net financial result** in 2022 came in at –€34.4 million (2021: –€15.6 million). The YOY development is mainly due to €10.5 million non-recurring positive net exchange difference in 2021 related to the \$460 million AZR acquisition and the €6.4 million finance cost of recognising the prior 6.9% investment on American Zinc Recycling Corp. at fair value in 2022 (Notes 6 and 23 of the "Consolidated financial statements").

Total **net profit** attributable to the shareholders in 2022 increased by 6.5% YOY to €106.2 million (2021: €99.7 million), also a new record.

This improvement was primarily because of the positive drivers affecting EBITDA and EBIT and the gain on bargain purchase in relation with the purchase of American Zinc Recycling Corp (Notes 6, 22.3 and 23 of the "Consolidated financial statements").

Correspondingly, earnings per share (EPS) in 2022 decreased slightly by 0.7% YOY to €2.66 (2021: €2.68).

€214.6m

ADJUSTED EBITDA IN 2022
(€197.6M IN 2021)

€106.2m

NET PROFIT IN 2022
(€99.7M IN 2021)

€2.66

EARNINGS PER SHARE IN 2022
(€2.68 IN 2021)

Financial position & liquidity

NET DEBT & NET LEVERAGE

Gross debt increased by €16.0 million to €710.8 million at year-end 2022 (year-end 2021: €694.7 million), explained primarily by local loans in China to fund the Henan plant.

Net debt increased to €549.0 million at year-end 2022 (year-end 2021: €470.6 million). The €549.0 million net debt with the €214.6 million adjusted EBITDA resulted in a x2.56 **net leverage** at year-end closing (year-end 2021: x2.38), after self-funding the US zinc-refining acquisition. Befesa continues to be compliant with all debt covenants.

Net debt

(€ million)

	31 December 2022	31 December 2021
Non-current financial indebtedness	677.4	669.3
+ Current financial indebtedness	33.3	25.4
Financial indebtedness	710.8	694.7
- Cash and cash equivalents	-161.8	-224.1
- Other current financial assets ¹	-0.1	-0.1
Net debt	549.0	470.6
Adjusted EBITDA	214.6	197.6
Net leverage ratio	x2.56	x2.38

¹ Other current financial assets adjusted by hedging valuation and restricted deposits

CREDIT RATINGS

During 2022, Moody's and Standard & Poor's reviewed their corporate **credit ratings** assigned to Befesa. In June 2022, Moody's reaffirmed its 'Ba2' rating, and improved its outlook on Befesa from stable to positive. Standard & Poor's reaffirmed its 'BB+', outlook stable' rating.

OPERATING CASH FLOW

Operating cash flow in 2022 amounted to €137.3 million, 16.5% higher YOY (2021: €117.9 million). This improvement was driven mainly by the earnings increase explained on the page opposite.

€161.8m

CASH ON HAND AT YEAR-END 2022
(€224.1M AT YEAR-END 2021)

€549.0m

NET DEBT AT YEAR-END 2022
(€470.6M AT YEAR-END 2021)

x2.56

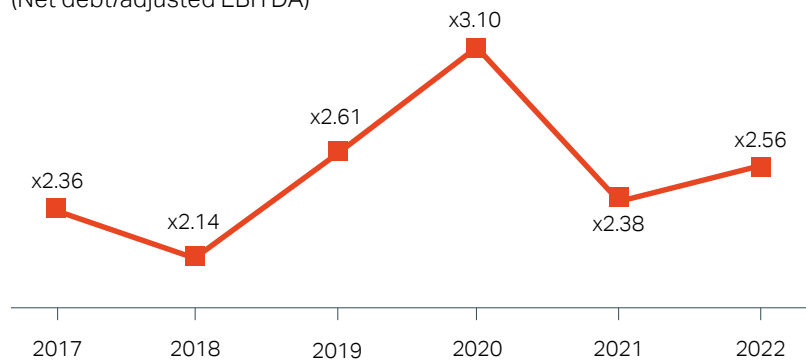
NET LEVERAGE AT YEAR-END 2022
(x2.38 AT YEAR-END 2021)

Credit ratings for Befesa S.A.

	Year-end 2022	Year-end 2021
Moody's	Ba2 (outlook positive)	Ba2 (outlook stable)
Standard & Poor's	BB+ (outlook stable)	BB+ (outlook stable)

Net leverage ratio evolution

(Net debt/adjusted EBITDA)



The change in working capital and others amounted to €34 million YOY; the higher working capital consumption was very much to fund growth, including adjusted items related to the US zinc-refining acquisition. In addition, after collecting the majority of the Hanover insurance coverage, there is approximately €10 million expected to be collected during the first half of 2023.

Interests paid in 2022 increased by 25.8% YOY to €21.2 million (2021: €16.9 million), mainly as a result of the higher gross debt (€100 million Term Loan B (TLB) add-on to partially fund the AZR acquisition, and Chinese local loans), and because TLB interest payments are made quarterly in 2022 versus biannually in 2021.

In 2022, Befesa invested €151.4 million (2021: €77.7 million) to fund regular maintenance capex, the recovery of the Hanover plant and US operational excellence/ synergies, and growth investments. The latter are mainly related to the \$47 million cash paid to acquire the remaining 93% stake in the US zinc-refining asset, as well as capex related to the second Chinese plant in Henan, partially funded through a local loan.

Dividends of €50 million (€1.25 per share) were distributed in July 2022, equal to 50% of the 2021 net profit.

Total cash flow generated in 2022 amounted to –€62.3 million and cash on hand stood at €161.8 million. Normalising for

over €50 million to self-fund the US zinc-refining acquisition and related costs, and about €10 million Hanover in-process insurance recovery, Befesa ended the year with a balanced cash flow.

The €161.8 million cash balance, together with the €75.0 million RCF, entirely undrawn, provides Befesa with more than €230 million liquidity.

Segment information

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

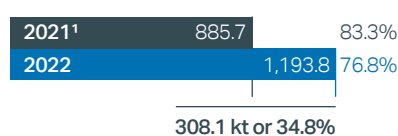
STEEL DUST RECYCLING SERVICES

Volumes of **EAF steel dust** increased in 2022 by 34.8% YOY to 1,193,793 tonnes (2021: 885,724 tonnes). With these volumes, Befesa's EAF steel dust recycling plants ran at an average load factor of 77% of the installed annual recycling capacity of c. 1,555,300 tonnes, including c. 620,000 tonnes from the US recycling sites and 110,000 tonnes from the first Chinese plant at Jiangsu.

The volume of Waelz oxide (WOX) sold increased in 2022 by 40.0% YOY to 407,445 tonnes (2021: 290,975 tonnes).

EAF steel dust throughput & load factor

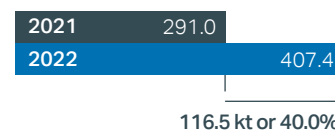
(Thousand tonnes, % of annual capacity)



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

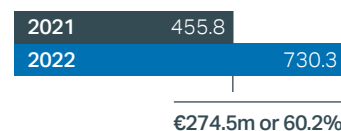
(Thousand tonnes)



Revenue in the Steel Dust business increased in 2022 by 60.2% YOY to €730.3 million (2021: €455.8 million).

Revenue – Steel Dust Recycling Services

(€ million)



Blended zinc average price

(€/tonne)





Adjusted EBITDA increased in 2022 by 13.7% YOY to €168.6 million (2021: €148.3 million), primarily explained by the positive contribution from the US operations. The higher zinc market prices offset the higher inflation, mainly energy cost, and the unfavourable zinc TC. In 2022, zinc LME prices were stronger YOY and averaged at €3,302 per tonne, up 29.8% YOY (2021: €2,544 per tonne). Zinc TC was referenced at \$230 per tonne for the full year 2022 (2021: \$159 per tonne). Combined, the net price effect (zinc LME and TC) was up in 2022 by more than 25% YOY. Zinc hedging average prices in 2022 were also higher 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 €2,627 per tonne in 2022, up 15.5% YOY (2021: €2,275 per tonne).

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

2021 ³	148.3	32.5%
2022 ²	168.6	23.1%
€20.3m or 13.7%		

² €178.8m Steel Dust reported EBITDA 2022 – €10.2m adjustments, mainly driven by zinc-refining acquisition impacts = €168.6m Steel Dust adjusted EBITDA 2022

³ €134.6m Steel Dust reported EBITDA 2021 + €13.7m one-time AZR acquisition costs = €148.3m Steel Dust adjusted EBITDA 2021

Adjusted EBIT came in at €121.1 million in 2022, up 2.1% YOY (2021: €118.6 million), following similar drivers explained, referring to the EBITDA development.

In 2022, EBITDA and EBIT in Steel Dust Recycling Services were adjusted for –€10.2 million and €5.5 million, respectively, mainly driven by impacts from the acquisition of the US zinc-refining asset. Reported EBITDA amounted to €178.8 million (+32.8% YOY), and reported EBIT amounted to €125.8 million (+29.7% YOY).

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

2021 ⁵	118.6	26.0%
2022 ⁴	121.1	16.6%
€2.5m or 2.1%		

⁴ €125.8m Steel Dust reported EBIT 2022 – €4.7m adjustments, mainly driven by zinc-refining acquisition impacts = €121.1m Steel Dust adjusted EBIT 2022

⁵ €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

Segment information continued

ALUMINIUM SALT SLAGS RECYCLING SERVICES

Salt Slags subsegment

Salt slags and SPL recycled

volumes in 2022 amounted to 322,088 tonnes, down 18.5% YOY (2021: 395,025 tonnes). This development was primarily explained by the Hanover plant shutdown in 2022 to repair the damage from the fire in 2021. On average, Salt Slags recycling plants operated at 69% of the latest installed annual recycling capacity of 470,000 tonnes. Normalising for Hanover, utilisation rates would have averaged at around 95%.

Salt slags & SPL volumes & load factor

(Thousand tonnes recycled, % of annual capacity)



⁶ Load factor normalised for the Hanover plant shutdown in 2022

Revenue in the Salt Slags subsegment came in flat YOY at €77.3 million in 2022 (2021: €77.3 million).

Revenue – Salt Slags subsegment (€ million)



Adjusted EBITDA in the Salt Slags subsegment increased in 2022 by 31.6% YOY to €27.0 million (2021: €20.5 million). The YOY EBITDA improvement was primarily driven by the higher aluminium alloy FMB prices, which averaged at €2,438 per tonne in 2022, up 15.5% YOY (2021: €2,112 per tonne). The positive effects from YOY higher aluminium market prices were partially offset by the higher inflation, mainly energy cost, and the lower volume.

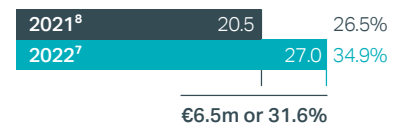
Adjusted EBIT increased in 2022 by 60.4% YOY to €18.2 million (2021: €11.3 million), following similar drivers explained, referring to the EBITDA development.

In 2022, EBITDA and EBIT in the Salt Slags subsegment were adjusted for –€11.6 million and €0.4 million, respectively, driven mainly by

impacts related to the Hanover plant recovery. Reported EBITDA amounted to €38.6 million (+45.5% YOY), and reported EBIT amounted to €29.4 million (up €18.1 million YOY).

Adjusted EBITDA & margin – Salt Slags subsegment

(€ million, % margin of revenue)

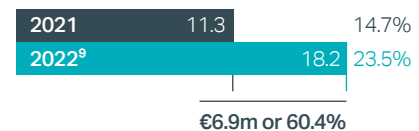


⁷ €38.6m Salt Slags reported EBITDA 2022 – €11.6m Hanover Salt Slags plant recovery impacts = €27.0m Salt Slags adjusted EBITDA 2022

⁸ €26.5m Salt Slags reported EBITDA 2021 – €6.0m Hanover Salt Slags plant fire impact = €20.5m Salt Slags adjusted EBITDA 2021

Adjusted EBIT & margin – Salt Slags subsegment

(€ million, % margin of revenue)



⁹ €29.4m Salt Slags reported EBIT 2022 – €11.2m Hanover Salt Slags plant recovery impacts = €18.2m Salt Slags adjusted EBIT 2022

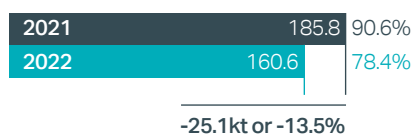
Secondary Aluminium subsegment

Aluminium alloy production volumes

in 2022 amounted to 160,637 tonnes, 13.5% lower YOY (2021: 185,777 tonnes). This development was primarily driven by the current challenging European automotive and aluminium industry environment. Nevertheless, even under the current volatile market environment, Secondary Aluminium production plants overall operated on average at a utilisation rate of around 78%.

Secondary aluminium alloy volumes & load factor

(Thousand tonnes produced, % of annual capacity)



Aluminium alloy average market price

(€/tonne)



Revenue in the Secondary Aluminium subsegment amounted to €375.9 million in 2022, up 13.9% YOY (2021: €329.9 million). The favourable aluminium alloy FMB prices were mostly offset by the lower volumes.

Revenue – Secondary Aluminium subsegment

(€ million)

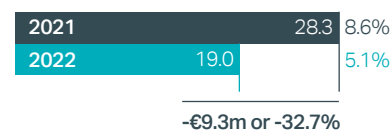


EBITDA came in at €19.0 million in 2022, 32.7% lower YOY (2021: €28.3 million). The YOY EBITDA development was mainly explained by the lower production of aluminium alloys, driven by the current lower European automotive and aluminium industry environment. The inflationary pressure, with particularly high gas prices in Europe during most of the year 2022, was offset by the higher aluminium market prices as well as improved metal margins.

EBIT came in at €11.5 million in 2022, down 40.7% YOY (2021: €19.3 million), following similar drivers that influenced the EBITDA development.

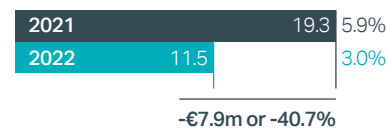
EBITDA & margin – Secondary Aluminium subsegment

(€ 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 of 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 80 to 95) and "Compliance" (pages 96 to 102). Further information about sustainability will be available in the Befesa ESG Update 2022, which will be published in Q2 2023.

Befesa will disclose the eligibility and alignment reporting requirements for its activities, in accordance with the EU taxonomy regulation in the Befesa ESG Update 2022. 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 that 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 2022, Befesa managed and recycled over 1.8 million tonnes of residues and produced about 1.5 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. This 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 66 to 68) of this Annual Report.

Befesa's contribution to the environment:

- Reducing the consumption of natural resources and preventing around 1.8 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 Best Available Technology (BAT) to minimise the environmental impacts.

CO₂ EMISSION REDUCTION

In 2022, Befesa defined a plan to reduce by 20% its CO₂ emission intensity rate by 2030, with the ambition of achieving net zero by 2050. The detailed plan was part of the Befesa ESG Report 2021. Befesa is executing this plan and will provide the latest progress as part of the Befesa ESG Update 2022, scheduled for Q2 2023.

KEY PERFORMANCE INDICATORS

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 need 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 2022, Befesa spent €8 million on environment-related investments (2021: €27 million).

Environmental **continued**

This was with the aim of renewing equipment that increases efficiency and reduces energy consumption and emissions.

The most relevant investments carried out during 2022 were the following:

- Filter replacements and optimisation to reduce emissions;
- Many improvements in reducing and capturing fugitive emissions such as building insulations, equipment enclosure, baghouse replacement and replacing open belt conveyors with closed chain conveyors;
- Engineering controls (e.g. sensors in baghouses linked to interlocked equipment) to prevent incidental emissions;
- Continuous improvements in plants' energy efficiency such as the optimisation of the shutdowns, replacement of lighting with LED technology and material recovery optimisation to reduce the consumption of resources;
- Different projects to improve the water reuse in the process;
- Replacement of chemicals with more environmentally friendly products;
- Improvements in emission monitoring systems to enhance the existing controls;
- Improvements in secondary containments to prevent ground contamination;
- Improvements at gas treatment plants;
- Repair of roads to prevent soil and groundwater contamination;
- Noise-reduction projects; and
- Tree planting for CO₂ emissions compensation.

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 emissions 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

2022 across the Befesa sites to reduce energy consumption and to 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.

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 (GHGs), 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 annually on a Company-wide basis. In addition, Kyoto Protocol Scope 1 and Scope 2 emissions are reported. In 2022, Scope 3 emissions started to be calculated. The actual nomenclature for Scope 1, 2 and 3 is direct emissions (previously Scope 1) and indirect emissions (previously Scope 2 and Scope 3).

EHS CERTIFICATIONS

As of 31 December 2022, all the Befesa sites except for the US zinc-refining and Chinese plants are ISO 14001 certified; 65% of the Befesa sites are ISO 50001 certified, 70% are ISO 14064 certified and 70% are also certified according to ISO 45001. Through these management systems and other internal protocols, Befesa monitors carbon emissions and reports

annually on a Company-wide basis. In addition, Kyoto Protocol Scope 1 and Scope 2 emissions are reported. In 2022, Befesa started reporting Scope 3 emissions.

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 are 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 2022, all certifications were maintained, and audits did not result in any major nonconformity. In the case of minor nonconformism and observations, these were analysed to identify the root causes and to define the necessary improvements.

Further information will be shown in the Befesa ESG Update 2022, which will be published in Q2 2023.

ENVIRONMENTAL INITIATIVE CONTEST

In 2022, Befesa launched its second Environmental Initiative Contest to promote the engagement and commitment of the Company's employees towards environmental improvement opportunities. Many excellent environmental initiatives were presented in the contest.

The winning initiative was the "Hatay mountain gazelle" project, presented by a group of employees from the Iskenderun plant in Turkey. This initiative was awarded €15,000, which will support the Hatay Tabiatı Koruma Derneği (Hatay Nature Conservation Association) to improve the habitats of the Hatay mountain gazelle.

Befesa's contribution to the environment:



Reduce

the consumption of natural resources and prevent around 1.8 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 Best Available Technology (BAT) to minimise the environmental impacts.

Social, health & safety

People

Befesa's employees have delivered great results in 2022 in a very challenging macro environment. The Company not only managed the ongoing impact of the COVID-19 pandemic – affecting especially China – but was also able to accomplish the full acquisition of the US zinc-refining asset.

The progress that Befesa has made and employees' collective commitment to Befesa's strategies (going above and beyond) give confidence that Befesa can manage through the challenges and uncertainties that may come.

At the end of 2022, Befesa held its Management Summit in Madrid, Spain. After three years without a face-to-face meeting, the top executives met to celebrate the accomplishments so far. They also discussed the long-term growth plan and how it will be communicated to the rest of the Company.

As of 31 December 2022, Befesa increased the number of employees by 19% to 1,847 people across eight countries (1,550 as of 31 December 2021). This increase was driven mainly by China and the US. Befesa's headcount in China increased by 47% to 115 people, explained by the plant located in the province of Henan. In the US, Befesa's headcount increased by 65% to 574 people,

following the acquisition of the zinc-refining asset. Befesa is proud to welcome its new colleagues from the zinc-refining plant located in Mooresboro, NC, which has become Befesa's largest site.

Out of the 1,847 employees, 77% work in operations and maintenance, which demonstrates Befesa's productive nature. In 2022, Befesa continued to have above 86% of employees with open-ended contracts.

Befesa's employee turnover rate is driven mainly by voluntary resignations, which amounted to 2.17% of the global average headcount in 2022 (2.40% in 2021).

The professional development of Befesa's employees is a fundamental pillar to run the operations on a more productive, efficient and effective manner, as well as to continue growing the business successfully. That is why training has such crucial importance at the Company.

Befesa collaborates with different training entities, including universities and business schools.

Following the success of the Young Professionals Programme in 2021, Befesa launched it again in 2022. The programme has two main goals: developing intercultural communication and networking skills, and providing Company insights.

The programme includes a virtual meeting with Befesa's executives (Executive Chair, CEO, CFO, business VPs), a virtual meeting with Befesa's corporate directors, and more than seven hours of activities on intercultural communication. 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, 43 employees participated in this initiative (38 in 2022).



During 2022, 37 apprentices and students participated in traineeships or internships with Befesa (2021: 38).

In 2022, training hours more than doubled YOY to 49,751 (2021: 23,512), mainly explained by the increase in trainings related to health and safety, which amounted to 29,657 hours (2021: 11,284). This represents 60% of the total training hours in 2022 (2021: 48% of total training). This shows that this field continues to be a key priority at Befesa and its commitment to the safety of its operations and employees.

General training hours increased by 85% to 12,955 (6,995 in 2021) and language training by 37% to 7,098 (5,164 in 2021). The objective with the trainings is to enhance employees' performance, productivity and satisfaction.

Further information on employees is available on page 172 of this Annual Report and in the Befesa ESG Update 2022, which will be published in Q2 2023.

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, equity and inclusion (DE&I) policy in 2020, Befesa continues to work for a better and equal society. By celebrating the United Nations Zero Discrimination Day on 1 March 2022, Befesa has reinforced its commitment to supporting the solidarity movement to end all forms of discrimination, promoting inclusion and a movement

for change. This is done not only through the DE&I policy, but also through other tools in place such as the code of conduct, the HR policy and the whistle-blowing channel.

Befesa believes that cultural diversity is a driving force of development, and it is proud of its multicultural workforce. In this sense, in 2022 Befesa developed an intercultural calendar with religious and/or cultural bank holidays of each country, state, province and municipality where Befesa has plants or offices. This calendar is available to all employees on the Befesa intranet.

Following the topic of cultural diversity, Befesa promoted a training on communication in a culturally diverse work environment. Employees from China, Spain,

Social, health & safety continued

France, Turkey and Germany participated – 28 in total – who were able to develop communication and listening techniques to communicate in a diverse and inclusive environment.

Furthermore, on 3 December 2022, to give more visibility to differently abled people in our communities, Befesa shared a video to celebrate the International Day of People with Disabilities. The video, available in all Befesa languages, focuses on how to avoid stereotyping when working with people with disabilities.

Befesa is proud to help establish and to be sponsor of the Autism Chair at the University of Sevilla, Spain.

During 2022, several projects were developed focusing on the integration and support of autistic people in the university. There were several activities such as the creation of online content to disseminate and help people on the spectrum; participation in international conventions, conferences and students' hall; training lectures for secondary school teachers; and a training course on easy reading and accessible environments, among others.

The Autism Chair also aims to promote research and training in the field of autism among students and faculty of the university. One of the outstanding projects in 2022 was the creation of an award for graduation papers that deal with the topic of autism.

One of the activities that takes place every year at Befesa is the Greeting

Card Contest. This activity involves children and/or relatives of Befesa employees under 13 years of age who are invited to create an artwork to celebrate the spirit of the end-of-the-year festivities. In 2022, all participants received a gift containing 24 coloured pencils called "Colours of the World", representing the skin tone of people from around the world. This reinforces Befesa's commitment and raises awareness of diversity among the children of Befesa's employees.

Befesa continues to assess and ensure a diverse workforce by tracking different KPIs, one of which is the headcount by age. The age chart (page 58) gives a clear picture of how the generational handover follows a natural rhythm. Befesa's human capital is experienced – as of 31 December 2022, the average employee age was 43.8 years, with 10.5 years of experience at Befesa.

Regarding the gender diversity of Befesa's top management, the Board of Directors has one new female member compared to 2021. In total, it has nine directors, consisting of two women and seven 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, sexual orientation and others.

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. Further information about Befesa's code of conduct for suppliers is available in the "Compliance" section (pages 96 to 102) of this Annual Report.

In the work aspect of human rights, the labour rights, 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.

Befesa evaluates various factors to ensure that employees feel

equitably and competitively rewarded for their work. That is why the remuneration package evaluates various factors that can include annual inflation rates (as a way of measuring the countries' living costs); meeting financial and non-financial targets; internal equity comparisons; and individual and company performance. These ensure that employees are receiving the necessary compensation aligned with the market average.

Befesa periodically monitors the alignment of salaries by position and seniority level, and benchmarks the salaries within its own sector to ensure a competitive compensation scheme.

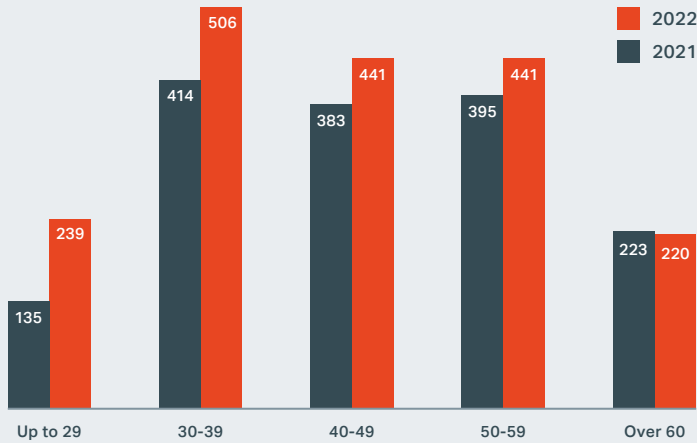


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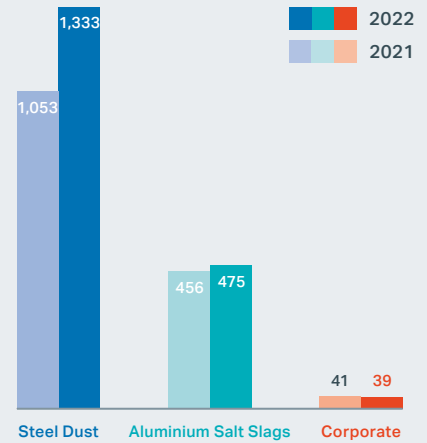
Headcount by function and gender



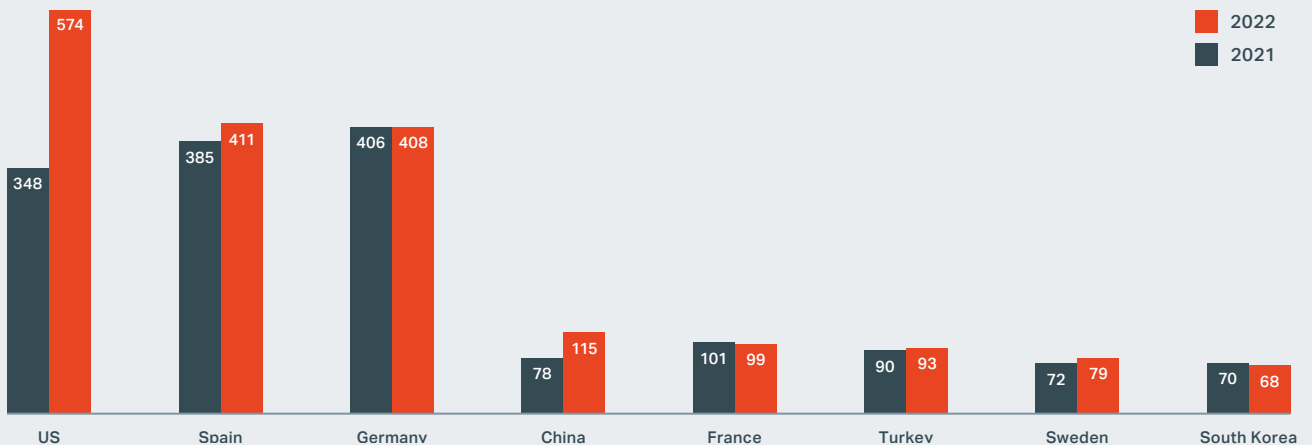
Headcount by age group



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 that learnings are obtained and spread across the organisation. In 2022, a total of 213 incidents were reported and investigated (2021: 155). All incidents were investigated and action plans put in place to avoid recurrence.

Accidents causing lost time are communicated to the manager of the plant where the accident occurred.

They in turn inform Befesa's Executive Chair, 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 2022, 96 learning lessons from Lost Time Accidents (LTAs), Non-Lost Time Accidents (NLTAs) and incidents were distributed at a corporate level (2021: 92 learning lessons), reaching all management and the shop floor level. This represents 100% of the LTAs, 100% of the NLTAs and more than 13% 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 managers to address safety issues. Managers at all levels in Befesa are trained to detect unsafe acts and to provide constructive feedback on work safety practices to operators and contractors.

In 2022, more than 16,300 observations were completed (2021: more than 1,350). This involves correcting unsafe acts and conditions and generating appropriate actions and reports.

LIFE-SAVING RULES

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

Social, health & safety continued

FATAL & SERIOUS INJURIES PREVENTION

In 2022, 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 employee 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 2022, 46 FSI risks were identified across Befesa's locations (2021: 39), of which 72% were satisfactorily managed and closed (2021: 50%). Some of the FSI risks identified in 2022 were discovered at the end of the year. For the remaining 28% of the FSI risks identified in 2022, 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 seven years, Befesa has reduced its Lost Time Injury Rate (LTIR) by 90%. 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 was reduced by 100% compared to the 2015 baseline as well as compared to 2021. In 2022, Befesa had no contractor's lost time injuries.

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, near misses and unsafe conditions 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.

Lost Time Injury Rate (LTIR):

	2015	2016	2017	2018	2019	2020	2021	2022	% vs 2015	% vs 2021
Own employees	5.30	3.57	2.88	2.67	2.16	1.34	1.03	0.73	-86%	-29%
Contractors	8.06	0.98	3.88	5.47	1.60	0.66	0.43	0	-100%	-100%
Total	5.71	3.11	3.08	3.22	1.98	1.26	0.81	0.55	-90%	-32%

Severity Rate (SR):

	2015	2016	2017	2018	2019	2020	2021	2022	% vs 2015	% vs 2021
Total	0.77	0.77	0.31	0.44	0.41	0.48	0.16	0.12	-84%	-25%

In 2022, the following safety standards were implemented:

- Electrical safety
- Lockout Tagout (LOTO)
- Confined spaces
- Machine guarding

As of 31 December 2022, Befesa had a total of 14 safety standards in place.

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).

In 2022, the following has been done:

- Training: Additional training has been delivered to the engineering department.
- Assessment: A process hazard analysis has been done in Henan, prior to the hot commissioning of the location.
- Started the design of the “Management of Change” procedure.

THE FIVE LEADERSHIP PERSUASIVE BEHAVIOURS

During 2022, 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".

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 2022, Befesa invested a total of 426 training hours (2021: 709) in educating and preparing local management teams on:

- Fatal and serious injuries prevention;
- Process Safety Management;

- Traffic safety;
- Lockout Tagout (LOTO);
- Contractor safety management;
- ISO 14064, Scope 3 calculations; and
- Task observations.

SAFETY INVESTMENTS

In 2022, over €3.1 million was invested across Befesa locations on safety projects such as:

- Fire prevention;
- Fall protection such as lifelines installation, platforms and grids;
- Traffic safety improvements in all the Befesa sites;
- Welding fumes extractions;
- Automation and lift aids to reduce ergonomic risks;
- Conveyor belts and other machine guarding improvements;
- PPE improvements; and
- The reduction of employee exposure to harmful substances.

SAFETY EXCELLENCE AWARD

In 2022, Befesa launched its first Safety Excellence Award, which recognises outstanding safety achievements resulting in a significant improvement to health, safety, or well-being, contributing to Befesa's vision of zero harm.

On its first edition, the locations submitted numerous applications and many fantastic projects to improve the safety of Befesa's employees.

In 2022, the winning projects were:

1. Pre-start up safety review (PSSR) execution before hot commissioning, presented by the EHS and production team at the Henan plant, China;
2. Traffic Safety improvements, presented by the EHS team at the Les Franqueses del Vallès plant, Spain; and
3. Off-gas production bag filter outlet valve rod lock, presented by a production and maintenance team of the Iskenderun plant, Turkey.

In addition, Befesa awarded two of its sites:

- Barnwell plant, US, recognised with the best safety record award, for over six years without a lost time injury; and
- Gravelines plant, France, recognised with the best improved safety award, for a substantial improvement on its LTIR, which was reduced to zero in 2022.

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.

Social, health & safety **continued**

Corporate citizenship

Befesa is committed to advancing the Sustainable Development Goals (SDGs) by improving local communities and societies. Befesa considers that their needs and interests as well as the consequences of Befesa's actions on the social system is an essential part of its work.

Bearing this in mind, Befesa has developed several projects in different fields such as environment, sports, culture and the social economy, promoting and assisting people at risk of exclusion for physical, social or cultural reasons.

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, in 2022 Befesa celebrated the fifth edition of Befesa's Charity Project Contest. The charity contest offers the opportunity for employees to nominate NGO initiatives, with two projects being selected to receive financial support. Since 2018, Befesa has donated €96,000 to 13 NGO projects referred by Befesa's employees.

In May 2022, Befesa's employees once again joined runners from all over the world in the Wings for Life World Run event. A total of 140 runners, including online and offline runners, and family members of Befesa's employees, participated in the 2022 edition. Befesa raised more than €3,500 and ran more than 798 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 2022, with a focus on food donation, taking into consideration the global scenario of poverty, war and immigration. 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.

Make-A-Wish

CENTRAL AND WESTERN
NORTH CAROLINA



BEFESA'S CHARITY PROJECT CONTEST WINNERS IN 2022 WERE:

1. Spreading Hope for Wish Kids of Make-A-Wish Central and Western North Carolina, US.

The goal of the project is granting life-changing wishes for children with critical illnesses across the state of North Carolina. This way, they are creating the greatest joy possible for a child when they need it most, which has the power of strengthening the emotional well-being of children, their family and medical providers.

2. The second award was shared by two organisations, with the following projects:

Helping to build roads for the Mei Village project of Change Charity Association in China. This project aims to rebuild the roads

of Mei Village, which are unpaved, making life for the people in the community hard on rainy and snowy days. This will also help to make the living environment of the villagers cleaner and healthier.

Manzanal Point (El Punto del Manzanal)

project of Fundación Intras in Spain. This project has two objectives: in the environmental field, the recovery of an abandoned space, taking care of the 500 trees present in the farm; and supporting the development of people with disabilities owing to mental illness, preparing them for a job related to the agricultural field.

Selected local initiatives carried out in 2022 were:

- Reforestation initiative in Iskenderun, Turkey
- Sponsorship of the Cycling Educational book in Duisburg, Germany
- Donation of food to Ukrainian refugees in Ratingen, Germany
- Sponsorship of the Open Wheelchair Padel Tennis in Sevilla, Spain
- Sponsorship of the Rhythmic Gymnastics Tournament in Getxo, Spain
- Sponsorship of the Figure Skating Tournament in Barakaldo, Spain
- Sponsorship of the Txuma Cycling Race in Erandio, Spain
- Sponsorship of one room in the Ronald McDonald House in Sevilla, Spain
- Donation of school supply drive in Madrid, Spain
- Donation to Asociación IN, which promotes adapted sports for people with disabilities in Sevilla, Spain
- Donation to the Palmerton Community Festival in Palmerton, PA, US
- Collection of food across different Befesa locations during wintertime

Figures on donations and sponsorships carried out in 2022 will be available in the Befesa ESG Update 2022, which will be published in Q2 2023.


Social, health & safety **continued**

BEFESA'S CORPORATE CITIZENSHIP CALENDAR 2022



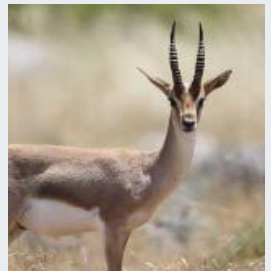
Reforestation initiative in Iskenderun, Turkey

12 FEBRUARY



Wings for Life 2022

8 MAY

Gazelle Conservation Project

17 JUNE

The winning project of the Befesa Environmental Initiative 2022 Award

JAN

FEB


MAR

APR

MAY

JUN

1 MARCH



Zero Discrimination Day

2 APRIL

World Autism Awareness Day



28 APRIL



World Day of Safety & Health at Work

21 MAY



World Day for Cultural Diversity for Dialogue and Development



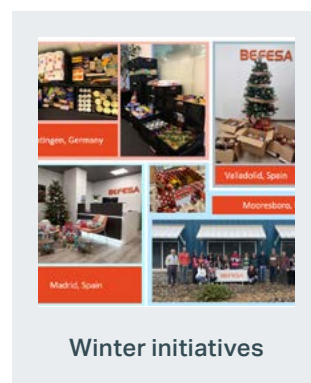
Safety Excellence Awards



5 SEPTEMBER International Charity Day

NOVEMBER

- 1st: Pre-start up safety review (PSSR) execution before the hot commissioning project (China)
- 2nd: Traffic safety improvements project (Spain)
- 3rd: Off-gas production bag filter outlet valve rod lock project (Turkey)



Winter initiatives

DECEMBER

JUL

AUG

SEP

OCT

NOV

DEC

27 OCTOBER Charity Project Contest



13 JULY



Sevilla Ronald McDonald House

3 DECEMBER International Day of People with disabilities



6 DECEMBER



Greeting Card Contest

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 2022, a total of 16 employees were dedicated to R&D activities (2021: 14). Of these, 11 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 2022 increased by 20% to €3.2 million (2021: €2.7 million).

In the Steel Dust Recycling Services segment, expenses on R&D activities in 2022 reduced by 8% to €1.3 million (2021: €1.4 million).

In the Aluminium Salt Slags Recycling Services segment, expenses on R&D activities in 2022 increased by 50% to €1.9 million (2021: €1.3 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.

In 2022, Befesa became a member of European Aluminium, a Belgium-based industry association that represents the entire aluminium value chain in Europe: from refiners and smelters to manufacturers of semi-finished products, recyclers and national aluminium associations.

Befesa has developed projects in collaboration with institutions such as Hydro, Nippon Gases, GHI, Sidenor, CIE Automotive, Fagor Edertek 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 2022

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

- The successful implementation of the first production-scale tests of partial substitution of fossil carbon by biochar;
- Positive results of zinc recycling by hydrogen in several trials in a kinetic study has led to a comprehensive data set for further process development steps;
- Lab scale testing of treatment of Waelz slag by hydrogen;
- The successful implementation of an online monitoring system for the continuous monitoring of Waelz process feed composition;
- A pre-study on carbon capture technologies for potential use in the Waelz process;
- The evaluation of waste energy sources for potential waste heat recovery on Befesa's recycling processes;
- A pilot-scale test for the transformation of the chemical/physical behaviours of Waelz slag for industrial uses; and
- The successful test of the treatment of waste materials at stainless-steel dust recycling sites for internal recycling and/or transfer into valuable by-products for set-up detailed investigation for further project steps.

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;
- 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;
- The study and development of an alternative treatment for SPL, to recover 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, H₂ and CH₄, from the complex-rich hydrogen waste stream for salt slag valorisation; and
- The evaluation of the impact of the quality of recovered salts from the salt slags recycling process in the aluminium residue melting process.

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;
- The study and improvement of 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;

R&D and innovation **continued**

- The demonstration of the use of secondary wastes, aluminium drosses and scrap to produce high-pure silicon and master aluminium alloys by aluminothermic reduction; and
- The decarbonisation of Befesa's melting process, lining up H₂ economy, using as alternative fuel to natural gas and evaluating the impact of the product, exhausted gases and process parameters.

PROJECTS IN THE RESEARCH PIPELINE

In the **Steel Dust Recycling Services** segment, projects in 2023 are the continuation of projects launched in previous years and additional new projects:

- Further testing of different sources of biochar and potential optimisation for an increase of ratio of substitution of fossil carbon by biochar in the Waelz process;
- The extension of small-scale test set-up for further metallurgical trials with hydrogen for zinc recycling and first process-technological investigation;
- Additional testing of Waelz slag treatment by hydrogen for the generation of a comprehensive data set for potential further processing steps;
- The thermodynamic evaluation of different residues of stainless industry for the optimisation of metallurgical processes; and
- Further detailed investigation on a large scale with residues from stainless-steel dust recycling for detailed mass balances and economical evaluation.

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;
- Alujoint: A light modulated chassis developed by means of integrating the structural components using advanced technology of manufacture and aluminium joint;
- Puraled: The use of high-pure secondary aluminium oxide to manufacture LEDs and electronic components;
- Deskar30: The decarbonisation of the melting process in parallel with the development of new secondary aluminium alloys with a low footprint;
- RESPLA: An alternative SPL recycling process, focused on the valorisation of its products;
- Hylnheat: The demonstration of H₂/O₂ combustion in aluminium remelting process; and
- Hydrogas: The recovery of main gases, H₂ and CH₄, from the residue stream of salt slags valorisation, to be used as an alternative fuel.



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 a risk management system (RMS) in place which allows management to analyse, evaluate and manage the risks of the different aspects of Befesa's operations.

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

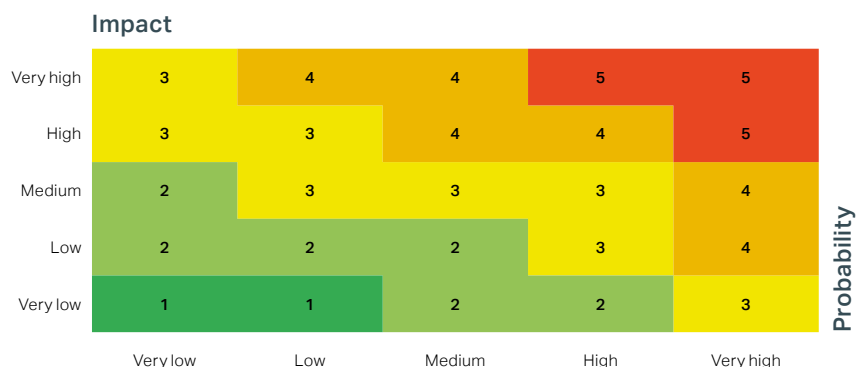
- The elaboration of a risk map;
- A definition of the current controls;
- The implementation and development of a "risk mindset";
- The implementation of action plans; and
- Regular future reviews and analyses.

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 these 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.



2. Risk assessment process: After compiling the risk catalogue, the next step is the risk assessment. This assessment is carried out by people from 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 likelihood 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 on the risk map.

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

iv. Risk monitoring

Befesa's RMS 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 Company.

To guarantee proper monitoring of the risks, Befesa has an Internal Risk Committee (IRC). The IRC is the body within the Company that is in charge of the monitoring and review of the risks included in the risk map. The IRC is composed of the Executive Chair, the CEO, the CFO, the vice presidents of the 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 combined global hedge book in place as of the date of this Annual Report provides Befesa with improved pricing visibility up to July 2025, therefore for the following 2.5 years approximately.

In 2022, Befesa's zinc forward hedging price amounted to €2,379 per tonne on average, €228 per tonne higher YOY (2021: €2,151 per tonne). However, Befesa's hedging price in 2022 was on average lower compared to the zinc LME price, which averaged at €3,302 per tonne in the year. Combined, the zinc effective price (blended rate between hedged volume and non-hedged volume) averaged at €2,627 per tonne in 2022, up 15.5% YOY (2021: €2,275 per tonne).

As of the date of publication of this Annual Report, Befesa's zinc forward hedging average prices will amount to around €2,450 or US\$2,650 per

tonne for 2023, around €2,550 or US\$2,750 per tonne for 2024, and around €2,650 or US\$2,900 per tonne for H1 2025. These forward hedging prices assume US dollar/euro exchange rates of 1.08 for 2023 and 2024, and 1.10 for H1 2025.

Befesa does not provide any collateral for the contracted hedges and conducts its hedging programme with reputable hedging partners such as JP Morgan, Goldman Sachs, Citibank, Morgan Stanley, BNP Paribas and Macquarie.

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 2022, Befesa had hedged 163,131 tonnes of zinc payable output, 43,118 tonnes more YOY (2021: 120,013 tonnes), mainly as a result of the impact of the US operations acquired in August 2021. This represents 72% (2021: 73%) of the zinc payable output sold by Befesa in 2022. Of the 163,131

tonnes hedged for 2022, 46% were in euro-denominated zinc forward hedges, 43% were in US dollar and the remaining 11% in Korean won. Further information on the hedging strategy is available in the "Strategy" section of this Annual Report (pages 34 to 39).

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 2022, the margin applicable to the TLB increased by 25 bps, from Euribor+175 bps at the beginning of the year to Euribor+200 bps at year-end. This margin increase was explained by the higher net leverage ratio driven by the higher net debt. The Euribor+200 bps interest rate could be reduced alongside certain leverage ratchets down to a margin of Euribor+125 bps for net 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 TLB notional. 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 in relation to the AZR acquisition. As a result, the extended TLB notional amounts to €626 million, maturing in July 2026.

As of 31 December 2022, 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 continued to be fully undrawn at year-end 2022 as Befesa had €161.8 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.

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 systems. The main risks with a potential material influence are further detailed in Note 4 of the "Consolidated financial statements" section of this Annual Report.

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, 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 or in recessionary cycles, the industrial recycling industry is affected, resulting in a reduction in the demand for Befesa's services and products. One important initiative to address global economic headwinds 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).

Risks & opportunities *continued*

Nevertheless, the global economy may be affected by macroeconomic events, such as the ongoing COVID-19 pandemic, the global chip shortage or the war of Russia against Ukraine.

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 as a result of 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, groundwater 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 waste, 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, 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 to 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.

Operational areas are established with concrete and paved surfaces for material transfer and other areas of high use. In addition, rainwater collection, 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.

Most of 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 into 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 to 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 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 2022, all the Befesa sites except for the US zinc-refining and Chinese plants are ISO 14001 certified, 65% of the Befesa sites are ISO 50001 certified. A total of 70% are ISO 14064 certified and 70% are also certified according to ISO 45001. Through these management systems and other internal protocols, Befesa monitors carbon emissions and reports annually on a Company-wide basis. In addition, Kyoto Protocol Scope 1 and Scope 2 emissions are reported. In 2022, Befesa started reporting Scope 3 emissions.

To minimise carbon emissions, Befesa applies BAT and looks for

Risks & opportunities **continued**

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.

In 2022, Befesa defined a plan to reduce its carbon footprint, committing to a 20% reduction in CO₂ emission intensity by 2030, with the ambition of achieving net zero by 2050. The detailed plan, disclosed as part of the Befesa ESG Report 2021, is currently being executed following the defined roadmap to achieve the targets Befesa has committed to.

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 as a result of

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 these risks, 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 enterprises nowadays, Befesa is exposed to cybercrime, hackers and cyber-activism. The global growing dependency on information technologies by society and enterprises increases the risks of outages and loss of activity as a result of targeted or untargeted attempts to exploit the vulnerabilities of the systems and networks in use. Cyber-criminals and cyber-activists are continuously developing new techniques and forms of attack that they use to jeopardise the operations of the targeted enterprises. The IT risk

management strategy of an enterprise must drive efficient and effective measures to mitigate the risk, by enabling the IT organisation to detect a potential adverse incident early, contain its progress and correct the affected systems to their normal operation as soon as possible.

Befesa applies a robust set of policies, guidelines and procedures aligned with industry best practices for cybersecurity management. Best-in-class cybersecurity technologies, constant and up-to-date employee cybersecurity training, internal and external cybersecurity audits and third-party break-in tests, are, among other activities, part of the cybersecurity strategy. 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 2022) and the date of the formulation of the accounts (22 March 2023) that would materially affect the Group's assets or the Group's financial and/or earnings position.

OUTLOOK

The year 2022 was a very challenging one, in which Befesa managed to achieve solid EBITDA growth of 9% YOY. For the coming years, the growth plan announced at the CMD is a strong plan and Befesa is very confident about the execution and the delivery of the announced results.

Regarding 2023, guidance will be provided once the zinc TC has been settled around April. That said, Befesa expects 2023 to be another challenging and volatile year; however, a solid floor is seen in the results achieved in 2022.

Zinc hedging prices will have a positive impact in 2023 as the hedging level for the year is higher than the 2022 level. A positive contribution of €10-€15 million is expected from hedging.

The treatment charge for zinc, meanwhile, is likely to rise from the current \$230 per tonne level up to around US\$280-\$290 per tonne. As a reminder, every US\$10 per tonne of change in the zinc TC has an impact of around €2-€3 million on EBITDA. Zinc TC is expected to have a negative impact in 2023.

In the US, the recently acquired zinc-refining plant will contribute positively to earnings growth. In addition, there are synergies coming from the AZR acquisition, which will partially materialise in 2023.

In China, although the mood is optimistic, it is still uncertain how the country will open after the strict lockdowns. The Chinese government has recently changed its strategy, moving from zero-COVID to opening. In 2022, COVID restrictions made a very challenging environment, and the plants could not operate properly. After the Chinese New Year, a gradual recovery and more visibility should be expected. However, it is difficult to know exactly what is going to happen in China. Volatility is expected in Q1 2023, but hopefully steel dust deliveries should increase in Q2 2023. Befesa has two plants completed and fully ready to operate as soon as the market recovers. Overall, a positive



contribution from China is expected in the range of high single to low double-digit EBITDA.

In Aluminium Salt Slags Recycling – a purely European business – despite the automotive industry continuing to face a challenging situation in Europe, in 2022 Befesa managed to achieve a strong result and pass through the energy pressure cost increases to its customers. For 2023, the volume of salt slags is expected to increase, driven by the restart of operations in Hanover after the repair of the plant. Secondary aluminium volumes are expected to be similar to those in 2022.

Regarding commodity prices for metals and energy, these will be a question mark in 2023.

Volatility in the prices of base metals is expected to continue, driven by instability at the macro level and uncertainties in the overall economy. The hedging policy, with around 70% of the volume of zinc hedged at an attractive prices, will help Befesa to navigate this period of high volatility. The average zinc price in 2022 was around €3,300 per tonne, up 30% compared to the previous year. This price is very high, and it remains to be seen whether these high levels will continue in 2023.

Energy prices are also expected to remain volatile and at this moment it is a question mark whether it will have a positive or negative impact in 2023.

Finally, on future growth – as explained at the CMD – despite the short-term challenging situation, Befesa has a strong growth plan to invest around €400–€450 million over the next five years to grow earnings at a high rate. This growth plan is based on global megatrends, like decarbonisation and a transition to EVs, which are not going to go away and will drive market growth where Befesa operates through its core businesses. This translates into a tangible plan consisting of seven projects across the three main markets in which Befesa operates – Europe, the US and China – and will be funded organically with our own resources.

The first of these projects was the acquisition of the zinc-refining asset in the US, which was already executed in September 2022. The next two projects Befesa is already working on are the refurbishment of the plant in Palmerton in the US and the expansion into the third Chinese province: Guangdong.

In the US, the refurbishment of the Palmerton plant has already started. The engineering and design are in process and the request for quotes from suppliers has started. The plant refurbishment will be carried out in 2023 and 2024.

In China, in February 2023, the investment agreement was signed with the local authorities in Guangdong. The land lot to build the new plant was assigned, the basic engineering works are in process and negotiations with the local steelmakers are underway.

In summary, even though 2022 was a challenging year, Befesa achieved a record EBITDA. The year 2023 is expected to remain challenging; however, the 2022 earnings level represents a solid floor. Befesa will navigate through this inflationary period successfully, like it has done in the past. The growth plan is being well executed, which will generate high growth in the coming years. The dividend policy of distributing between 40% to 50% of the net income will be kept. Befesa continues to execute its ESG strategy to reduce its CO₂ emissions by 2030 and 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 deemed 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, a Nomination and Remuneration Committee and a Sustainability Committee to deal with specific tasks. These committees advise the Board of Directors and make recommendations to the Board and/or, as the case may be, to the General Meeting (as defined overleaf).

1. Javier Molina Montes

Executive Director,
Executive Chair

Mr Molina has been the Executive Chair of Befesa since July 2022. He 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. Asier Zarraonandia Ayo

Executive Director,
Chief Executive Officer

Mr Zarraonandia has been the Chief Executive Officer of Befesa since July 2022. He was previously the Vice President of Befesa's Steel Dust Recycling Services business unit, as of 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.

3. 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. 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/EMEA (2005–2013). Mr Lehmann holds a double degree in business and engineering from the University of Hamburg, Germany (Diplom-Wirtschaftsingenieur).

4. Romeo Kreinberg

Independent Director,
Lead Independent Director

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 US, 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 AG, 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 director of AXIT.capital, a company that supports start-ups in the area of digitalisation. She is currently Chairwoman of the Council of Technology of the Federal State of Rhineland Palatinate as well as a member of the Supervisory Board of ERMEWA Group SA. She holds a diploma in logistics and business administration (Diplom-Betriebswirtin) from the Cooperative State University, Mannheim, Germany.

6. 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 EMEA – and global – management teams of both organisations. After his retirement from EY in 2016 he has been serving in supervisory boards or as non-executive director in various companies or major non-profit organisations. 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.

7. 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 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.

8. Natalia Latorre Arranz

Independent Director

Mrs Latorre is General Manager for Energy Transition of Enagás, S.A. Previously, she was Chairwoman of the Board of Directors of Shell España S.A., where she was responsible for the Shell business in Spain, including gas and power, renewable generation and environmental products. Mrs Latorre developed most of her career at Shell, where she worked for more than 20 years, including executive roles at the European level. She has strong experience in the ESG field, including energy transition and the transformation of companies pursuing opportunities in this field. Mrs Latorre also currently serves as Board Member at BG Energy Iberian Holding S.L.U. and as Advisory Board Member at Marsi Bionics S.L. In addition, she is a member of the Strategy Advisory Board of Programa Mujer e Ingeniería. Mrs Latorre holds a degree in industrial engineering from Universidad Politécnica de Madrid, Spain. In 2021, Forbes included Mrs Latorre in the list of "35 Best Female CEOs in Spain".

9. José Domínguez Abascal

Independent Director

Dr Domínguez is Chairman of Envision Group Spain and Structural Mechanics professor at Universidad de Sevilla, Spain. In 2018, Dr Domínguez was appointed Secretary of State for Energy in the Government of Spain (2018–2020). He served as Board member of OMEL (2010–2015), OMP (2010–2015) and SEPI (2018–2020). Before that, Dr Domínguez was Chief Technology Officer of Abengoa (2008–2015), where he was in charge of the technology development of the company. Dr Domínguez has extensive technological research experience in the international renewable energy field, where he led innovative industrial projects that are successfully working today. Dr Domínguez holds a PhD in industrial engineering from Universidad de Sevilla, Spain. He was also a Research Associate at the Massachusetts Institute of Technology (MIT), with a postdoctoral Fulbright grant. He is the author of more than 200 research papers in leading scientific journals and two books published by international publishers. He is a Fellow of the American Society of Civil Engineers and Member of the Real Academia de Ingeniería of Spain. He also received the National Engineering Research Award (Spain) in 2004 and is Doctor *Honoris Causa* by the Universidad de Granada (Spain) in 2018.

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, US. She 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

Executive Directors

Name	Position	Nationality	Year of birth	First appointment	Renewal	End of term
Mr Javier Molina Montes	Executive Chair	Spanish	1959	18/10/2017	16/06/2022	AGM to be held in 2026 approving the annual accounts for the financial year ending on 31/12/2025
Mr Asier Zarraonandia Ayo	CEO	Spanish	1967	24/07/2019 (co-optation)	16/06/2022	
Mr Wolf Uwe Lehmann	CFO	German	1971	18/10/2017	16/06/2022	

Independent Directors

Name	Position	Nationality	Year of birth	First appointment	Renewal	End of term
Mr Romeo Kreinberg	Lead Independent Director, Chair of the Nomination and Remuneration Committee	American	1950	18/10/2017	16/06/2022	AGM to be held in 2026 approving the annual accounts for the financial year ending on 31/12/2025
Mrs Frauke Heistermann	Independent Director	German	1971	18/10/2017	16/06/2022	
Mr Georg Graf Waldersee	Independent Director, Chair of the Audit Committee	German	1955	18/10/2017	16/06/2022	
Mr Helmut Wieser	Independent Director	Austrian	1953	24/07/2019 (co-optation)	16/06/2022	
Mrs Natalia Latorre Arranz	Independent Director	Spanish	1975	16/06/2022	N/A	
Dr José Domínguez Abascal	Independent Director, Chair of the Sustainability Committee	Spanish	1953	16/06/2022	N/A	

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

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. 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 the following:

- 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 2022. 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 exercising 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.

COMPOSITION

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

Corporate governance *continued*

Experience, skills & focus

	Mr Javier Molina Montes	Mr Asier Zarraonandia Ayo	Mr Wolf Uwe Lehmann	Mr Romeo Kreinberg	Mrs Frauke Heistermann	Mr Georg Graf Waldersee	Mr Helmut Wieser	Mrs Natalia Latorre Arranz	Dr José Domínguez Abascal
Position	Executive Chair	CEO	CFO	Lead Independent Director, Chair of the Nomination & Remuneration Committee	Independent Director	Chair of the Audit Committee	Independent Director	Independent Director	Chair of the Sustainability Committee
Nationality									
Year of birth	1959	1967	1971	1950	1971	1955	1953	1975	1953
Industrial operations	✓	✓		✓	✓		✓	✓	✓
Risk management, finance, audit		✓	✓			✓			
Environmental, health & safety	✓	✓		✓			✓	✓	✓
Business strategy	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ethics & 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, is eligible for reappointment and may be removed at any time, with or without cause, by a resolution of the General Meeting. In the event of a vacancy on the Board of Directors, the remaining directors may elect by co-optation a new director to fill the 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. The Board of Directors shall appoint from among its members a chairperson (the "Chair"). In the event that an Executive Director is elected as Chair, the Chair shall have the status of Executive Chair of the Company. Therefore, there will be a Lead Independent Director of the Company as long as the Chair of the Board of Directors is not an Independent Director. The Independent Directors shall choose from among the Independent Directors the Lead 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 Executive Chair or the Chair of the Board of Directors shall have no casting vote in case of a voting tie. The Board of Directors met on 10 occasions in 2022, with an attendance record of 100%.

COMMITTEES

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

- Audit Committee
- Nomination & Remuneration Committee
- Sustainability Committee

The committees shall have at least three members each and will meet as often as necessary, but at least twice a year. During 2022, the Audit Committee met on five occasions, whereas the Nomination and Remuneration met on four occasions.

Both committees had an attendance record of 100%. The Sustainability Committee was created in the second part of 2022, but did not meet at the expenses determining its specific functions and roles. The Sustainability Committee has convened its first meeting in the first quarter of 2023.

i. Audit Committee

The Audit Committee consists of Mr Georg Graf Waldersee (chair), Mrs Frauke Heistermann and Mrs Natalia Latorre Arranz. All members are independent.

This committee is responsible for the following:

- 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 (chair), Mr Helmut Wieser and Dr José Domínguez Abascal 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.

iii. Sustainability Committee

The Sustainability Committee is comprised exclusively of independent members: Dr José

Domínguez Abascal (chair), Mrs Frauke Heistermann, Mrs Natalia Latorre Arranz and Mr Helmut Wieser.

The Sustainability Committee is responsible for overseeing all matters of the Company and its subsidiaries related to environmental sustainability, with a priority on emissions reduction and energy-saving targets and plans, together with related recommendations to be made to the Board. The Sustainability Committee is responsible for the following:

- Reviewing and monitoring the Company's environmental sustainability strategy and its realisation as well as the Company's environmental sustainability policies, standards and guidelines;
- Reviewing and monitoring the Company's environmental sustainability achievements in accordance with the targets and guidelines of the Company; and
- Supporting and providing guidance to the Board of Directors in developing and updating the Company's policies and procedures relating to environmental sustainability.

Overview of the member participation of the Board of Directors and committee meetings during 2022

Board of Directors	Presence	100%
Mr Javier Molina Montes	10 / 10	✓
Mr Asier Zarraonandia Ayo	10 / 10	✓
Mr Wolf Uwe Lehmann	10 / 10	✓
Mr Romeo Kreinberg	10 / 10	✓
Mrs Frauke Heistermann	10 / 10	✓
Mr Georg Graf Waldersee	10 / 10	✓
Mr Helmut Wieser	10 / 10	✓
Mrs Natalia Latorre Arranz	7 / 7	✓
Dr José Domínguez Abascal	7 / 7	✓
Mr Manuel Soto	3 / 3	✓
Mr Santiago Zaldumbide	3 / 3	✓

Audit Committee	Presence	100%
Mr Georg Graf Waldersee	5 / 5	✓
Mrs Frauke Heistermann	5 / 5	✓
Mrs Natalia Latorre Arranz	3 / 3	✓
Mr Manuel Soto	2 / 2	✓

Nomination & Remuneration Committee	Presence	100%
Mr Romeo Kreinberg	4 / 4	✓
Mr Helmut Wieser	4 / 4	✓
Dr José Domínguez Abascal	1 / 1	✓
Mr Santiago Zaldumbide	3 / 3	✓

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 Sociétés 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 to 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 according 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 resolution to be considered at a General Meeting, the quorum must be at least fifty per

cent (50%) of Befesa's issued share capital. For their approval, at least two-thirds of the votes validly cast must approve such a 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 96 to 102).

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. This is explained in detail in the "Risks & opportunities" section of this Annual Report (pages 70 to 76).

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 16 June 2022 approved the appointment of KPMG Audit S. à r.l. as the approved statutory auditor (*réviseur d'entreprises agréé*) for the financial year ending 31 December 2022. KPMG Audit S. à r.l. 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 four years).



Remuneration

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.

Befesa reviews the appropriateness of the remuneration of the members of the Board of Directors in comparison with companies similar to Befesa in terms of size, complexity and economic situation, e.g. companies of market indices such as the MDAX or industry peer groups. This analysis is performed regularly with the support of an independent

executive compensation advisor, who provides compensation studies and benchmarks based on peer groups, determined as mentioned above. Befesa's remuneration structure and levels are aligned with this market benchmark and Befesa's remuneration policy.

Detailed and individualised information on the amount and structure of the various components of the remuneration of the Executive Directors (EDs) as well as the Non-Executive Directors (NEDs) of the Board will be disclosed in the Remuneration Report 2022, which will be published in Q2 2023.

I. Fixed remuneration

Base salary is the fixed gross compensation per fiscal year.

In 2022, the base salary of the EDs increased by 3% compared to 2021.

Fees for participation in the administrative, management or Board bodies of Befesa are not paid 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 2022, awarded for the performance achieved in the year 2021.

REMUNERATION OF EXECUTIVE DIRECTORS

The following table provides an overview of the remuneration of the three Executive Directors (EDs) of the Board of Directors for the year ended 31 December 2022.

Name of Executive Director, position	I. Fixed remuneration			II. Variable remuneration		III. Extra-ordinary items	IV. Social security/pension expense	V. Total remuneration	VI. Proportion of fixed and variable remuneration ²
	Base salary	Fees	Fringe benefits	One-year variable	Multi-year variable				
Mr Javier Molina Montes, Executive Chair	€ 527,848	n/a	€ 17,189	€ 868,410	€ 1,875,896	€ 1,053,835	€ 12,766	€ 4,355,944	17% / 83%
Mr Asier Zorraonandia Ayo, CEO ¹	€ 373,226	n/a	€ 11,814	€ 579,768	€ 1,250,597	€ 746,473	€ 12,766	€ 2,974,643	18% / 82%
Mr Wolf Uwe Lehmann, CFO	€ 426,544	n/a	€ 7,733	€ 578,940	€ 1,328,770	€ 746,473	€ 14,518	€ 3,102,978	19% / 81%
Total remuneration	€ 1,327,618	n/a	€ 36,736	€ 2,027,118	€ 4,455,263	€ 2,546,781	€ 40,050	€ 10,433,565	18% / 82%

¹ Following his nomination as CEO in July 2022, the Board of Directors approved to increase the remuneration of Mr Zorraonandia retroactively as of his nomination date but effectively paid-out in 2023. Further details will be disclosed in the Remuneration Report 2022, which will be published in Q2 2023.

² Proportion of fixed and variable computed as of total remuneration excluding extraordinary items

Corporate governance continued

The predetermined performance targets cover four performance criteria and predetermined weighting. In April 2022, the weight of the “ESG: Environmental, health & safety, compliance” criterion was increased from 20% to 25%, whereas that of the “Execution of strategic initiatives and return on growth projects” was reduced from 30% to 25%. This re-balance of the weighting is aligned with the higher importance of ESG ratings and sustainability improvements. Overall, the 50/50 balance between financial and non-financial performance criteria remains unchanged. This change was reviewed and proposed by the Nomination and Remuneration Committee and subsequently approved by the Board of Directors of Befesa S.A.

Going forward, the weighting of the performance criteria is as follows:

Performance criteria	Weighting
ESG: Environmental, health & safety, corporate governance	25%
Execution of strategic initiatives and return on growth projects	25%
EBIT and EBITDA	35%
Net debt and cash flow	15%

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

Performance criteria	Weighting ¹	Performance	Weighting x performance
ESG: Environmental, health & safety, corporate governance	20%	120%	24%
Execution of strategic initiatives and return on growth projects	30%	200%	60%
EBIT and EBITDA	35%	103%	36%
Net debt and cash flow	15%	130%	20%
Total	100%		140%

¹ 2022 one-year variable remuneration was paid out in March 2022, before the changes in the weighting of the performance criteria approved in April 2022. Therefore, the previous weighting was applied

In 2021, the performance level reached, blended and weighted across the four performance criteria was 140%, on which the annual bonus paid out in March 2022 was based (payout in 2021 for 2020: 135%). Details for 2021 target achievement are shown above.

Multi-year variable remuneration received by the EDs is in the form of a share-based Performance Stock Plan (PSP). This plan was launched in 2017 and is awarded in annual tranches with a performance period of three years for each tranche.

The performance targets will be determined and measured over a three-year performance period, and cover the following three performance criteria and predetermined weighting:

Performance criteria	Weighting
Cumulative EBIT and EBITDA	25%
Cumulative cash flow	25%
ESG: Environmental, health & safety, compliance; return on strategic projects	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:

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

Tranche II (2019–2021)

The tranche II of the PSP vested over the years 2019, 2020 and 2021, and was paid out in April 2022.

The performance level reached, blended and weighted across the three performance criteria

Performance criteria	Weighting	Performance	Weighting x performance
Cumulative EBIT and EBITDA	25%	89%	22%
Cumulative cash flow	25%	100%	25%
ESG: Environmental, health & safety, compliance; return on strategic projects	50%	160%	80%
Total	100%		127%

was 127%. Target achievement details for tranche II are as shown above.

The Settlement Price amounted to €68.82 per Performance Stock. This results from the average of the closing prices of the Befesa stock on the Xetra trading market of the Frankfurt Stock Exchange over a period of 10 trading days of 2021, i.e. €65.60, combined with the applicable dividends over the vesting period of €3.22 per share.

Neither the performance cap of 160% nor the share price appreciation cap of 300% were triggered.

The resulting payout was settled in cash as per the Company's choice in April 2022, and the individual amounts were as shown below.

Details of the development of the PSP (tranches I to IV, 2018–2023) and the new Stock Incentive Plan, SIP (tranches V to VIII, 2022–2027) will be disclosed in the Remuneration Report 2022, which will be published in Q2 2023.

III. Extraordinary items

In April 2021, the Board of Directors of Befesa S.A. decided, in line with the remuneration policy, to introduce the Transformational Growth Incentive Plan (TGIP). The target of the TGIP is to incentivise the success of a transformational acquisition opportunity. The TGIP was awarded in the form of Phantom Stocks, vesting in three tranches.

The operational integration following the transaction as well as the retention of the EDs are critical for the success of this opportunity. After vesting, the value of the Phantom Stocks is paid out in cash. The settlement phantom share price is based on the average closing price of the Befesa S.A. shares on the Frankfurt Stock Exchange, determined over a period of 10 trading days prior and including the vesting date. The Phantom Stocks bear the rights of dividend payouts. The payout of the value of the Phantom Stocks is subject to a cap of three times the stock price at the award date.

With the closing of the AZR acquisition on 17 August 2021, the first third of the TGIP vested and was paid out.

The second tranche vested on 17 August 2022. The settlement phantom share price amounted to €49.18, i.e. average closing price over the 10 trading days prior to and including the vesting date of €47.93, plus the €1.25 dividend per share paid out in 2022. The share price cap of three times the stock price at the award date, i.e. 3 x €70.40 on 17 August 2021 equal to €211.20, was not triggered. The individual number of vested Phantom Stocks and payouts in 2022 were as shown on the next page.

The remaining third tranche will vest on 17 August 2023.

Based on the analysis of the current market practice, the Board of Directors decided to discontinue the remuneration of extraordinary items to the EDs going forward. This will be presented for voting at the AGM on 15 June 2023.

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

	Number of awarded Performance Stocks	Target achievement	Number of vested Performance Stocks	Settlement Price	Payout in €
Mr Javier Molina Montes, Executive Chair	21,429	127%	27,258	€68.82	€1,875,896
Mr Asier Zarranandia Ayo, CEO	14,286		18,172		€1,250,597
Mr Wolf Uwe Lehmann, CFO	15,179		19,308		€1,328,770
Total	50,894		64,738		€4,455,263

Corporate governance continued

	Number of Phantom Stocks vested in 2022	Settlement phantom share price in 2022	2022 payout in €
Mr Javier Molina Montes, Executive Chair	21,429		€1,053,835
Mr Asier Zarraonandia Ayo, CEO	15,179	€49.18	€746,473
Mr Wolf Uwe Lehmann, CFO	15,179		€746,473
Total	51,787		€2,546,781

not provide additional pension benefits to its EDs.

V. Total remuneration

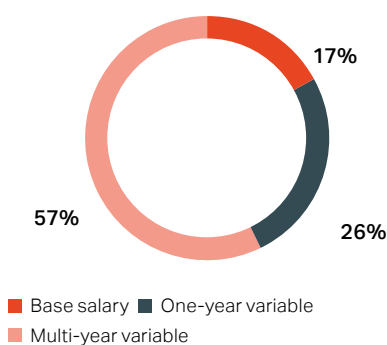
Total remuneration is computed as the addition of I, II, III and IV remuneration components.

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.).

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



REMUNERATION OF NON-EXECUTIVE DIRECTORS

The annual **fixed remuneration** of an ordinary NED covers attendance to Board and committee meetings and memberships in committees. Each NED participates at least in one committee.

Befesa prefers to include the participation in committees in the annual fixed remuneration instead of through separate fees, assuming a similar involvement of the NED and reducing the complexity of the NED remuneration.

Starting 16 June 2022, each ordinary NED receives an annual fixed remuneration of €90 thousand (prorated for the remainder of the year 2022). Equally, the annual fixed remuneration of the Chair of the Board of Directors or Lead Independent Director was increased to €220 thousand effective as of 16 June 2022, while a Chair of a Board Committee (excluding the Chair of the Board of Directors or Lead Independent Director) receives an additional fixed remuneration of €30 thousand.

For the three-year period from 2019 to 2021, the six NEDs were awarded a **one-time multi-year variable** compensation (Phantom Stocks).

The performance targets were determined and measured over

the three-year performance period, between 1 January 2019 to 31 December 2021, and covered three performance criteria, weighted as follows:

Performance criteria	Weighting
Cumulative EBIT and EBITDA	25%
Cumulative cash flow	25%
ESG: Environmental, health & safety, compliance; Return on strategic projects	50%

The overall degree of target achievement across the three performance criteria was 127%.

The one-time award consisted of 9,975 Phantom Stocks in total, which vested over the fiscal years 2019, 2020 and 2021.

The Settlement Price amounted to €60.67 per Phantom Stock. This resulted from the average of the closing prices of the Befesa stock on the Xetra trading market of the Frankfurt Stock Exchange over a period of twenty trading days before the settlement, i.e. €58.77, combined with the applicable dividends payable during the fiscal years 2020 and 2021, i.e. €1.90 per share.

The multi-year variable compensation scheme to the NEDs of the Board of Befesa was a one-time award and was discontinued.

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

The following two tables provide an overview of the remuneration awarded to the NEDs of the Board of Directors in 2022:

Name	Position	Status	2022 fixed remuneration in €
Mr Romeo Kreinberg ¹	Lead Independent Director, Chair of the Nomination and Remuneration Committee	Served from 01.01.2022 to 31.12.2022	€187,917
Mrs Frauke Heistermann	Independent Director	Served from 01.01.2022 to 31.12.2022	€76,250
Mr Georg Graf Waldersee	Independent Director, Chair of the Audit Committee	Served from 01.01.2022 to 31.12.2022	€101,667
Mr Helmut Wieser	Independent Director	Served from 01.01.2022 to 31.12.2022	€76,250
Mr Manuel Soto	Independent Director	Served from 01.01.2022 to 15.06.2022	€27,500
Mr Santiago Zaldumbide	Independent Director	Served from 01.01.2022 to 15.06.2022	€27,500
Mrs Natalia Latorre Arranz	Independent Director	Served from 16.06.2022 to 31.12.2022	€48,750
Dr José Domínguez Abascal	Independent Director, Chair of the Sustainability Committee	Served from 16.06.2022 to 31.12.2022	€48,750

¹ Mr Kreinberg served from 01.01.2022 to 12.07.2022 as Chair of the Board of Directors, and from 12.07.2022 to 31.12.2022 as Lead Independent Director.

Name	Number of awarded Phantom Stocks	Target achievement	Number of vested Phantom Stocks	Settlement Price	2022 payout in € ²
Mr Romeo Kreinberg	3,183		4,049		€ 245,292
Mrs Frauke Heistermann	1,273		1,619		€ 98,117
Mr Georg Graf Waldersee	1,698		2,160		€ 130,823
Mr Helmut Wieser	1,273	127%	1,619	€ 60.67	€ 98,117
Mr Manuel Soto	1,273		1,619		€ 98,117
Mr Santiago Zaldumbide	1,273		1,619		€ 98,117
Total	9,975		12,688		€ 768,583

² The multi-year variable compensation scheme to the NEDs of the Board of Befesa was a one-time award and was discontinued.

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 2022 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 2022, the following shareholders hold (or to whom were attributed) five per cent (5%) or more of

Corporate governance continued

total voting rights attached to Befesa S.A. shares (shown below).

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 the 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 depository 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 the 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 a 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.

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	10.02% attached to shares	15 December 2022

- 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 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.

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.

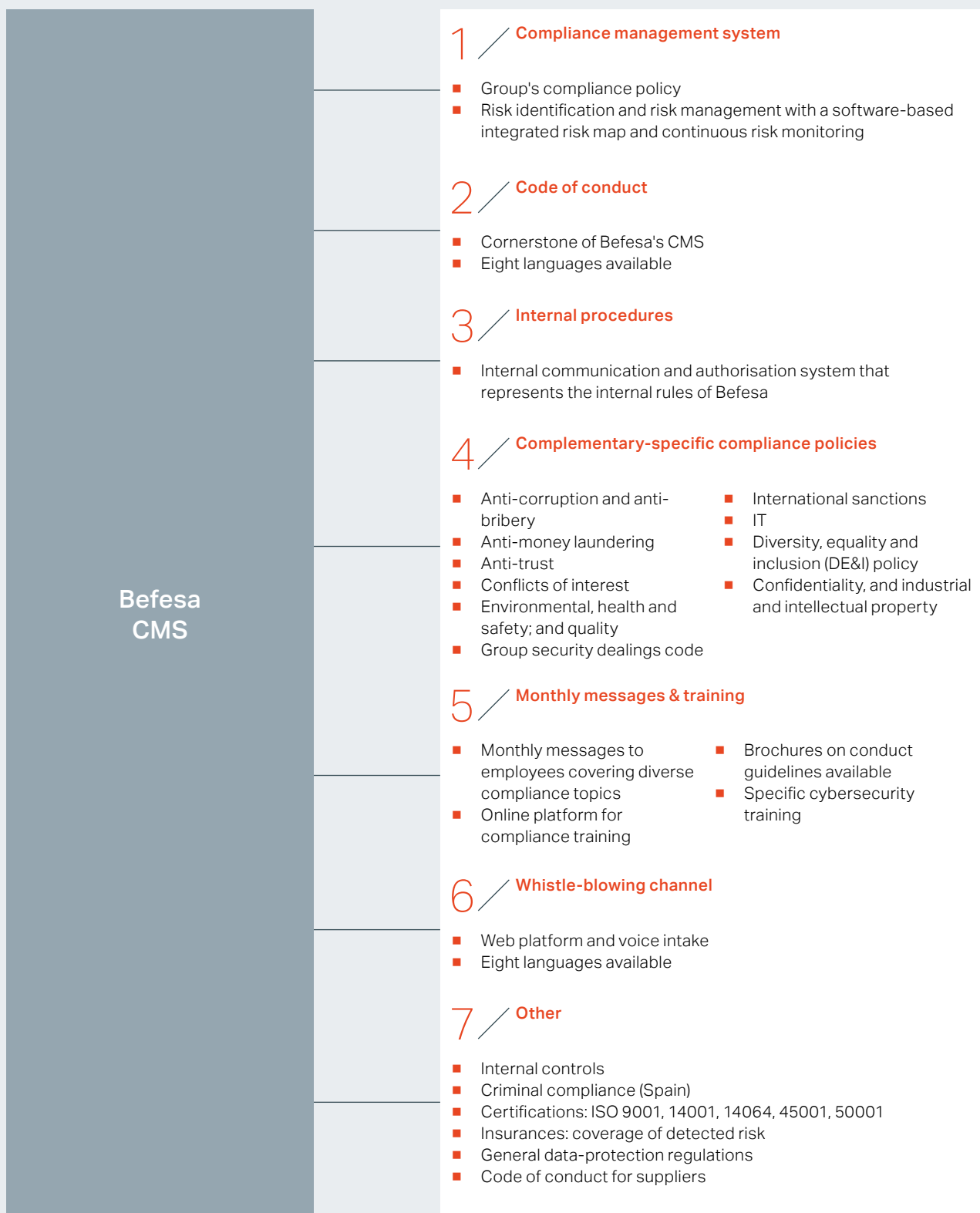
ii. Befesa's general compliance policy

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)



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 from 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 recruitment, 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.

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

Compliance **continued**

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 email 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 employees, including part-timers; the training courses and training tests are updated on an annual basis with the latest compliance-related contents.

During 2022, two specific compliance training courses were launched to all employees: Compliance Management System and Code of Conduct. Both training courses were included in a specific online training tool, supported by live interactions and questionnaires.

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.

In addition, Befesa carried out specific cybersecurity training for all

employees, covering several topics related to this issue, e.g. Public Wi-Fi, password trivia, ransomware, cloud, bad links and pretexting. This cybersecurity training will be in place for the coming years as cyber-attacks 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; these 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 70 to 76).

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 at <https://www.befesa.com/sustainability/governance/#compliance>. The internal audit team reviews and analyses the implementation of the code.

v. Criminal compliance certification UNE 19601

The Spanish criminal code establishes that legal persons may have criminal responsibility. To avoid this from happening at Befesa, a criminal compliance programme (Criminal Risks Management System) was 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 Q1 2021, and it was renewed in Q1 2022.

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 by Befesa's internal audit department following an annual audit plan approved by Befesa's Audit Committee. Befesa's internal audit department conducts audits of all significant operations every year and at least once every two years of all other operations.

Integrated audits conducted by Befesa's internal audit team provide Befesa's investors and stakeholders with additional confidence regarding the financial and non-financial information published every quarter. These audits cover:

- Befesa's consolidated and subsidiaries' standalone financial statements;
- Company processes and policies; and
- Compliance, ESG policies and ethical standards.

In 2022, a total of 22 integrated audits (2021: 31 audits) were carried out following this internal control matrix, which includes more than 600 controls, many of them directly designed to cover ethical standards. Among others, these include:









- The definition of proper criminal compliance policies of Spanish entities (UNE 19601);
- Training for employees on compliance policies, the code of

conduct and IT security;

- Internal approvals for key actions;
- Anti-money laundering, payments and collections, and cash destinations and origins;
- Powers of attorney and compliance with the "four-eyes" principle;
- Negotiations with suppliers, customers and other business partners, in addition to existing contracts;
- Compliance with Befesa's supplier code of conduct;
- The recruitment and hiring of staff;
- Training and compensation of employees;
- Donations and sponsorships; and
- Health and safety.

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 every quarter.

Audits carried out by the internal audit team in 2022

	 Germany	 Spain	 Sweden	 France	 US	 China	 S. Korea	 Turkey
Criminal Compliance (UNE 19601)		✓						
Compliance training & communications	✓	✓	✓	✓	✓	✓	✓	✓
Payment approvals	✓	✓	✓			✓	✓	✓
Purchase approvals	✓	✓	✓			✓	✓	✓
Suppliers' benchmark	✓	✓	✓			✓	✓	✓
Supplier code of conduct	✓	✓	✓	✓	✓	✓	✓	✓
Recruitment & hiring	✓	✓	✓			✓		✓
Remuneration & compensation	✓	✓	✓			✓	✓	✓
Donations & sponsorships		✓						
Health & safety	✓		✓				✓	

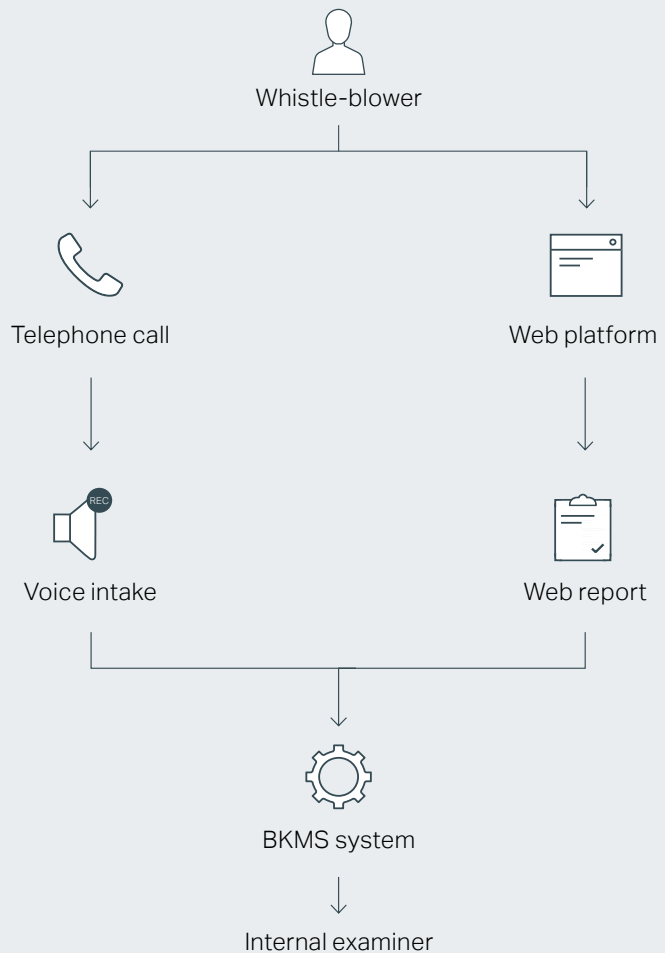
Whistle-blowing channel

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. This platform is available in eight languages: English, German, Spanish, French, Swedish, Turkish, Korean and Chinese.

The channel, provided by Business Keeper (BKMS), is the first compliance platform certified in accordance with the data protection law at European level (GDPR).

In addition, it meets the very highest data security standards: double security certification in accordance with ISO 27001, state-of-the-art encryption algorithms, high-security data centres and manual penetration testing. This ensures that whistle-blowers are provided with protection from retaliation.

- ✓ European/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

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Consolidated statement of financial position as at 31 December 2022

(Thousands of euros)

Assets	Note(s)	2022	2021
Non-current assets:			
Intangible assets			
Goodwill	7	587,853	573,151
Other intangible assets	8	106,114	104,418
		693,967	677,569
Right-of-use assets	11	30,895	30,335
Property, plant and equipment	9	682,809	509,075
Non-current financial assets			
Investments in Group companies and associates		45	46
Other non-current financial assets	10	44,521	15,953
		44,566	15,999
Deferred tax assets	19	103,647	125,462
Total non-current assets		1,555,884	1,358,440
Current assets:			
Inventories	12	102,539	67,477
Trade and other receivables	13	107,591	113,229
Trade receivables from related companies	13-25	1,039	917
Accounts receivable from public authorities	13-20	19,566	10,671
Other receivables	13	26,898	20,561
Other current financial assets	10	1,342	825
Cash and cash equivalents	4	161,751	224,089
Total current assets		420,726	437,769
Total assets		1,976,610	1,796,209

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 2022
(Thousands of euros) *continued*

Equity and liabilities	Note(s)	2022	2021
Equity:			
Parent Company	14		
Share capital		111,048	111,048
Share premium		532,867	532,867
Hedging reserves		(2,573)	(96,830)
Other reserves		37,340	(19,915)
Translation differences		20,197	(4,080)
Net profit/(loss) for the year		106,220	99,745
Equity attributable to the owners of the Company		805,099	622,835
Non-controlling interests	14	14,153	8,712
Total equity		819,252	631,547
Non-current liabilities:			
Long-term provisions	18	18,518	22,267
Loans and borrowings	15	663,448	653,571
Lease liabilities	11-15	13,988	15,756
Other non-current financial liabilities	17	12,875	56,700
Other non-current liabilities	16	7,831	4,621
Deferred tax liabilities	19	107,633	91,946
Total non-current liabilities		824,293	844,861
Current liabilities:			
Loans and borrowings	15	23,038	17,791
Lease liabilities	11-15	10,298	7,612
Other current financial liabilities	17	38,223	75,650
Trade payables to related companies	25	1,573	1,436
Trade and other payables		198,870	151,414
Other payables			
Accounts payable to public administrations	16-20	14,220	17,855
Other current liabilities	16	46,843	48,043
		61,063	65,898
Total current liabilities		333,065	319,801
Total equity and liabilities		1,976,610	1,796,209

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 2022

(Thousands of euros)

	Note(s)	2022	2021
Continuing operations:			
Revenue	5, 22.1	1,136,033	821,613
Changes in inventories of finished goods and work in progress		(4,776)	10,713
Procurements	22.2	(563,401)	(370,697)
Other operating income	22.3	92,299	14,989
Personnel expenses	22.4	(128,384)	(98,819)
Other operating expenses	22.5	(296,867)	(188,187)
Amortisation/depreciation, impairment and provisions	22.6	(70,145)	(62,155)
Operating profit		164,759	127,457
Finance income	23	4,205	344
Finance costs	23	(31,913)	(24,583)
Net exchange differences	3.18	(6,711)	8,634
Net finance income/(loss)		(34,419)	(15,605)
Profit/(Loss) before tax		130,340	111,852
Corporate income tax	19	(23,838)	(9,500)
Profit/(Loss) for the year		106,502	102,352
Profit/(Loss) for the year		106,502	102,352
Attributable to:			
Parent Company's owners		106,220	99,745
Non-controlling interests		282	2,607
Earnings/(Losses) per share attributable to owners of the Parent (expressed in euros per share)			
Basic earnings per share:	28	2.66	2.68

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 2022

(Thousands of euros)

	Note(s)	2022	2021
Consolidated profit/(loss) for the year		106,502	102,352
Items that may subsequently be reclassified to income statement:			
Income and expense recognised directly in equity		49,999	(112,239)
– Cash flow hedges	17	22,310	(167,326)
– Translation differences		29,436	6,808
– Tax effect	19	(1,747)	48,279
Transfers to the income statement		73,694	31,726
– Cash flow hedges	17	101,351	43,501
– Tax effect	19	(27,657)	(11,775)
Other comprehensive income/(loss) for the year, net of tax		123,693	(80,513)
Total comprehensive income/(loss) for the year		230,195	21,839
Attributable to:			
Parent Company's owners		224,754	23,421
Non-controlling interests		5,441	(1,582)

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 2022

(Thousands of euros)

	Attributable to the owners of the Parent						Net profit (loss) for the year (Note 14)	Non- controlling interests (Note 14)	Total equity
	Share capital (Note 14)	Share premium (Note 14)	Hedging reserves (Note 14)	Other reserves (Note 14)	Interim dividend (Note 14)	Translation differences (Note 14)			
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
Total comprehensive income for the year	-	-	94,257	-	-	24,277	106,220	5,441	230,195
Distribution of profit for the year									
Reserves	-	-	-	99,745	-	-	(99,745)	-	-
Dividends (Note 14)	-	-	-	(50,000)	-	-	-	-	(50,000)
Other movements (Note 3.18)	-	-	-	7,510	-	-	-	-	7,510
Balances at 31 December 2022	111,048	532,867	(2,573)	37,340	-	20,197	106,220	14,153	819,252

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 2022

(Thousands of euros)

	2022	2021
Cash flows from operating activities:		
Profit/(Loss) for the year before tax	130,340	111,852
Adjustments for:		
Depreciation and amortisation (Note 22.6)	70,145	53,251
Impairment losses (Notes 9, 22.6)	–	8,904
Changes in provisions	(4,829)	3,753
Interest income	(4,205)	(344)
Finance costs	31,913	24,583
Other profit and loss (Notes 2.6.2 and 6)	(47,770)	(750)
Exchange differences	6,711	(8,634)
Changes in working capital:		
Trade receivables and other current assets	(11,636)	(66,766)
Inventories	(62)	(21,255)
Trade payables	9,827	45,414
Other cash flows from operating activities:		
Interest paid	(21,243)	(16,872)
Taxes paid	(21,862)	(15,235)
Net cash flows from/(used in) operating activities	137,329	117,901
Cash flows from investing activities:		
Investments in intangible assets (Note 8)	(2,461)	(2,156)
Investments in property, plant and equipment (Note 9)	(104,187)	(75,528)
Collection from financial assets	–	2,031
(Acquisition)/Disposal of new subsidiaries (Note 6)	(44,965)	(373,694)
Collections from sale of property, plant and equipment	209	–
Investments/(Divestments) in other current financial assets	–	(123)
Net cash flows from/(used in) investing activities	(151,404)	(449,470)
Cash flows from financing activities:		
Equity issuance (Note 14)	–	328,615
Cash inflows from bank borrowings and other liabilities (Note 15)	24,201	130,370
Cash outflows from bank borrowings and other liabilities (Note 15)	(21,087)	(10,414)
Dividends paid to shareholders (Note 14)	(50,000)	(46,800)
Net cash flows from/(used in) financing activities	(46,886)	401,771
Effect of foreign exchange rate changes on cash and cash equivalents	(1,377)	(671)
Net increase/(decrease) in cash and cash equivalents	(62,338)	69,531
Cash and cash equivalents at the beginning of year	224,089	154,558
Cash and cash equivalents at the year end	161,751	224,089

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 2022

(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 into a société anonyme without creating a new legal entity or affecting the legal existence or personality of the Company in any manner. 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 Asua – 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 2022 and 2021 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 2022 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 2022,

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 consider that the consolidated financial statements for the year ended 31 December 2022, authorised for issue on 22 March 2023, will be approved with no changes by the shareholders at their Annual General Meeting to be held on 15 June 2023.

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 2022 include comparative figures for the prior year, which formed part of the 2021 consolidated financial statements approved by the shareholders of the Parent at their Annual General Meeting held on 16 June 2022.

The Company's consolidated financial statements for 2022 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 2022 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 and by the other Group companies, which include the joint arrangements in which they had interests at 31 December 2022. 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.

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 2022, are either not relevant or do not have a material impact on the consolidated financial statements of the Group:

- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

2.2 Adoption of new standards and interpretations issued *continued*

- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use
- References to the conceptual framework of IFRS in IFRS 3

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 2023, are as follows:

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies
- Amendments to IAS 8: Definition of Accounting Estimate
- Amendments to IAS 12: Income TAX Deferred Tax
- IFRS 17: Insurance Contracts

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 have a significant impact.

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 IFRS 16: Lease Liability in a Sale and Leaseback
- Amendments to IAS 1: Non-current Liabilities with Covenants
- 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.

The preparation of the consolidated financial statements in accordance with IFRS-EU requires the application of relevant accounting estimates and the making of judgments, estimates and assumptions in the process of applying the Group's accounting policies. In this sense, a detail of the aspects that have involved a greater degree of

judgement, complexity or in which the hypotheses and estimates are significant for the preparation of the consolidated annual accounts are summarised below.

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.

Fair value of derivatives

The fair value of financial instruments that are not quoted in an active market (e.g. OTC derivatives) is determined by using valuation techniques. The Group uses judgement to select a series of methods and makes assumptions that are mainly based on the market conditions existing at each balance sheet date.

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.

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.

Although these estimates were made on the basis of the best information available at 31 December 2022 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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

2.5 Changes in the scope of consolidation

Following is a description of the main changes in the scope of consolidation in 2022 and 2021:

2022

In September 2022, the Group completed the acquisition of 93.1% of the shares of American Zinc Products, LLC ("AZP") (currently, Befesa Zinc Metal, LLC) (Note 6).

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).

In 2021, as part of the agreements described in Note 6, Befesa acquired a minority stake of 6.9% of the equity interests in American Zinc Products, LLC ("AZP"), AZR's zinc refining subsidiary. This investment was recorded as a financial investment at fair value through profit or loss (Note 6).

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 used 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 adjusted by non-cash items. 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:

	2022	2021
Non-current financial debt (Note 15)	663,448	653,571
Non-current lease liability (Notes 11 and 15)	13,988	15,756
Current financial debt (Note 15)	23,038	17,791
Current lease liability (Notes 11 and 15)	10,298	7,612
Cash and cash equivalents (Note 4)	(161,751)	(224,089)
Other current financial assets adjusted by non-cash items (Note 10)	(60)	(61)
Net debt	548,961	470,580

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 non-recurrent costs/incomes.

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:

	2022	2021
Revenue (Note 5)	1,136,033	821,613
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions) (Note 22)	(901,129)	(632,001)
Amortisation/depreciation, impairment and provisions (a) (Note 22)	(70,145)	(62,155)
EBIT (Operating profit/(loss)) (b)	164,759	127,457
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (a+b)	234,904	189,612
Non-recurrent costs/incomes (Notes 6, 9 and 21) (*)	(20,304)	7,958
Adjusted EBITDA	214,600	197,570

(*) This amount mainly includes the effects of the acquisition of American Zinc Recycling Corp. (Note 6), income from damages caused at the plant and covered by insurance in relation to the fire at the Hanover plant in 2021 (Note 21), and the estimated amount (€4,373 thousand) of the impact of hyperinflation on the Group's EBITDA (Note 3.18).

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

	2022	2021
Revenue (a)	1,136,033	821,613
EBITDA (b)	234,904	189,612
Non-recurrent costs/incomes	(20,304)	7,958
Adjusted EBITDA (c)	214,600	197,570
EBITDA margin (%) (b/a)	21%	23%
Adjusted EBITDA margin (%) (c/a)	19%	24%

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 non-recurrent costs/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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) continued

2.6 Alternative performance measures continued

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

	2022	2021
Revenue (Note 5)	1,136,033	821,613
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions) (Note 22)	(901,129)	(632,001)
Amortisation/depreciation, impairment and provisions (Note 22)	(70,145)	(62,155)
EBIT (Operating profit/(loss))	164,759	127,457
Non-recurrent costs/incomes EBIT (Notes 9 and 21)	5,867	13,848
Non-recurrent costs/incomes EBITDA (Notes 6, 9 and 21)	(20,304)	7,958
Adjusted EBIT	150,322	149,263

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

	2022	2021
Revenue (a)	1,136,033	821,613
EBIT (b)	164,759	127,457
Non-recurrent costs/incomes EBIT (Notes 9 and 21)	5,867	13,848
Non-recurrent costs/incomes EBITDA (Notes 6, 9 and 21)	(20,304)	7,958
Adjusted EBIT (c)	150,322	149,263
EBIT margin (%) (b/a)	15%	16%
Adjusted EBIT margin (%) (c/a)	13%	18%

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/Adjusted EBITDA ratio to net debt and Adjusted EBITDA:

	2022	2021
Net debt (Note 4)	548,961	470,580
Adjusted EBITDA	214,600	197,570
Net debt/Adjusted EBITDA	2.6	2.4

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:

	2022	2021
Cash flows from investing activities:		
Investments in intangible assets (Note 8)	2,461	2,156
Investments in property, plant and equipment (Note 9)	104,187	75,528
Capex	106,648	77,684

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. Where applicable, the defect, after assessing the amount of consideration delivered, the value allocated to non-controlling interests and the identification and valuation of the net assets acquired, is recognised in a separate item in the consolidated income statement.

The business combination has only been determined provisionally, so the identifiable net assets have initially been recognised at their provisional values and adjustments made during the measurement period have been recognised as if they had been known at the acquisition date. Comparative figures for the previous year are restated where applicable.

In any event, adjustments to provisional amounts only reflect information obtained about facts and circumstances that existed at the acquisition date and, if known, would have affected the measurement of the amounts recognised at that date.

For business combinations achieved in stages, the excess of the consideration given, plus the value assigned to non-controlling interests and the fair value of the previously held interest in the acquiree, over the net value of the assets acquired and liabilities assumed, is recognised as goodwill. Any shortfall, after assessing the consideration given, the value assigned to non-controlling interests and to the previously held interest, and after identifying and measuring the net assets acquired, is recognised in profit or loss.

The Group recognises the difference between the fair value of the previously held interest in the acquiree and the carrying amount in consolidated profit or loss or in other comprehensive income.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

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.

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 2022 are increased by approximately €23,635 thousand, €4,240 thousand, €29,369 thousand and €17,234 thousand, respectively (approximately €22,118 thousand, €5,510 thousand, €24,669 thousand and €14,944 thousand, respectively, at 31 December 2021), 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. 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 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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

3.6 Other intangible assets *continued*

- 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.

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 €1,016 thousand (31 December 2021: €1,039 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 2022, €1,255 thousand was recognised in

this regard (2021: €3,467 thousand) (Note 22.3). At 31 December 2022, 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 Xuchang, China, in the construction of the new plant of Befesa Zinc Environmental Protection Technology (Henan) Co, Ltd. (2021: 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) (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 – 35
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% – 5%).

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

3.8 Leases *continued*

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 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 or 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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

3.10 Financial instruments *continued*

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.

(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 2022 and 2021, balances receivable not due, which were extinguished as a result of the aforementioned non-recourse factoring operations, amounted to €58,407 thousand and €54,064 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 not 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 2022 (thousands of euros) *continued*

3.11 Hedge accounting *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 2022 and 2021. 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).

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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

3.15 Provisions, contingent liabilities and contingent assets *continued*

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, green zinc (Special High Grade, also known as SHG) 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, green zinc "SHG" 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, returns 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 2022 reflects a breakdown of "Contract assets" at 31 December 2022 and 2021, which amounts to €6,984 thousand (2021: €2,492 thousand).

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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

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.

(iii) *Foreign operations in hyperinflationary economies*

The financial statements of Group companies whose functional currency is the currency of a hyperinflationary economy are restated in terms of the measuring unit at the reporting date.

If the reporting date of the consolidated companies' financial statements is different to the that of the Company, the former is adjusted to the measuring unit at the Company's reporting date.

The results and financial position of the Group's foreign operations whose functional currency is the currency of a hyperinflationary economy are translated into euros as follows:

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, assets and liabilities, income and expenses, and cash flows are translated at the closing rate at the most recent reporting date.

- Comparative amounts are those that were included in the prior year consolidated annual accounts and are not adjusted for subsequent changes in the price level or in exchange rates. The effect of the adjustment on the prior year's balances is recognised as a revaluation reserve in other comprehensive income/translation differences in other comprehensive income/reserves under equity.

Given the economic situation in Turkey, and in accordance with the definition of a hyperinflationary economy established in IAS 29, the country is considered hyperinflationary since 1 January 2022. The Befesa Group holds investments in Turkey through the subsidiaries Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S. and Befesa Silvermet DisTicaret, A.S.

Application of IAS 29 for the first time in Turkey in the Group's 2022 consolidated financial statements was carried out in accordance with the following criteria:

- The comparative figures for 2021 were not subject to modification.
- Hyperinflationary accounting was applied to all assets and liabilities of subsidiaries before conversion.
- The historical cost of non-monetary assets and liabilities and the different equity items of those companies was adjusted from the date of acquisition or incorporation into the consolidated statement of financial position until the end of the year to reflect the changes in the purchasing power of the currency resulting from inflation.
- The initial equity presented in the stable currency is affected by the cumulative effect of restatement for inflation of non-monetary items from the date they were recognised for the first time and the effect of converting these balances at the closing rate at the beginning of the year.

The effect of hyperinflation in the Turkish subsidiaries on the consolidated equity of Befesa Group is €6.5 million and the "gains on the net monetary position" amounts to €2.5 million, recognised under net exchange differences in the consolidated income statement for the year ended 31 December 2022.

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).

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

3.19 Income tax, deferred tax assets and deferred tax liabilities *continued*

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.

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 2022 and 2021.

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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

4.1 Financial risk factors *continued*

The Group's main exposures to currency risk at 31 December 2022 and 2021 are shown below. The table reflects the carrying amount of the Group's financial instruments or classes of financial instruments denominated in foreign currency:

Currency	2022				2021			
	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	15,333	14,421	7,773	1,874	33,142	20,623	6,645	6,155
EUR	1,963	420	–	2,684	4,206	65	–	1,129
Other	7	5	–	72	21	3	–	20
Total	17,303	14,846	7,773	4,630	37,369	20,691	6,645	7,304

If the average exchange rate of the euro in 2022 and 2021 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 2022 and 2021, 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:

	2022	2021
Total external financial debt (Note 15)	710,772	694,730
Effect of interest rate swaps (Note 17)	(316,000)	(316,000)
Financial debt subject to variable interest	394,772	378,730

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 consolidated 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 (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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) continued

4.1 Financial risk factors continued

Management monitors the Group's liquidity reserve projections and changes in net borrowings, calculated as follows at 31 December 2022 and 2021:

	2022	2021
Cash and cash equivalents	161,751	224,089
Other current financial assets adjusted by non-cash items (Note 10)	60	61
Undrawn credit facilities and unused financing (Note 15)	75,000	75,000
Liquidity reserve	236,811	299,150
Financial debt (Note 15)	686,486	671,362
Finance lease payables (Note 15)	24,286	23,368
Cash and cash equivalents	(161,751)	(224,089)
Other current financial assets adjusted by non-cash items (Note 10)	(60)	(61)
Net debt (Note 2.6)	548,961	470,580
Less non-current borrowings (Note 15)	(677,436)	(669,327)
Current net financial debt	(128,475)	(198,747)

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 2022 and 2021 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.

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 2022				
Bank borrowings and lease liabilities (Note 15)	33,336	15,831	657,654	3,951
Other financial liabilities (Derivatives)	38,223	12,283	592	–
Trade and other payables (*)	261,506	1,299	3,235	–
Unaccrued interest payable	25,305	24,896	38,284	961
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

(*) Long-term payables do not include capital grants amounting to €3.3 million and €4.0 million in 2022 and 2021, 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 2022 and 2021 are as follows:

	2022	2021
Total bank borrowings (Note 15)	710,772	694,730
Less: Cash and cash equivalents	(161,751)	(224,089)
Other current financial assets adjusted by non-cash items (Note 10)	(60)	(61)
Net debt	548,961	470,580
Total equity	819,252	631,547
Total capital invested	1,368,213	1,102,127
Borrowing ratio	40.1%	42.7%

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).

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) continued

4.2 Fair value estimation continued

The table below shows the Group's assets and liabilities that were measured at fair value at 31 December 2022 and 2021:

2022

	Level 2	Level 3	2022
Assets			
- Derivatives (Note 17)	40,947	-	40,947
Total assets at fair value	40,947	-	40,947
Liabilities			
- Derivatives (Note 17)	51,098	-	51,098
Total liabilities at fair value	51,098	-	51,098

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

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 consolidated 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

At 31 December 2021, 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. In September 2022, the Group completed the acquisition of 93.1% of the shares of American Zinc Products, LLC (AZP) (currently, Befesa Zinc Metal, LLC) (Note 6).

The impact on the 2022 consolidated income statement of recognising the prior 6.9% investment at fair value gave rise to a loss of €6,406 thousand recorded under finance costs.

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 2022 and for the year ended 31 December 2021 (thousands of euros).

	2022				Total
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	
Revenue	730,311	77,333	375,851	(47,462)	1,136,033
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(551,537)	(38,727)	(356,813)	45,948	(901,129)
Amortisation/depreciation, impairment and provisions	(52,959)	(9,200)	(7,580)	(406)	(70,145)
EBIT (Operating profit/(loss))	125,815	29,406	11,458	(1,920)	164,759
Non-recurrent costs/incomes EBIT (Notes 9 and 21)	5,453	414	–	–	5,867
Non-recurrent costs/incomes EBITDA (Notes 6, 9 and 21)	(10,187)	(11,625)	–	1,508	(20,304)
Adjusted EBIT (Operating profit/(loss))	121,081	18,195	11,458	(412)	150,322

Notes to the consolidated financial statements as at 31 December 2022
(thousands of euros) *continued*

5. Segment reporting continued

	2021				Total
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	
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
Non-recurrent costs/incomes EBIT (Notes 9 and 21)	7,830	6,018	–	–	13,848
Non-recurrent costs/incomes EBITDA (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

The reconciliation of Adjusted EBIT to results attributable to the Parent Company is as follows:

	2022	2021
Adjusted EBIT	150,322	149,263
– Non-recurrent costs/incomes EBIT (Notes 9 and 21)	(5,867)	(13,848)
– Non-recurrent costs/incomes EBITDA (Notes 6, 9 and 21)	20,304	(7,958)
EBIT (Operating profit/(loss))	164,759	127,457
Finance income/(cost)	(34,419)	(15,605)
Corporate income tax	(23,838)	(9,500)
Profit/(loss)	106,502	102,352
Non-controlling interests	(282)	(2,607)
Profit/(loss) attributed to the Parent Company	106,220	99,745

	2022				
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total
Revenue	730,311	77,333	375,851	(47,462)	1,136,033
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions)	(551,537)	(38,727)	(356,813)	45,948	(901,129)
Amortisation/depreciation, impairment and provisions (a)	(52,959)	(9,200)	(7,580)	(406)	(70,145)
EBIT (Operating profit/(loss)) (b)	125,815	29,406	11,458	(1,920)	164,759
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (a-b)	178,774	38,606	19,038	(1,514)	234,904
Non-recurrent costs/incomes (Notes 6, 9 and 21)	(10,187)	(11,625)	–	1,508	(20,304)
Adjusted EBITDA	168,587	26,981	19,038	(6)	214,600
	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) (a-b)	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

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) continued

5. Segment reporting continued

The reconciliation of Adjusted EBITDA to results attributable to the Parent Company is as follows:

	2022	2021
Adjusted EBITDA	214,600	197,570
– Non-recurrent costs/incomes	20,304	(7,958)
Amortisation/depreciation, impairment and provisions	(70,145)	(62,155)
Operating profit/(loss)	164,759	127,457
Finance income/(cost)	(34,419)	(15,605)
Corporate income tax	(23,838)	(9,500)
Profit/(loss)	106,502	102,352
Non-controlling interests	(282)	(2,607)
Profit/(loss) attributed to the Parent Company	106,220	99,745

Other segment items included in the consolidated income statement are as follows:

	2022					2021				
	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)	(43,394)	(6,678)	(6,312)	(112)	(56,496)	(26,061)	(12,830)	(6,641)	(106)	(45,638)
– Intangible assets (Notes 8 and 22)	(374)	(783)	(577)	(69)	(1,803)	(360)	(737)	(622)	(72)	(1,791)
– Right-of-use assets (Notes 11 and 22)	(7,608)	(1,263)	(691)	(224)	(9,786)	(3,399)	(1,362)	(828)	(233)	(5,822)
– Reversal/ (recognition) of impairment losses and other (Note 22)	(1,584)	(476)	–	–	(2,060)	(7,774)	(254)	(876)	–	(8,904)
Total	(52,960)	(9,968)	(6,812)	(405)	(70,145)	(37,594)	(15,183)	(8,967)	(411)	(62,155)

Details of segment assets and liabilities are as follows:

	2022					2021				
	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	628,231	51,636	13,985	115	693,967	612,342	51,858	13,184	185	677,569
Property, plant and equipment	555,526	70,276	56,483	524	682,809	397,004	49,802	61,654	615	509,075
Right-of-use assets	25,157	4,851	592	295	30,895	22,787	5,972	1,080	496	30,335
Non-current financial assets and deferred tax assets	66,209	41	35,259	46,704	148,213	83,808	1,014	58,214	(1,575)	141,461
Current assets	289,757	27,405	79,055	24,509	420,726	236,296	20,388	91,646	89,439	437,769
Total assets	1,564,880	154,209	185,374	72,147	1,976,610	1,352,237	129,034	225,778	89,160	1,796,209
Equity and liabilities										
Net assets	321,151	69,287	35,863	392,951	819,252	196,114	28,508	50,251	356,674	631,547
Non-current liabilities	992,780	67,625	67,245	(303,357)	824,293	910,276	84,887	87,764	(238,066)	844,861
Current liabilities	250,949	17,297	82,266	(17,447)	333,065	245,847	15,639	87,763	(29,448)	319,801
Total equity and liabilities	1,564,880	154,209	185,374	72,147	1,976,610	1,352,237	129,034	225,778	89,160	1,796,209

Investments in the corresponding year were as follows (excluding the effect of translation differences):

	2022					2021				
	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)	74,092	27,505	2,731	23	104,351	68,176	12,626	2,260	52	83,114
Disposals of non-current assets (Notes 8 and 9)	(11,513)	(7,729)	(6)	(4)	(19,252)	(3,638)	(3,706)	(11,276)	(1)	(18,621)
Net investments in the year (Notes 8 and 9)	62,579	19,776	2,725	19	85,099	64,538	8,920	(9,016)	51	64,493

Investments in non-current assets include additions to property, plant and equipment (see Note 9) and intangible assets (see Note 8).

Notes to the consolidated financial statements as at 31 December 2022
(thousands of euros) *continued*

5. Segment reporting continued

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 2022 and 2021 are as follows:

Geographical area	2022	%	2021	%
Spain	210,250	18%	190,605	23%
Germany	120,344	10%	112,293	14%
Belgium	57,717	5%	53,261	7%
France	53,541	5%	20,706	3%
Finland	52,782	5%	46,883	6%
Italy	45,967	4%	33,424	4%
Norway	35,470	3%	26,628	3%
Netherlands	29,146	2%	44,845	6%
Sweden	21,067	2%	14,210	2%
Portugal	18,409	2%	13,133	2%
Rest of Europe	42,501	4%	27,273	3%
US	257,613	23%	56,359	7%
Japan	56,261	5%	77,533	9%
South Korea	35,275	3%	28,335	3%
Singapore	24,613	2%	8,212	1%
Brazil	20,648	2%	17,740	2%
Australia	19,959	2%	20,481	2%
China	11,911	1%	18,283	2%
Rest of the world	22,559	2%	11,409	1%
	1,136,033	100%	821,613	100%

The distribution of property, plant and equipment, intangible assets (excluding goodwill and licences) and right-of-use assets is as follows:

	2022	2021
US	331,843	189,181
Germany	107,558	92,804
China	101,720	86,125
Spain	84,226	85,065
France	31,143	29,642
South Korea	34,713	40,708
Turkey	17,880	9,399
Sweden	12,065	13,255
United Kingdom	79	83
	721,227	546,262

b) Information on customers

At 31 December 2022, three customers each represented over 10% of the Group's total revenues, all of them from the Steel Dust segment. The first-largest customer represents approximately 19% of the Group's total revenues (13% in 2021), the second represents approximately 15% of the Group's total revenues (5% in 2021) and the third represents approximately 12% of the Group's total revenues (16% in 2022).

6. Business Combination

a) American Zinc Products, LLC.

On 30 September 2022, the Group, through Befesa Holding US, Inc., acquired a 93% interest in American Zinc Products, LLC. (currently, Befesa Zinc Metal, LLC). Befesa already owned 7% of the zinc refining asset, as part of the acquisition of American Zinc Recycling which was closed in August 2021. Befesa Zinc Metal, LLC has its registered office in Rutherford County, North Carolina, and its principal activity is the production of zinc solely from recycled sources. The main reason for the business combination is to obtain new solvent extraction technology to process Waelz Oxide (WOX) into special high-grade (SHG) zinc. The zinc refining business provides Befesa with a strategic vertical integration capability to support its EAF steel dust recycling operations in the US, addressing the shortage of smelting capacity in the North American market.

Befesa Zinc USA sells 100% of its production to Befesa Zinc Metal, LLC, which processes Waelz oxide (WOX) and transforms it into SHG zinc.

The acquired business generated revenue and a consolidated profit/(loss) of €34,450 thousand and €(15,490) thousand, respectively, for the Group between the acquisition date and the end of the reporting period.

If the acquisition would have taken place at 1 January 2022, the Group's revenue and consolidated adjusted EBITDA for the year ended 31 December 2022 would have amounted to €1,245,788 thousand and €214,600 thousand, respectively.

Details of the consideration given, the fair value of the net assets acquired and excess of net assets acquired over cost of acquisition are as follows:

	Thousands of euros
Consideration given	
Cash paid	47,805
Capitalisation of balance receivable	4,182
Total consideration given	51,987
Fair value of previous investment in the business	3,853
Fair value of net assets acquired	107,466
(Excess of net assets acquired over cost of acquisition) (Note 22.3)	(51,626)

The excess amount of net assets acquired over of the acquisition cost has been recognised in Other operating income of the consolidated income statement. The main reason for the recognition of income has been that the current environment, characterised by high inflation and energy prices, has provided Befesa with the opportunity to renegotiate favorably the terms and conditions of the agreement (Note 10), hence reducing the acquisition price.

The costs associated with this operation amounted to €5,705 thousand.

Notes to the consolidated financial statements as at 31 December 2022
(thousands of euros) *continued*

6. Business Combination *continued*

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)	120,576
Right-of-use assets (Note 11)	1,969
Other financial assets	2,487
Cash and cash equivalents	2,840
Other current assets	81,568
Total assets	209,440
Lease liabilities (Note 11)	462
Other liabilities	6,882
Current liabilities	94,631
Total liabilities and contingent liabilities	101,975
Total net assets	107,465
Total net assets acquired	107,465
Cash paid	(47,805)
Cash and cash equivalents of the acquired company	2,840
Cash outflow for the acquisition	(44,965)

The criteria for calculating the main assets and liabilities existing at the date of taking over the operations of Befesa Zinc Metal, LLC. were the following:

- Property, plant and equipment: estimated the fair value of the tangible assets based on the income approach. The key parameters used in the valuation of this tangible assets were EBITDA, a discount rate of 8.7% and a perpetual growth rate of 2.5%.

b) American Zinc Recycling Corp.

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.). Befesa Zinc US, Inc. has its registered office in Pittsburgh, Pennsylvania, and its principal activity is providing EAF steel dust recycling services. The main reason for the business combination is 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 that said company had for an amount of €266,287 thousand.

The acquired business 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 American Zinc Recycling Corp. (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 were financed through a capital increase and a pre-approved term loan B add-on of €100 million. For this purpose, on 16 June 2021, the Board of Directors of Befesa 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 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 liabilities (Note 11)	8,094
Deferred 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 2022 (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 American Zinc Recycling Corp. ("AZR") (currently, Befesa Zinc US, Inc.) were the following:

- Licences: The valuation method applied to the identified Intangible Asset was 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 CACs must be subtracted from the cash flows generated by the intangible asset being valued.
- Property, plant and equipment: estimated the fair value of the tangible assets based on the appraisals estimated by an independent expert. It was applied the cost approach. Also the income approach was applied by considering whether the projected future cashflows of the business would support the estimated fair value of the subject assets overall.
- Deferred 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 financial statements.

7. Goodwill

Details of goodwill on the consolidated statement of financial position as at 31 December 2022 and 2021 are as follows:

CGU	Balance at 31/12/21	Translation differences	Balance at 31/12/22
Befesa Zinc US, Inc.	237,587	14,702	252,289
Steel Dust	290,778	–	290,778
Salt Slags	35,829	–	35,829
Secondary Aluminium	8,957	–	8,957
	573,151	14,702	587,853

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 in 2021 was 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:

- Befesa Zinc US, Inc.: 8.2%,
- Steel Dust: 6.49%-15.32% (2021: 6.20%-15.32%),
- Salt Slags: 6.73%-7.25% (2021: 6.73%-7.25%),
- Secondary Aluminium: 6.73%-7.25% (2021: 6.73%-7.25%)

The discount rates used are pre-tax 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 2022 and 2021, 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 Notes 3.5 and 3.6 and the methods described above. No impairment has been recognised in 2022 and 2021.

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 $\pm 5\%$ 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 2022 and 2021 are as follows:

	2022				Total
	Development expenditure	Licences	Computer software	Administrative concessions and others	
Cost:					
Balance at 31/12/21	13,605	97,566	8,585	2,494	122,250
Additions	1,939	–	222	299	2,460
Disposals	(1,000)	–	(3,324)	–	(4,324)
Transfers	–	–	45	–	45
Translation differences	–	1,025	(39)	–	986
Balance at 31/12/22	14,544	98,591	5,489	2,793	121,417
Accumulated amortisation					
Balance at 31/12/21	(8,868)	–	(7,141)	(1,823)	(17,832)
Additions (Note 22.6)	(1,363)	–	(439)	(1)	(1,803)
Disposals	1,000	–	3,324	–	4,324
Translation differences	–	–	8	–	8
Balance at 31/12/22	(9,231)	–	(4,248)	(1,824)	(15,303)
Other intangible assets, net at 31/12/21	4,737	97,566	1,444	671	104,418
Other intangible assets, net at 31/12/22	5,313	98,591	1,241	969	106,114

Notes to the consolidated financial statements as at 31 December 2022
(thousands of euros) *continued*

8. Other intangible assets continued

	2021				Total
	Development expenditure	Licences	Computer software	Administrative concessions and others	
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

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.

2022

The most significant additions for the year relates to development expenses capitalised in the "Secondary Aluminium" segment amounting to €1,939 thousand and to ERP implementation in the "Steel Dust" segment, €222 thousand.

The most significant disposal for the year relate to the disposal of the SAP (prior ERP), fully amortised, which amounts to €3,324 thousand in Befesa Zinc Comercial, S.A.U., Befesa Zinc Aser, S.A.U. and Befesa Zinc Óxido, S.A.U. Moreover, Befesa Zinc Óxido S.A.U. has made a disposal of €1,000 thousand of fully amortised development expenditures.

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.

Investment commitments

At 31 December 2022 and 2021, the Group had no significant investment commitments.

9. Property, plant and equipment

Movements in this consolidated statement of financial position as at 31 December 2022 and 2021 are as follows:

	2022					
	Land	Buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:						
Balance at 31/12/21	44,279	162,467	626,866	69,809	72,539	975,960
Additions	–	538	1,869	665	98,821	101,893
Business Combination (Note 6)	1,552	7,595	95,536	81	15,812	120,576
Disposals	–	(228)	(8,736)	(5,892)	(72)	(14,928)
Transfers	(75)	5,088	63,325	(31,024)	(37,359)	(45)
Translation differences	186	2	6,307	61	(1,765)	4,791
Balance at 31/12/22	45,942	175,462	785,167	33,700	147,976	1,188,247
Accumulated depreciation and provisions:						
Balance at 31/12/21	–	(73,618)	(337,712)	(26,503)	–	(437,833)
Additions (Note 22.6)	–	(6,804)	(47,704)	(1,988)	–	(56,496)
Disposals	–	188	13,110	1,475	–	14,773
Translation differences	–	213	(2,356)	5,313	–	3,170
Balance at 31/12/22	–	(80,021)	(374,662)	(21,703)	–	(476,386)
Impairment losses at 31/12/21	(874)	–	(28,151)	(27)	–	(29,052)
Additions (Note 22.6)	–	–	–	–	–	–
Impairment losses at 31/12/22	(874)	–	(28,151)	(27)	–	(29,052)
Carrying amount at 31/12/21	43,405	88,849	261,003	43,279	75,539	509,075
Carrying amount at 31/12/22	45,068	95,441	382,354	11,970	147,976	682,809

Notes to the consolidated financial statements as at 31 December 2022
(thousands of euros) *continued*

9. Property, plant and equipment continued

	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 31/12/19	–	(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

2022

The main additions for the year are related to the construction of the new plants in China (€22.3 million), the investments made by the new companies in US (€39.1 million), works done in Befesa Salzschlacke, GmbH mainly related to the plant of Hanover after the fire in 2021 (€25.0 million) and the annual recurrent environmental and maintenance investments made at each plant.

2021

The main additions for the year were 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.

Impairment losses

As at 31 December 2022, there were no impairments

As at 31 December 2021, the Company has impaired a land by €0.8 million.

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 2022 and 2021.

Mortgaged property, plant and equipment

At 31 December 2022 and 2021, there are no significant fixed assets pledged to secure loans.

Investment commitments

At 31 December 2022, the Group had investment commitments amounting to €28.8 million (2020: €33.7 million) mainly due to the expansion project in China and the US.

10. Financial assets by category and class

The classification of financial assets by category and class is as follows:

	2022		2021	
	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	–	1,666	–	4,724
Impairment	–	(1,104)	–	–
Trade and other receivables	155,094	–	145,378	–
Security deposits	887	3,467	825	1,200
Financial assets measured at fair value				
Hedging derivatives (Note 17)	455	40,492	–	1,200
Total financial assets	156,436	44,521	146,203	15,953

The fair value of financial assets does not differ significantly from their carrying amount.

As part of the agreements explain in note 6, Befesa also acquired in 2021 a minority stake of 6.9% of the equity interests in American Zinc Products, LLC (AZP), AZR's zinc refining subsidiary, for €8,500 thousand (US\$10 million).

This agreement included put options held by the shareholders of American Zinc Products, LLC (AZP) and call options held by the Befesa Group. The put and call options depended on the certain achievement of the capacity utilisation, and operating costs of the plant. The main characteristics of these put and call options, which could be exercised until 31 December 2023, were 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 US\$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 US\$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 US\$71.11.

These financial instruments were not valued at 31 December 2021 since the price at which they could be exercised was the same as that paid by the Group for the stake it currently holds, and since there had been no significant changes in the business, the directors continue to consider this to be market value. Furthermore, the share price of the Parent is in line with US\$71.11.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

10. Financial assets by category and class *continued*

In 2022, the Group exercised its option to acquire the remaining 93% interest in American Zinc Products, LLC. (currently, Befesa Zinc Metal, LLC). As a result, the financial instrument were derecognised on the date when the Group acquired the control. Due to a difference in the fair value of the financial instrument derecognised a loss of €6,406 thousand has been booked (Notes 6 and 23).

11. Right-of-use assets and lease liabilities

Details of and movement in classes of right-of-use assets during 2022 and 2021 are as follows:

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Total
Cost:					
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
Additions	324	426	3,844	4,177	8,771
Business Combination (Note 6)	14	278	759	918	1,969
Disposals	(69)	(159)	(2,788)	(4,377)	(7,393)
Translation differences	(125)	53	(173)	713	468
Balance at 31/12/22	17,594	6,842	10,981	10,830	46,247
Accumulated amortisation					
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)
Additions (Note 22.6)	(846)	(1,248)	(3,179)	(4,514)	(9,787)
Disposals	69	124	2,756	4,114	7,063
Translation differences	(92)	(5)	(40)	(394)	(531)
Balance at 31/12/22	(3,018)	(3,743)	(5,661)	(2,930)	(15,352)
Right-of-use assets net at 31/12/2021	15,301	3,630	4,141	7,263	30,335
Right-of-use assets net at 31/12/2022	14,576	3,099	5,320	7,900	30,895

The short-term lease expense for 2022 amounts to €2,003 thousand (2021: €1,268 thousand).

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:

	2022	2021
Within 1 year	10,298	7,612
Between 1 and 2 years	4,569	5,587
Between 2 and 3 years	2,709	2,817
More than 3 years	6,710	7,352
	24,286	23,368

The changes in this liability from 1 January to 31 December are as follows:

	2022	2021
Balance as at 1 January	23,368	13,984
Increase	9,047	6,877
Business Combination (Note 6)	1,969	8,097
Lease payments	(11,430)	(6,417)
Interest	1,009	563
Disposal	(33)	(50)
Translation differences	653	314
	24,286	23,368

12. Inventories

Details of inventories in the accompanying consolidated statement of financial position as at 31 December 2022 and 2021 are as follows:

	2022	2021
Finished goods	28,928	28,858
Goods in progress and semi-finished goods	6,817	1,238
Raw materials	36,124	20,014
Other	30,670	17,367
Total	102,539	67,477

"Other" at 31 December 2022 and 2021 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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

13. Accounts receivable

The breakdown of accounts receivable in the accompanying consolidated statement of financial position as at 31 December 2022 and 2021 is as follows:

	2022	2021
Contract assets	6,984	2,492
Trade and other receivables	102,498	112,412
Trade receivables from related companies (Note 25)	1,039	917
Other receivables (Note 21)	20,217	12,791
Public authorities (Note 20)	19,566	10,671
Advances to suppliers	6,681	7,770
Loss-allowance for doubtful debts	(1,891)	(1,675)
Total	155,094	145,378

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 2022 and 2021 are as follows:

	2022	2021
Opening balance	(1,675)	(1,538)
Write-off uncollectible accounts receivable and other transfers	(98)	–
Business Combination (Note 6)	(127)	(137)
Conversion differences	9	–
Closing balance	(1,891)	(1,675)

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 2022 and 2021 is 39,999,998 with a par value of €2.78 each. All the shares are listed in the Frankfurt Stock Exchange.

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 a 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 recognised €3,648 thousand of issuance costs as a reduction in equity instruments issued.

The shareholder structure as at 31 December 2022 and 2021 is as follows:

	Percentage of ownership	
	2022	2021
Free-float (including management)	100%	100%
Total	100%	100%

b) Share premium and other reserves

Details in the consolidated financial statement are as follows:

	2022	2021
Share premium	532,867	532,867
Hedging reserves	(2,573)	(96,830)
Other reserves	37,340	(19,915)
Total	567,634	416,122

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 2022, the shareholders at their AGM resolved to approve the distribution of a dividend of €50,000 thousand from the net profit of the year 2021.

c) Translation differences

The breakdown, by company, of "Translation differences" at 31 December 2022 and 2021 is as follows:

Company or group of companies	2022	2021
Befesa Zinc Korea, Ltd.	1,590	1,489
Befesa Salt Slags, Ltd.	682	(1,541)
Befesa Scandust, AB	(3,105)	(1,757)
Befesa Silvermet Iskenderum Celik Tozu Geri Donusumu, A.S.	(12,381)	(18,828)
Befesa Silvermet Dis Ticaret A.S.	(1,824)	(1,813)
Befesa Zinc Environmental Protection Technology (Jiangsu) Co. Ltd.	1,338	1,685
Befesa Zinc Environmental Protection Technology (Henan) Co. Ltd.	765	1,209
Befesa Holding US, Inc.	42,242	15,556
Befesa Zinc Metal, LLC	(9,032)	-
Other	(78)	(80)
Total	20,197	(4,080)

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

14. Equity *continued*

d) Non-controlling interests

Details of equity – non-controlling interests are as follows:

	2022	2021
Steel Dust:		
Befesa Silvermet Turkey, S.L. and subsidiaries	14,153	8,712
Total	14,153	8,712

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	
	2022	2021
Non-current assets	29,158	22,418
Current assets	16,643	14,888
Non-current liabilities	657	688
Current liabilities	14,602	17,819
Equity	30,542	18,799
Sales	41,297	29,348
Profit before taxes	2,123	7,624
Profit after taxes	609	5,625

At 31 December 2022 and 2021, the percentages of non-controlling interests of Befesa Silvermet Turkey, S.L. amounted to 46.4%.

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 2022 and 2021, 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 2022 and 2021 are as follows:

	2022		2021	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Bank loans and credit facilities	18,349	663,448	12,010	653,571
Unmatured accrued interest	4,689	–	5,781	–
Finance lease payables	10,298	13,988	7,612	15,756
Total	33,336	677,436	25,403	669,327

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:

Type	Limit in nominal currency (thousands of currency)	Interest rate	Maturity date	2022		2021	
				Current maturity	Non-current maturity	Current maturity	Non-current maturity
Facilities Agreement	€736,000	Euribor+2%	2026	4,604	612,519	5,691	608,901
Jiangsu	CNY 220,000	LPR(NBIC)+25pbt	2026	6,832	21,065	3,513	22,058
Henan	CNY 260,000	LPR(NBIC)+25pbt	2027	3,469	29,182	1,591	18,610
Other				18,431	14,670	14,608	19,758
				33,336	677,436	25,403	669,327

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 Term Loan B (TLB) at attractive interest rates, and b) increases loan baskets to accommodate Befesa's growth roadmap including China.

The Facilities Agreement was 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 downwards to 1.75% in the case of TLB and to 1.25% in the case of the RCF, depending on the ratio of net financial debt/EBITDA.

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.

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 additional €100 million Add-On TLB (Note 6). The maturity and rest of documentation terms remain in line with the existing TLB.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) continued

15. Financial debt continued

In August 2021, the margin applicable to the TLB was reduced by 25 bps to Euribor plus 175 bps due to the decrease on the leverage ratio.

In December 2022, the margin applicable to the TLB was increased by 25 bps to Euribor plus 200 bps due to the increase 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 2022 and 2021, 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 31 December 2022, the debt for both plants was completely drawn.

At 31 December 2022, "Other" mainly includes short-term financing of Befesa Silvermet Iskenderun, debt related to the financial leases and the incorporation of Befesa Zinc Metal to the consolidation perimeter (2021 includes short-term financing of Befesa Silvermet Iskenderun, debt related to the financial leases and incorporation of Befesa Zinc US to the consolidation perimeter).

At 31 December 2022 and 2021, an amount of €75 million was undrawn from the syndicated financing arrangement (Note 4.c).

The evolution of net financial debt during the 2022 and 2021 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 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	41,362
Net financial debt as at 31 December 2021	(224,089)	(61)	694,730	470,580
Cash flows	66,556	–	3,114	69,670
Exchange rate adjustments	(1,378)	–	(593)	(1,971)
Other non-monetary movements (*)	(2,840)	1	13,521	10,682
Net financial debt as at 31 December 2022	(161,751)	(60)	710,772	548,961

(*) Other non-monetary movements: Mainly due to the impact of the new contracts under IFRS 16, and the incorporation of Befesa Holding US to the consolidation perimeter in 2021 and the incorporation of Befesa Zinc Metal to the consolidation perimeter in 2022 (Note 6).

16. Other current and non-current payables

	2022		2021	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Payable to asset suppliers	8,390	–	10,017	–
Accounts payable to public authorities (Note 20)	14,220	–	17,855	–
Remuneration payable (Note 18)	22,666	–	21,561	–
Other	15,787	7,831	16,465	4,621
Total	61,063	7,831	65,898	4,621

"Other" mainly includes the current financial liabilities related to the last derivative settlements of the year amounting to €11.0 million (2021: €14.3 million) and the capital grants not yet released to income and debts with official bodies amounting to approximately €3.4 million (2021: €4.2 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 2022 and 2021 are as follows:

	2022	2021
Cash flow hedges non-current assets (Note 10)		
Swap contracts for zinc	9,369	–
Interest rate swap	31,123	1,200
	40,492	1,200
Cash flow hedges current assets		
Swap contracts for zinc	438	–
Foreign currency swap	17	–
	455	–
Total assets	40,947	1,200
Cash flow hedges non-current liabilities:		
Swap contracts for zinc	12,875	56,700
	12,875	56,700
Cash flow hedges current liabilities:		
Swap contracts for zinc	38,223	75,573
Foreign currency swap	–	77
	38,223	75,650
Total liabilities	51,098	132,350

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

17. Financial derivatives *continued*

■ Zinc derivative contracts

Details of the tonnes hedged and of the maturity of the related contracts at 31 December 2022 and 2021 are as follows:

	Tonnes			
	31 December 2022		31 December 2021	
	2023	2024 and subsequent years	2022	2023 and subsequent years
Hedge (in tonnes)				
Swap contract for zinc	132,400	176,000	92,405	221,700
	132,400	176,000	92,405	221,700

During 2022, Befesa has extended its zinc hedges until and including March 2025 (2021: September 2024).

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.

■ Interest rate swaps (floating to fixed)

The Company arranged an interest rate swap during 2017. This derivative matures in 2022. The notional amounts of the IRSs outstanding at 31 December 2021 totalled €316,000 thousand (Note 4.1), which were classified as highly effective hedging instruments. The fixed interest rate was 0.3580% and the main benchmark floating rate was Euribor. This derivative matured in December 2022.

In 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 2022 and 31 December 2021 totalled €316,000 thousand, 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 2022, currency purchase contracts (swaps or forwards) amounted to:

- US dollar sales: US\$42,469 thousand.
- US dollar purchases: US\$36,107 thousand.

At 31 December 2021, currency purchase contracts (swaps or forwards) amounted to:

- US dollar sales: US\$57,401 thousand.
- AED sales: AED 164 thousand.
- US dollar purchases: US\$20,636 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 2022 and 2021 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 2022 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 2022 and 2021 are as follows:

	Provisions for litigation, pensions and similar obligations	Other provisions for contingencies and charges	Total long-term provisions
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	(7,702)	–	(7,702)
Conversion differences	119	258	377
Balance at 31 December 2021	13,936	8,331	22,267
Business Combination (Note 6)	510	–	510
Profit and loss impact	5,275	73	5,348
Transfers	(9,267)	–	(9,267)
Payments	(834)	(67)	(902)
Conversion differences	175	387	562
Balance at 31 December 2022	9,795	8,723	18,518

Provisions for litigation, pensions, and similar obligations

At 31 December 2022, the Group recognised a provision of €4.5 million (2021: €7.5 million) related to the compensation plans described in Note 24. "Transfers" in 2022 and 2021 corresponds to the liability payable in 2023 and 2022, which has been recognised as "Remuneration payable" at 31 December 2022 and 2021.

In 2022 and 2021, 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. recognises a provision of approximately €1.9 million at 31 December 2022 and 2021 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. recognises asset retirement obligations linked to its different facilities in the US of €6.1 million at December 2022 (2021: €5.6 million) for the present value of estimated costs. The main asset retirement obligation relates to the ultimate closure of the former Monaca facility.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

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; and in the US, the companies Befesa Holding US Inc., Befesa Zinc US Inc., Befesa Holding, US Inc., Befesa Zinc US, Inc., Befesa Zinc Metal, LLC, and Chesnut Ridge Railroad, Corp. file consolidated 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 open for review by the tax authorities the years that have not become statute-barred, the last for years for income tax and the for the 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 was 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.

On 21 September 2021, minutes were signed in accordance, ending the aforementioned proceedings. Tax credits not recorded amounting to €53 million were 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 was nil. In addition, certain criteria had been set regarding the applicability of tax credits. In this regard, the Group 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:

	2022	2021
Profit/(Loss) before tax from continuing operations	130,340	111,852
Total accounting profit/(loss) before tax	130,340	111,852
Tax charge at the tax rate in force in each territory	(35,428)	(30,632)
Tax credits generated/(used) in the year and not capitalised	(764)	336
Off-balance tax credits recognition	–	21,683
Non-deductible expenses and non-computable income (Note 22.3)	10,761	(528)
Tax deductions generated/(used) in the year	1,145	618
Others	448	(977)
Income tax expense	(23,838)	(9,500)
– From continuing operations	(23,838)	(9,500)

Non-computable income at 31 December 2022 corresponds to the income of the gain or bargain purchase (Note 22.3) that has not a tax impact.

At 31 December 2022, uncapitalised tax credits amounted to €151.1 million, of which €122 million corresponds to Befesa Zinc US, Inc. (€106 million in 2021, of which €77 million corresponds to Befesa Zinc US, Inc.). The majority of these tax credits (€140.6 million) expire in 2043 (2021: €97.4 million).

The Directors of the Group companies and of the Parent 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 it is a newly created company in 2021 (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 2022 and 2021, 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.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) continued

19. Income Tax continued

Details of deferred tax assets and deferred tax liabilities in the accompanying consolidated financial statements for 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets arising from:		
Tax loss carry-forwards and tax credits and tax relief	72,731	69,357
Revaluation of derivative financial instruments	13,902	34,000
Other deferred tax assets	17,014	22,105
Total deferred tax assets	103,647	125,462
Deferred tax liabilities arising from:		
Asset revaluation	46,123	46,554
Revaluation of derivative financial instruments	7,474	270
Deferred tax liability arising from the tax deductibility of goodwill	46,644	39,362
Other deferred tax liabilities	7,392	5,760
Total deferred tax liabilities	107,633	91,946

Amounts corresponding to deferred tax assets are as follows:

	2022	2021
Deferred tax assets		
Deferred tax assets recoverable in more than 12 months	99,673	121,704
Deferred tax assets recoverable within 12 months	3,974	3,758
Total deferred tax assets	103,647	125,462

Movements in deferred tax assets and liabilities in 2022 and 2021 relate to:

2022

	Balance at 31/12/21	Recognised in			Balance at 31/12/22
		Income statement	Equity	Business Combination (Note 6)	
Deferred tax assets					
Tax loss carry-forwards and deductions	69,357	4,099	(725)	–	72,731
Derivatives	34,000	(27,657)	7,559	–	13,902
Other	22,105	(5,076)	(15)	–	17,014
Total deferred tax assets	125,462	(19,466)	(2,349)	–	103,647
Deferred tax liabilities					
Revaluations	46,554	(1,469)	1,038	–	46,123
Derivatives	270	–	7,204	–	7,474
Goodwill	39,362	7,282	–	–	46,644
Other (temporary differences)	5,760	1,654	(22)	–	7,392
Total deferred tax liabilities	91,946	7,467	8,220	–	107,633

2021

	Balance at 31/12/20	Recognised in		Business Combination (Note 6)	Balance at 31/12/21
		Income statement	Equity		
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

The main amounts and changes in deferred tax assets and liabilities in 2022 and 2021, were as follows:

2022

- 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 (€-0.7 million) in assets, and from revaluations of Befesa Zinc US, Inc. assets (€1.0 million) in liabilities.
- The movement in income statement in tax loss carry-forwards and deductions is mainly related to tax loss carry-forwards generated in Befesa Management Services GmbH (€0.5 million) and Jiangsu (€1.3 million), and tax incentives regarding investments in fixed assets in Turkey (€1.9 million).
- The tax depreciation of the goodwill by Befesa Zinc has generated an increase in deferred tax liabilities amounting to €7.3 million.

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. assets (€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).

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

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 2022 and 2021 are as follows:

	2022		2021	
	Receivable (Note 13)	Payable (Note 16)	Receivable (Note 13)	Payable (Note 16)
VAT	11,896	5,853	8,093	6,187
Withholdings and interim payments	–	631	148	1,031
Corporate income tax	6,599	5,274	1,502	8,333
Social security	13	1,847	9	1,736
Other	1,058	615	919	568
Total	19,566	14,220	10,671	17,855

“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 2022 and 2021, a number of Group companies had provided guarantees for an overall amount of approximately €76.1 million (31 December 2021: €50.7 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. Consequently, the plant reopened in May 2017. The Group had an insurance policy which was expected to mitigate the relevant expenses incurred and at 31 December 2020 recognised €7.9 million under “Other receivables” 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. The Group appealed to the Provincial Court of Bizkaia, but the Group management decided in 2021 to provision 100% of the balance receivable at 31 December 2021 following a conservative criteria (Note 22.6).

In November 2021, a fire broke out at the plant in Hanover (Germany), which belongs to the subsidiary Befesa Salzschlacke 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 caused, so the Group recognised an income of €33,672 thousand in 2022 (€6,018 thousand in 2021). This was recognised under “Other operating income” (Note 22.3) and covers damages caused at the plant amounting to €16,737 thousand and loss of earnings of €16,935 thousand. Regarding the income booked (€39,690 thousand), at 31 December 2022 the Group had pending to collect €6,954 thousand under “Other receivables”.

22. Income and expenses

22.1 Revenues

Details of revenues by category for 2022 and 2021 are as follows:

	2022	%	2021	%
Steel Dust	730,311	64%	455,836	55%
– Sale of WOX and other metals	578,838	51%	385,701	47%
– Service fees	117,022	10%	70,135	9%
– Smelting: sale of metals and by-products (Note 6)	74,382	7%	–	–
– Eliminations (*)	(39,931)			
Salt Slags	77,333	7%	77,349	9%
– Sale of aluminium concentrates and melting salt	50,733	4%	47,239	6%
– Fees for recycling salt slag and SPL	26,600	2%	30,110	4%
Secondary Aluminium	375,851	33%	329,860	40%
– Sale of secondary aluminium alloys	361,905	32%	313,245	38%
– Technology division and others	13,946	1%	16,615	2%
Corporate, other minor eliminations	(47,462)		(41,432)	
Total	1,136,033		821,613	

(*) Eliminations in the Steel Dust segment correspond to the elimination of sales between Befesa Zinc USA and Befesa Zinc Metal, LLC following the acquisition of the latter in 2022 (Note 6) given that Befesa Zinc USA sells 100% of its production to Befesa Zinc Metal, LLC, which processes WOX and transforms it into SHG zinc..

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 2022 and 2021 are as follows:

	2022	2021
Cost of raw materials and other supplies used	568,741	386,048
Changes in goods held for resale, raw materials and other inventories	(5,340)	(15,351)
Total	563,401	370,697

22.3 Other operating income

Details of other operating income in the consolidated income statements for 2022 and 2021 are as follows:

	2022	2021
In-house work on non-current assets (Note 3.7)	1,255	3,467
Income from income-related grants	2,596	2,242
Gain on bargain purchase (Note 6)	51,626	–
Other operating income (Note 21)	33,672	6,018
Services	3,150	3,262
Total	92,299	14,989

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

22.4 Personnel expenses

Details of personnel expenses in the consolidated income statements for 2022 and 2021 are as follows:

	2022	2021
Wages and salaries	102,136	79,853
Employer's social security contributions	15,916	13,888
Other welfare costs	10,332	5,078
Total	128,384	98,819

Of the Group's average headcount in 2022, 233 employees had temporary employment contracts (2021: 165 employees).

In 2022, the average number of employees of the joint operations amounted to 49 (2021: 47 employees).

The number of employees at the 2022 and 2021 year-end, by gender, was as follows:

	2022		2021	
	Male	Female	Male	Female
Management	40	7	36	7
Experts	159	44	168	48
Professionals	292	98	220	91
Operators and assistants	1,132	74	936	44
Total	1,623	224	1,360	190

22.5 Other operating expenses

	2022	2021
External services	283,284	178,799
Taxes other than income tax	4,638	2,408
Other current operating expenses,	8,945	6,980
Total	296,867	188,187

22.6 Amortisation/depreciation, impairment, and provisions

	2022	2021
Amortisation of intangible assets (Note 8)	1,803	1,791
Depreciation of property, plant and equipment (Note 9)	56,496	45,638
Amortisation of right-of-use assets (Note 11)	9,787	5,822
Impairment of fixed assets (Note 9)	–	874
Other (Note 21)	2,059	8,030
Total	70,145	62,155

23. Finance costs

The breakdown of this balance in the 2022 and 2021 consolidated income statements is as follows:

	2022	2021
Interest expense	21,230	15,362
Other finance costs	4,277	3,933
Financial expenses of provisions for employee benefits (Note 24)	–	5,288
Losses of fair value of financial assets measured at fair value through profit or loss (Notes 4 and 6)	6,406	–
Total	31,913	24,583

In 2022, losses of fair value adjustments of financial assets measured at fair value through profit or loss included the impact of recognising the prior 6.9% investment on American Zinc Recycling, Corp. (currently, Befesa Zinc Metal, LLC) at fair value amounting €6,406 thousand (Notes 4 and 6).

In 2022, swap settlement accrued €786 thousand of finance cost (2021: €1,147 thousand) and €611 thousand of finance income (2021: €0 thousand) due to the evolution of the Euribor.

In 2022, compensation plans described in Note 24 accrued €2,842 thousand of finance income while in 2021 accrued €5,288 thousand of finance cost.

24. Remuneration of the Board of Directors

Directors' remuneration and other benefits

In 2022, the members of the Parent's Board of Directors (including Executive Director members of the Board of Directors) earned approximately €11,798 thousand for salaries and attendance fees for discharging their duties in Group companies (2021: €11,131 thousand).

Also, as at 31 December 2022 and 2021 and during the year then ended, the Parent 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 2022 and 2021, there were no transactions with senior executives outside the normal course of business.

In January 2018, the Parent Company approved a compensation plan for certain members of Group management. This compensation plan was linked to the evolution of certain key indicators determined in the agreement (cumulative EBIT and EBITDA; cumulative cash flow; return on inputs of strategic projects and EHS environment, health, and safety, and governance as strategic initiatives). The plan consists of four tranches of three years each from January 2018 to January 2021 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 second and first tranche was paid in 2022 and 2021 for the amounts of €7.8 million and €4.3 million, respectively.

In 2022, the Parent Company approved a fifth tranche, with accrual 2022-2023-2024, that considers 86,584 shares. The rest of conditions for this tranche are similar than the previous tranches approved.

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 a reference the market value of Befesa, S.A. shares at 31 December 2022.

Notes to the consolidated financial statements as at 31 December 2022 (thousands of euros) *continued*

24. Remuneration of the Board of Directors *continued*

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 1/3 in 2021, 1/3 in 2022 and the last 1/3 in 2023. The first 1/3 was paid in 2021 for an amount of €4.4 million, and the second 1/3 was paid in 2022 for an amount of €3.1 million.

In addition, in 2020 the Non-Executive Directors (NEDs) were granted a 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. This plan was paid in 2022 for an amount of €0.8 million.

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 at consolidation level.

Details of balances and transactions with shareholders and Group and related companies at 31 December 2022 and 2021 are as follows:

2022

	Accounts receivable and other current financial assets (Note 13)	Accounts payable	Sales and other income	Purchases and other expenses
Recytech, S.A.	442	1,573	1,926	14,249
Other	597	–	–	–
Total	1,039	1,573	1,926	14,249

2021

	Accounts receivable and other current financial assets (Note 13)	Accounts payable	Sales and other income	Purchases and other expenses
Recytech, S.A.	258	1,436	1,758	11,831
Other	659	–	–	50
Total	917	1,436	1,758	11,881

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).

27. Auditors' fees

Fees corresponding to services rendered by KPMG Audit S.à.r.l. and network firms for the years ended 31 December 2022 and 2021, irrespective of the invoice date, are as follows:

	Thousands of euros	
	2022	2021
Audit services	1,005	502
Tax services	12	36
Other services	30	9
	1,047	547

Other services in 2022 included a training on the content and the eligibility and alignment requirements of the Regulation (EU) 2020/852 (EU Taxonomy) and the disclosures for non-financial undertakings required under the Commission Delegated Regulation (EU) 2021/2178 (Disclosures Delegated Act) rendered by KPMG Audit S.à.r.l. to Befesa, S.A. and its controlled entities during the year ended 31 December 2022.

28. Earnings per share

a) Basic earnings/(losses) per share (EUR per share)

	2022	2021
From continuing operations attributable to the ordinary equity holders of the Company	2.66	2.68
From discontinued operations	–	–
Total basic earnings/(losses) per share attributable to the ordinary equity holders of the Company	2.66	2.68

b) Diluted earnings/(losses) per share (EUR per share)

As at 31 December 2022 and 2021, there are no differences between basic and diluted earnings/(losses) per share.

Notes to the consolidated financial statements as at 31 December 2022
(thousands of euros) *continued*

28. Earnings per share *continued*

c) Reconciliation of earnings used in calculating earnings per share

	Thousands of euros	
	2022	2021
Profit/(Loss) for the year from continuing operations	106,502	102,352
Less non-controlling interests from continuing operations	(282)	(2,607)
Profit/(Loss) from continuing operations attributable to the ordinary equity holders of the Company	106,220	99,745
Profit/(Loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	106,220	99,745

d) Weighted average number of shares used as the denominator

	Thousands of euros	
	2022	2021
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (Note 14)	40,000	37,285

As at 31 December 2022 and 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 2022) and the date of the presentation of the accounts (22 March 2023) that would materially affect the Group's assets or the Group's financial and/or earnings position.

Subsidiaries and joint operations 2022

Entity	Country	Activity	% Interest	Auditor	Capital	Reserves	Thousands of euros (31/12/2022)		Interim dividend
							Translation differences	Results	
Subsidiaries									
Befesa Management Services GmbH	Germany	Holding	100%	KPMG	25	1,968	(30)	223	
Befesa Medio Ambiente, S.L.U.	Spain	Holding	100%	KPMG	150,003	785,989		65,562	
MRH Residuos Metálicos S.L.U.	Spain	Holding	100%	(1)	15,600	15,547		(549)	
- Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	2,645		19,547	
- 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	73,665	1,558	5,604	
Befesa Aluminio Comercializadora, S.L.	Spain	Marketing company	100%	(1)	90	21			
Befesa Salt Slags, Ltd	UK	Recovery of metals	100%	(1)	27,108	(22,864)	(2,892)	(3,986)	
Befesa Zinc, S.A.U.	Spain	Holding	100%	KPMG	25,010	133,802		65,473	(61,000)
- Befesa Zinc Comercial, S.A., (Sociedad Unipersonal)	Spain	Sale of recycled waste	100%	KPMG	60	7,378		(273)	
- Befesa Zinc Aser, S.A., (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	4,260	79		35,209	(31,600)
- Befesa Zinc Sur, S.L., (Sociedad Unipersonal)	Spain	Recovery of metals	100%	(1)	605	215		(9)	
- Befesa Zinc Óxido, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	1,102	5,513		600	
- Befesa Steel R&D, S.L., (Sociedad Unipersonal)	Spain	Development of projects and technology innovation	100%	(1)	3	596		191	
- Befesa Stainless Recycling, S.L.	Spain	Holding	100%	(1)	3	13,498		(3,156)	
Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	(14)		12,797	
Befesa ScanDust AB	Sweden	Recovery of metals	100%	KPMG	5,309	(40)	(343)	(4,745)	
- Befesa Silvermet Turkey, S.L.	Spain	Holding	53.60%	(1)	9,175	(2,222)		3,022	
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	4,231	38,291	(20,569)	9	

Notes to the consolidated financial statements as at 31 December 2022
(thousands of euros) *continued*

Entity	Country	Activity	% Interest	Auditor	Thousands of euros (31/12/2022)			Interim dividend	
					Capital	Reserves	Translation differences		Results
Befesa Silvermet Disticaret, A.S.	Turkey	Recovery of metals	100%	(1)	1,937	6,218	(4,138)	(2,421)	-
- Befesa Zinc Germany GmbH	Germany	Holding	100%	KPMG	25	2,130	-	18,014	(15,000)
Befesa Steel Services GmbH	Germany	Sales and logistics	100%	KPMG	2,045	67,866	-	103	-
Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	KPMG	5,113	10,763	-	508	-
Befesa Zinc Korea Ltd	South Korea	Recovery of metals	100%	KPMG	17,015	34,683	1,590	(5,965)	-
Befesa Pohang Co. Ltd	South Korea	Recovery of metals	100%	KPMG	1,770	3,399	(284)	438	-
Befesa Zinc Freiberg GmbH & Co. KG	Germany	Recovery of metals	100%	KPMG	1,000	6,114	-	325	-
Befesa Zinc Environmental Protection Technology (Jiangsu) Co. Ltd	China	Recovery of metals	100%	KPMG	21,407	(674)	1,338	(3,953)	-
Befesa (China) Investment Co. Ltd	China	Holding	100%	KPMG	18,825	(365)	260	(56)	-
Befesa Zinc Environmental Protection Technology (Henan) Co. Ltd	China	Recovery of metals	100%	KPMG	17,890	(476)	765	(513)	-
Befesa Zinc Gravelines S.A.S.	France	Waelz oxide treatment	100%	KPMG	8,000	1,634	-	1,242	-
Befesa Holding US, Inc	United States	Holding							
Befesa Zinc US, Inc	United States	Waelz oxide treatment	100%	(1)/(2)	134,152	7,975	13,332	6,084	-
Befesa Zinc Metal, LLC	United States	Zinc refinery	100%	(1)	107,466	-	(9,032)	(15,490)	-
Joint operations									
- Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	8,278	-	24,272	-

(1) Companies not subject to statutory audit

(2) Audit for Group audit purpose by KPMG

Subsidiaries and joint operations 2021

Entity	Country	Activity	% Interest	Auditor	Thousands of euros (31/12/2021)			Interim dividend
					Capital	Reserves	Translation differences	
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)
–Befesa Silvermet Turkey, S.L.	Spain	Holding	53.60%	(1)	9,175	(363)	–	(1,860)

Notes to the consolidated financial statements as at 31 December 2022
(thousands of euros) *continued*

Thousands of euros (31/12/2021)									
Entity	Country	Activity	% Interest	Auditor	Capital	Reserves	Translation differences	Results	Interim dividend
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	2,672	22,112	(17,813)	4,660	–
Thousands of euros (31/12/2021)									
Entity	Country	Activity	% Interest	Auditor	Capital	Reserves	Translation differences	Results	Interim dividend
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%	KPMG	8,000	1,100	–	534	–
Befesa Holding US, Inc (Consolidated)	United States	Waelz oxide treatment	100%	(1)/(2)	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

(2) Audit for Group audit purpose by Grant Thornton LLP

Responsibility statement

Consolidated financial statements

We, **Javier Molina Montes**, **Asier Zarraonandia Ayo**, and **Wolf Uwe Lehmann**, respectively **Executive Chair**, **Chief Executive Officer**, and **Chief Financial Officer**, confirm, to the best of our knowledge, that:

- the 2022 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, 22 March 2023



Javier Molina
Executive Chair



Asier Zarraonandia
Chief Executive Officer



Wolf Uwe Lehmann
Chief Financial Officer

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 2022, 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 2022 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 "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.



Acquisition of American Zinc Products LLC. (AZP)

- 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 30 September 2022 the Group acquired from an unrelated third party, 93% interest in American Zinc Products LLC. (AZP), currently Befesa Zinc Metal, Inc. Befesa already owned 7% of the refining asset, as a result of the acquisition of American Zinc Recycling which was closed in August 2021. The main reason for this acquisition is to obtain new solvent extraction technology to process Waelz Oxide (WOX) into special high grade zinc (SHG). The purchase price amounted to EUR 51,987 thousand and the transaction is considered as 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 103,613 thousand and a gain on bargain purchase in the amount of EUR 51,626 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 Products LLC. (AZP) 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 Products LLC. (AZP) and the purchase price allocation included, but were not limited to, the following:

- Obtaining and analysing the sale purchase agreement and the Purchase Price Allocation carried out internally by the Group.
- 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.

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.

Independent auditor's report **continued**



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 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 applied.

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.

Independent auditor's report **continued**



Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Shareholders on 16 June 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is four 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) letters c) and 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 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 2022 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 2022, identified as LU1704650164-JA-EQ-2022-12-31-en, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

Our audit report only refers to the consolidated financial statements of Befesa S.A. as at 31 December 2022, identified as LU1704650164-JA-EQ-2022-12-31-en, prepared and presented in accordance with the requirements laid down in the ESEF Regulation, which is the only authoritative version.

Luxembourg, 22 March 2023

KPMG Audit S.à r.l.
Cabinet de révision agréé



Stephan Lego-Deiber
Partner



Reintroduce

recovered materials into the market.



Statutory financial statements

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Balance sheet for the year ended 31 December 2022

(Expressed in euros)

	Note(s)	2022	2021
Assets			
A. Subscribed capital unpaid			
I. Subscribed capital not called			
II. Subscribed capital called but unpaid			
B. Formation expenses	3	2,524,011.95	3,253,437.40
C. Fixed assets		1,223,051,150.60	1,223,051,150.60
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	1,223,051,150.60
1. Shares in affiliated undertakings		597,051,150.60	597,051,150.60
2. Loans to affiliated undertakings		626,000,000.00	626,000,000.00
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		4,229,153.49	6,066,419.91
I. Stocks			
1. Raw materials and consumables			
2. Work in progress			
3. Finished goods and goods for resale			
4. Payments on account			
II. Debtors	5	4,104,090.37	6,006,508.47

	Note(s)	2022	2021
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		4,104,090.37	5,914,893.47
a) becoming due and payable within one year		4,104,090.37	5,219,696.51
b) becoming due and payable after more than one year			695,196.96
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		125,063.12	59,911.44
E. Prepayments	6	4,461,578.69	5,727,894.43
Total assets		1,234,265,894.73	1,238,098,902.34
Capital, reserves and liabilities			
A Capital and reserves	7	598,973,790.37	600,169,051.10
I. Subscribed capital		111,047,595.14	111,047,595.14
II. Share premium account		532,868,267.82	532,868,267.82
III. Revaluation reserve			
IV. Reserves		36,245,502.73	29,556,938.60
1. Legal reserve		11,104,759.51	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		25,140,743.22	20,099,373.96
a) other available reserves		25,140,743.22	20,099,373.96
b) other non available reserves			
V. Profit or loss brought forward		(129,992,312.09)	(129,992,312.09)

Balance sheet for the year ended 31 December 2022
(expressed in euros) *continued*

	Note(s)	2022	2021
VI. Profit or loss for the financial year		48,804,736.77	56,688,561.63
VII. Interim dividends			
VIII. Capital investment subsidies			
B. Provisions	8	150,012.00	806,273.00
1. Provisions for pensions and similar obligations		150,012.00	806,273.00
2. Provisions for taxation			
3. Other provisions			
C. Creditors	9	630,680,513.67	631,395,683.81
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		630,104,090.37	631,219,696.51
a) becoming due and payable within one year		4,104,090.37	5,219,696.51
b) becoming due and payable after more than one year		626,000,000.00	626,000,000.00
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		151,326.79	13,248.85
a) becoming due and payable within one year		151,326.79	13,248.85
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			

	Note(s)	2022	2021
6. Amounts owed to affiliated undertakings		318,884.68	–
a) becoming due and payable within one year			
b) becoming due and payable after more than one year		318,884.68	–
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		106,211.83	162,738.45
a) Tax authorities		106,211.83	120,738.45
b) Social security authorities			
c) Other creditors			42,000.00
i) becoming due and payable within one year			42,000.00
ii) becoming due and payable after more than one year			
D. Deferred income	10	4,461,578.69	5,727,894.43
Total capital, reserves and liabilities		1,234,265,894.73	1,238,098,902.34

Profit and loss account for the year ended 31 December 2022

(Expressed in euros)

	Note(s)	2022	2021
Profit and loss account			
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	1,264,882.16	1,198,248.03
5. Raw materials and consumables and other external expenses	12	(1,089,842.82)	(833,638.73)
a) Raw materials and consumables			
b) Other external expenses		(1,089,842.82)	(833,638.73)
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	14	(729,425.45)	(395,688.33)
a) in respect of formation expenses and of tangible and intangible fixed assets		(729,425.45)	(395,688.33)
b) in respect of current assets			
8. Other operating expenses	15	(826,821.79)	(771,508.12)
9. Income from participating interests	16	49,999,997.50	55,000,000.00
a) derived from affiliated undertakings		49,999,997.50	55,000,000.00
b) other income from participating interests			
10. Income from other investments and loans forming part of the fixed assets	17	13,078,357.22	13,505,817.15
a) derived from affiliated undertakings		13,078,357.22	13,505,817.15
b) other income not included under a)			

	Note(s)	2022	2021
11. Other interest receivable and similar income	18	1,698,944.20	2,525,229.62
a) derived from affiliated undertakings		1,698,944.20	2,525,229.62
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	(14,586,539.25)	(13,463,157.99)
a) concerning affiliated undertakings		(686.10)	-
b) other interest and similar expenses		(14,585,853.15)	(13,463,157.99)
15. Tax on profit or loss			
16. Profit or loss after taxation		48,809,551.77	56,765,301.63
17. Other taxes not shown under items 1 to 16	20	(4,815.00)	(76,740.00)
18. Profit or loss for the financial year		48,804,736.77	56,688,561.63

Notes to the statutory financial statements for the year ended 31 December 2022

(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 in 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 2022 and ends on 31 December 2022.

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 19 December 2002 as amended on 18 December 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 ("€") 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 Euro 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 for the year ended 31 December 2022 (expressed in euros) *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 recognized 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 2022, 729,425.45 EUR (2021: 395,688.33 EUR) have been amortised leaving 2,524,011.95 EUR (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	597,051,150.60	–	–	–	597,051,150.60
Loans to affiliated undertakings	626,000,000.00	–	–	–	626,000,000.00
Total	1,223,051,150.60	–	–	–	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	597,051,150.60	–	–	–	597,051,150.60
Loans to affiliated undertakings	626,000,00	–	–	–	626,000,000.00
Total	1,223,051,150.60	–	–	–	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 2022 neither as at 31 December 2021, 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 17) 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.

4. Financial assets continued

Undertakings in which the Company holds at least 20% in their share capital are as follows:

Name	Registered Office	% holding	As at 31/12/2021		
			Net book value (EUR)	Net equity (EUR)	Net result (EUR)
Befesa Management Services GmbH	audited account Germany	100%	25,000.00	1,619,016.28	343,941.33
Befesa Medio Ambiente, S.L.U.	audited account Spain	100%	597,026,150.60	734,897,000.00	(19,904,000.00)

Loans to affiliated undertakings

Counterparty	Currency	Amount	Interest rate	Maturity date
Loan to Befesa Medio Ambiente S.L.U.	EUR	626,000,000.00	2% + Euribor 3M	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 7-year term loan B.

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.

In December 2022, the margin applicable to this loan was increased by 25 bps to Euribor plus 200 bps. As at 31 December 2022, the nominal amount of this loan is EUR 626,000,000.00 (2021: EUR 626,000,000.00) and accrued interest amount to EUR 4,375,218.37 (2021: EUR 5,144,277.81) (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 2022 neither as at 31 December 2021, accordingly no value adjustment was recorded.

5. Debtors

Debtors by category	Within one year	More than one year	As at 31/12/2022	As at 31/12/2021
Amounts owed by affiliated undertakings	4,104,090.37	–	4,104,090.37	5,914,893.47
Other debtors	–	–	–	91,615.00
Total	4,104,090.37	–	4,104,090.37	6,006,508.47

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 31/12/2022 Amount EUR	As at 31/12/2021 Amount EUR
Accrued Interest – Loan and Interest Rate SWAP Befesa Medio Ambiente, S.L.U.	4,104,090.37	5,219,696.51
Other debtors:		
Advances NWT	–	91,615.00
Total	4,104,090.37	5,311,311.51

Notes to the statutory financial statements for the year ended 31 December 2022 (expressed in euros) *continued*

5.2 Debtors – Becoming due and payable within more than one year

Becoming due and payable within more than one year	As at 31/12/2022 Amount	As at 31/12/2021 Amount
Receivable from Befesa Medio Ambiente S.L.U.	–	695,196.96
Total	–	695,196.96

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 2022 the “Reciprocal Credit Agreement” amounts EUR –318,884.68 (2021: EUR 695,196.96). As the total amount is negative, it has been reclassified as a payable under the account “ Amounts owed to affiliated undertakings” (Note 9).

In the opinion of the Board of Directors, the recovery of debtors is not compromised as at 31 December 2022, accordingly no value adjustment was recorded.

6. Prepayments

Prepayments	As at 31/12/2022	As at 31/12/2021
Transaction costs	4,461,578.69	5,727,894.43
Total	4,461,578.69	5,727,894.43

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 recognized and are amortized all along the length of the facility.

As at 31 December 2022, the accumulated prorated amortization amounts to EUR 6,386,254.66 (2021: EUR 5,119,938.92).

7. Capital and reserves

Movements in capital and reserves	Balance as at 31/12/2021	Allocation of preceding result	Dividend	Result of current year	Balance as at 31/12/2022
Subscribed capital	111,047,595.14	–	–	–	111,047,595.14
Share premium	532,868,267.82	–	–	–	532,868,267.82
Legal reserve	9,457,564.64	1,647,194.87	–	–	11,104,759.51
Other available reserves	20,099,373.96	5,041,369.26	–	–	25,140,743.22
Profit or loss brought forward	(129,992,312.09)	–	–	–	(129,992,312.09)
Profit or loss for the financial year	56,688,561.63	(56,688,561.63)	–	48,804,736.77	48,804,736.77
Dividend	–	49,999,997.50	(49,999,997.50)	–	–
Total	600,169,051.10	–	(49,999,997.50)	48,804,736.77	598,973,790.37

The number of shares as at 31 December 2022 and 2021 is 39.999.998 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 and share premium of 53.22 EUR. The new shares were included in the existing listing of Befesa’s shares in the Frankfurt Stock Exchange.

On 6 July 2022, Befesa distributed to its shareholders a dividend of 1.25 EUR per share, amounting to 49,999,997.50 EUR, as approved by the AGM held on 16 June 2022.

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.

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.

As at 31 December 2022 the legal reserve reaches 10% of the issued share capital.

8. Provisions

Provisions	As at 31/12/2022	As at 31/12/2021
Other provisions	150,012.00	115,006.00
Short term provision	–	691,267.00
Total	150,012.00	806,273.00

Other provisions

As at 31 December 2022 and 31 December 2021, 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, this plan was paid in 2022 and no new plan was signed.

9. Creditors

Creditors by category	Within one year	More than one year	More than five years	As at 31/12/2022	As at 31/12/2021
Amounts owed to credit institutions	4,104,090.37	626,000,000.00	–	630,104,090.37	631,219,696.51
Amounts owed to affiliated undertakings	318,884.68	–	–	318,884.68	–
Trade creditors	151,326.79	–	–	151,326.79	13,248.85
Other creditors	106,211.83	–	–	106,211.83	162,738.45
Total	4,680,513.67	626,000,000.00	–	630,680,513.67	631,395,683.81

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 + 3 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 0.00 as at 31 December 2022 (2021:EUR -1,180,620.89).

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 7 years.
- Revolving Credit Facility (RCF) in an amount of EUR 75 million with a maturity of 6 years.

Notes to the statutory financial statements for the year ended 31 December 2022 (expressed in euros) continued

9. Creditors continued

- A guarantee Facility Commitment in an amount of EUR 35 million with a maturity of 6 years.

On 17 February 2020, Befesa successfully repriced its term loan B, reducing its interest rate by 50 bps to Euribor + 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 31,122,698.83 as at 31 December 2022 (2021:EUR 2,381,114.48).

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. by this amount.

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 2022, interest on the Facility is Euribor plus a margin of 2.00% and 2.25% in the case of RCF, these margins can be adjusted depending on the ratio of net financial debt/EBITDA.

In December 2022, the margin applicable to this loan was increased by 25 bps to Euribor plus 200 bps due to the increase on the leverage ratio.

As at 31 December 2022 and 2021 the amounts becoming due and payable within one year are composed of accrued interest on the facility, and of accrued interest on the IRS.

10. Deferred income

Deferred income	As at 31/12/2022	As at 31/12/2021
Deferred Income – Transaction costs	4,461,578.69	5,727,894.43
Total	4,461,578.69	5,727,894.43

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 31/12/2022	As at 31/12/2021
Accounting, auditing and domiciliation fees	327,011.44	128,243.28
Banking and similar services	1,925.25	1,063.52
Legal fees	247,541.68	252,015.77
Other commissions and professional fees	498,228.75	451,444.55
Miscellaneous	15,135.70	871.61
Total	1,089,842.82	833,638.73

13. Staff costs

The average number of employees for the year 2022 was nil (2021: nil).

14. Value adjustments

	As at 31/12/2022	As at 31/12/2021
Formation expenses	729,425.45	395,688.33
Total	729,425.45	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 49,999,997.50 from Befesa Medio Ambiente S.L.U. (2021: EUR 55,000,000.00 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 2022 and 2021 are follows:

	As at 31/12/2022	As at 31/12/2021
Loans to affiliated undertakings (Loan to Befesa Medio Ambiente, S.L.U.)	13,078,357.22	10,784,166.67
Loan agreement 14 July 2021	–	2,683,636.14
Reciprocal Credit Agreement	–	38,014.34
Total	13,078,357.22	13,505,817.15

The "loan agreement 14 July 2021" was offset in December 2021 by a non cash contribution to the equity of Befesa Medio Ambiente, S.L.U..

18. Other interest receivable and similar income

The interest and similar income consist of the costs the Company recharged to its subsidiary Befesa Medio Ambiente, S.L.U.

	As at 31/12/2022	As at 31/12/2021
Amortisation cost	1,266,315.74	1,156,243.58
Cost of IRS	175,002.56	1,146,992.22
Invoices for management of financing activities recharged to affiliated undertakings	257,625.90	221,993.82
Total	1,698,944.20	2,525,229.62

19. Interest payable and similar expenses

	As at 31/12/2022	As at 31/12/2021
Interest cost	13,078,357.22	10,784,166.67
Cost of IRS	175,002.56	1,146,992.22
Amortisation cost	1,266,315.74	1,156,243.58
Other expenses	66,863.73	375,755.52
Total	14,586,539.25	13,463,157.99

Notes to the statutory financial statements for the year ended 31 December 2022
(expressed in euros) continued

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 (2021: nil).

24. Subsequent events

There are no events between the balance sheet date (31 December 2022) and the date of the presentation of the accounts (22 March 2023) which would materially impact the Company's assets or the Company's financial and/or earnings position.

Responsibility statement

Statutory financial statements

We, **Javier Molina Montes, Asier Zarraonandia Ayo, and Wolf Uwe Lehmann, respectively Executive Chair, Chief Executive Officer, and Chief Financial Officer, confirm, to the best of our knowledge, that:**

- the 2022 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 on 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, 22 March 2023

Javier Molina
Executive Chair

Asier Zarraonandia
Chief Executive Officer

Wolf Uwe Lehmann
Chief Financial Officer

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 2022, 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 2022 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 "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.



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.

Independent auditor's report **continued**



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 applied.

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 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 16 June 2022 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is four 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) letters c) and 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 2022 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 2022, identified as LU1704650164-JA-EQ-2022-12-31-en, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

Our audit report only refers to the annual accounts of Befesa S.A. as at 31 December 2022, identified as LU1704650164-JA-EQ-2022-12-31-en, prepared and presented in accordance with the requirements laid down in the ESEF Regulation, which is the only authoritative version.

Luxembourg, 22 March 2023

KPMG Audit S.à r.l.
Cabinet de révision agréé


Stephan Lego-Deiber
Partner





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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 (EAF)	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
Special high-grade (SHG) zinc	High-purity zinc ingots produced solely from recycled sources (WOX) using an electrowinning and solvent extraction
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	<p>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.</p> <p>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.</p>
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 2023 Statement & Conference Call	Thursday, 4 May 2023
Annual General Meeting	Thursday, 15 June 2023
H1 2023 Interim Report & Conference Call	Thursday, 27 July 2023
Q3 2023 Statement & Conference Call	Thursday, 26 October 2023

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

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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 cost; 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.

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