

Introduction: The EU Taxonomy

In the context of constant growth in dialogue and legislation regarding environmental protection and climate change, it is the European Union (EU)'s focus on Sustainable Finance what emanates the EU Taxonomy of sustainable activities (Regulation 2020/852 and associated legislation). The reporting tool acts as a classification of activities whereby a set of criteria must be fulfilled in order for the activity to align with the regulation. The aim is then to have a common system to evaluate to what extent an entity or activity could be considered 'sustainable', ensuring that financial investments are directed towards these, and reducing greenwashing across organisations established or operating within the European Union.

The EU Taxonomy considers **six environmental objectives**, each presenting a set of technical screening criteria. These objectives are:

1. **Climate change mitigation**
2. **Climate change adaptation**
3. **Sustainable use and protection of water and marine resources**
4. **Transition to a circular economy**
5. **Pollution prevention and control**
6. **Protection and restoration of biodiversity and ecosystems**

On this account, an activity is considered eligible when it has the potential to make a substantial contribution to at least one of the six environmental objectives.

Furthermore, an activity qualifies as environmentally sustainable and is considered aligned when it fulfils the following **four overarching conditions** defined by the EU Taxonomy Regulation:

1. **Making a substantial contribution to at least one environmental objective;**
2. **Doing no significant harm to any of the other five environmental objectives;**
3. **Complying with minimum safeguards;**
4. **Complying with the technical screening criteria set out in the Taxonomy Delegated Acts.**

In accordance with Article 8 of the Taxonomy Regulation (EU) 2020/852 and the supplementary Delegated Acts, Befesa is required to disclose to what extent its economic activities comply with the criteria defined by the EU Taxonomy Regulation. As a non-financial company, Befesa reports the proportion of its total turnover, total capital expenditure (CapEx) and total operating expenses (OpEx) in 2023 that are associated with Taxonomy-eligible and Taxonomy-aligned economic activities.

This report presents the results of the EU Taxonomy analysis carried out for the activities of Befesa for the year 2023. It consists of an explanation of the methodology, followed by an alignment assessment in which the substantial contribution and 'do no significant harm' (DNSH) principles, the minimum safeguards and the technical screening criteria were evaluated for the identified eligible activities of Befesa. Finally, the report presents the tables disclosing the financial information (turnover, CapEx and OpEx) as required by the Article 8 of the Taxonomy Regulation (EU) 2020/852.

- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088
- Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives

Context

Befesa is a vital player in the circular economy. Since 1987, Befesa has helped reduce the environmental impact of industrial waste and residues from the steel and aluminium industries. By recycling waste from these sectors Befesa recovers valuable materials and reintroduces them into the production process, reducing environmental impacts and also the cost of primary production.

Befesa is the leading environmental services partner supporting the circular economy of the secondary steel and globally aluminium industries, with facilities in eight countries in Europe, Asia and North America.

Befesa's two business units - Steel Dust and Aluminium Salt Slags Recycling Services - support the circular economy by recycling around 1.8 million tonnes of industrial residues and hazardous waste each year. This prevents the landfill of these hazardous waste streams while recovering around 1.5 million tonnes of valuable new materials, which are reintroduced to the economy reducing consumption of natural resources.

These activities meet the EU Taxonomy criteria for sustainable economic activities, as they reduce waste, promote recycling, and ensure the efficient use of resources, contributing to environmental sustainability, under which the eligibility exercise was done to identified possible eligible activities.

In 2024 (for the year 2023), the eligibility and alignment analyses were carried out considering the newly available information contained in the EU Taxonomy Delegated Acts, approved and adopted in June 2023, published in November 2023, and applicable from 1 January 2024. This analysis has involved a thorough examination of Befesa's various business units across different geographies to correlate them with the taxonomic activities.

This report is divided in **two sections**:

1. **Eligibility Analysis:** To qualify under the EU Taxonomy, an economic activity must make a substantial contribution to one or more of the environmental objectives outlined in the regulation. Befesa has identified and disclosed its activities eligible under the six environmental objectives applicable for the year 2023.
2. **Alignment Analysis:** Following the eligibility analysis, Befesa conducted an alignment analysis for its operations under the six environmental objectives applicable for the year 2023, in accordance with the requirement of the relevant Delegated Acts. In instances where an activity aligns to both circular economy and climate mitigation objectives, the KPIs were only counted towards one objective to avoid duplication.*
3. Based on the 2024 audited financial information (turnover, CapEx and OpEx), the corresponding proportions required by the EU Taxonomy Regulation were calculated. According to the EU Taxonomy, Turnover, CapEx and OpEx are defined as:
 - i. **Turnover:** Sales or turnover
 - a) Numerator: portion of net turnover derived from product or services, including intangible assets, associated with economic activities that comply with the Taxonomy
 - b) Denominator: Total net turnover of the group
 - ii. **CapEx:** Expenses derived from the company's investments according to taxonomy.
 - a) Numerator: This equals the portion of investments in fixed assets included in the denominator that (i) is related to assets or processes associated with economic activities that comply with the taxonomy; (ii) is part of a plan to expand economic activities that comply with the taxonomy or to enable eligible economic activities under the taxonomy to comply with the taxonomy; (iii) is related to the purchase of production obtained from economic activities that comply with the taxonomy and individual measures that enable the target activities to become low-carbon or result in greenhouse gas reductions.
 - b) Denominator: Investments in tangible and intangible assets during the considered fiscal year before depreciation, amortization, and potential revaluations, including those resulting from revaluations and impairments,

corresponding to the relevant fiscal year, excluding changes in fair value. Additions resulting from business combinations are also included.

- iii. **OpEx:** Operating Expenses derived from the functioning of a product, business, or system according to taxonomy (Research and development costs already accounted for in the key performance indicator related to CapEx will not be accounted for as OpEx).
- a) **Numerator:** This will include the portion of operating expenses included in the denominator that (i) is related to assets or processes associated with economic activities that comply with the taxonomy, including training and other human resource adaptation needs, and direct non-capitalized costs representing research and development (ii) is part of the CapEx plan to expand economic activities that comply with the taxonomy or to enable eligible economic activities under the taxonomy to comply with the taxonomy within a predefined timeframe (iii) is related to the purchase of production obtained from economic activities that comply with the taxonomy and individual measures that enable the target activities to become low-carbon or result in greenhouse gas reductions.
 - b) **Denominator:** This will include direct non-capitalized costs related to research and development, building renovation measures, short-term leases, maintenance and repairs, as well as other direct expenses related to the daily upkeep of fixed assets, either by the company or a third party to whom activities are subcontracted, necessary to ensure the continued and efficient operation of such assets. In addition to these concepts, leasing costs must be accounted for by non-financial companies applying generally accepted national accounting principles that do not capitalize right-of-use assets.

Commission Delegated Regulation (EU) 2023/2485 of 27 June 2023 amending Delegated Regulation (EU) 2021/2139 establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives

Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending

Eligibility Analysis

To determine Befesa's eligibility under the EU Taxonomy, the descriptions of all relevant activities presented for the six objectives outlined in the following documentation were analyzed:

- [Commission delegated regulation \(EU\) 2021/2139 of 4 June 2021](#)
- [Commission delegated regulation \(EU\) 2023/2486 of 27 June 2023](#)

This analysis allowed Befesa to evaluate the eligibility of its activities with the descriptions according to the EU Taxonomy. Befesa's economic activities can be classified into main activities:

- **Steel Dust Recycling Services**
 - Befesa collects and processes steel dust, a byproduct of the steel manufacturing process, to recover valuable zinc and other metals. This recycling process reduces the need for primary raw materials and minimizes environmental impact by preventing the landfill of hazardous waste.
- **Aluminum Salt Slags Recycling Services**
 - Befesa recycles salt slags and other residues generated during aluminum production. Through this process, the company extracts aluminum and other valuable materials, which are then reintroduced into the production cycle, thereby reducing waste and conserving natural resources.

In line with this interpretation and the activities outlined in Delegated Regulation 2021/2139 and Delegated Regulation 2023/2486, the EU Economic activities that were initially identified that contribute to the different objectives are:

EU Taxonomic Activity	Match with Befesa's Economic Activity	EU Taxonomy Objective
2.4 Treatment of hazardous waste	Steel Dust Recycling: The company's Steel dust recycling operations recover zinc and other metal from electric arc furnace dust, transforming a hazardous waste products into valuable raw material for the Steel and zinc industries.	Transition to a circular economy
3.8 Manufacture of aluminum	Aluminum salt slag recycling: The process of recycling aluminum salt slag recovers aluminum and other valuable materials from the slag, a residual product of aluminum production. This approach not only minimizes waste but also creates a sustainable supply of raw materials for the aluminum industry.	Climate Change Mitigation

EU Taxonomy Activity identified

2.4 Treatment of hazardous waste

i. Description of the Taxonomic Activity

Treatment of hazardous waste is the overarching activity of most of the companies operating under Befesa. The Company understands this as a crucial part of its activities as well as the very essence of Befesa.

The Annex II of the Delegated Regulation 2023/2486 and its amendment, under which an economic activity qualifies as contributing substantially to the transition to a circular economy, covers activity 2.4. Treatment of hazardous waste. Activity 2.4 is described as the construction, upgrade, and operation of dedicated facilities for the treatment of hazardous waste as a means for material recovery operations.

Befesa has determined that its does not comply with was is it listed in the description for this activity, giving that the economic activity is defined as *Recycling or reclamation of inorganic materials other than metals or metal compounds*. This would exclude the main activity of Steel Dust Recycling Services out of the eligibility & alignment analysis, given that Befesa recycles metals and/or metal compounds. If it was not to be excluded, the eligibility for the different KPIs would be:

- Turnover: 349.661 thousand euros (30% of turnover)
- CapEx: 18.051 thousand euros (18% of capex)
- OpEx: 293.561 thousand euros (27% of OpEx)

Befesa's primary activity is unique, with no direct competitors offering similar services. This uniqueness has posed a challenge, as there is no specific classification for its activity within the EU Taxonomy related to Steel Dust Recycling. Despite this, Befesa is a significant contributor to the circular economy, playing a crucial role in recycling and resource recovery. The lack of a proper classification highlights the need for more comprehensive guidelines to accommodate innovative and specialized activities that support the objective of circular economy.

3.8 Manufacture of aluminium

i. Description of the Taxonomic Activity

Befesa produces secondary aluminium, while upholding the highest standards of sustainability. In line with Befesa's sustainability goals, the Company is actively involved in the manufacturing of secondary aluminium, promoting the circular economy and the sustainable reuse of this valuable material. This way, Befesa contributes to resource conservation and minimise waste generation.

The Annex I of the Delegated Regulation 2021/2139 and its amendment, under which an economic activity qualifies as contributing substantially to climate change mitigation, covers activity 3.8 Manufacture of aluminium. Activity 3.8 is described as the Manufacture of aluminium through primary alumina (bauxite) process or secondary aluminum recycling.

Eligibility & Alignment Analysis

3.8 Manufacture of aluminium

i. Substantial contribution to the transition to a circular economy

Befesa has determined that one of its main activities, Aluminium Salt Slags Recycling Services, complies with the Technical screening criteria listed, specifically the manufacture of (b) secondary aluminium.

ii. Do no significant harm ('DNSH')

- a. *Climate Change Adaptation*: a robust climate risk and vulnerability assessment must be done to comply, following specific steps established in Annex I of the Delegated Regulation 2021/2139, Appendix A. In this sense Befesa is carrying out action to ensure full compliance in the future.
- b. *Sustainable use and protection of water and marine resources*: To comply with the DNSH criteria, identify and address risks related to water quality and stress, aiming for good water status and ecological potential as per Regulation (EU) 2020/852 and Directive 2000/60/EC. Develop a water management plan in consultation with stakeholders. If an Environmental Impact Assessment under Directive 2011/92/EU includes water impact assessment, no additional assessment is needed if the risks are addressed. In this sense, Befesa has already implemented a Integrated Environmental Assessment, taken into account the above requirement.
- c. *Transition to a circular economy* : N/A
- d. *Pollution prevention and control*: In order to comply, Befesa has reviewed Annex I of the Delegated Regulation 2021/2139, Appendix C, taking into consideration all substances listed.

The alignment with the EU Taxonomy for is not being published this year because some of the "Do No Significant Harm" (DNSH) criteria for Climate Change Adaptation is still under analysis. Additionally, actions are currently being implemented to ensure full compliance. This ongoing process requires careful evaluation and adjustments to meet all the necessary standards and regulations. As a result, Befesa aims to achieve and publish complete alignment in the future once all criteria are satisfactorily met.

Minimum Safeguards

The **minimum safeguards** are procedures implemented by an entity that is carrying out an economic activity to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights. Said procedures also adhere to the DNSH principle.

Befesa's internal measures and policies on human rights, anti-trust, anti-corruption, and taxation reflect the principles and concepts of the UN Global Compact, the OECD Guidelines on Multinational Enterprises, UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Further information on Befesa's processes and outcomes related to minimum safeguards are included in the following sections of the Company's reports:

- **Human rights:** refer to section 4.5 of [Befesa ESG Progress Report 2022](#), sections 4.5, 4.10 and 6.1 of [Befesa ESG Report 2021](#), as well as to the 'Social, health & safety' section (page 53), 'Risks & opportunities' section (page 67) and the 'Compliance' section (pages 86 to 93) of [Befesa Annual Report 2023](#).
- **Anti-bribery and anti-corruption:** refer to the 'Compliance' section of [Befesa Annual Report 2023](#) (pages 86 to 93).
- **Taxation:** refer to section 5.6 of [Befesa ESG Progress Report 2022](#).
- **Fair competition:** refer to sections 4.2 and 4.4 of [Befesa ESG Progress Report 2022](#), as well as to the 'Social, health & safety' section (page 53) and the 'Compliance' section (pages 86 to 93) of [Befesa Annual Report 2023](#).

Compliance with the minimum safeguards was examined at Group level, considering existing corporate policies and risk management processes. Therefore, Befesa covers the minimum safeguards required by the EU Taxonomy regulation.

