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# Recylex S.A.

## **Statutory auditors' report on the consolidated financial statements**

*This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.*

*This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

Year ended December 31, 2020

Recylex S.A.

6, place de la Madeleine 75008 PARIS

*This report contains XX pages*



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## **Recylex S.A.**

Registered office: 6, place de la Madeleine 75008 PARIS

### **Statutory auditors' report on the consolidated financial statements**

Year ended December 31, 2020

To the Recylex S.A. Annual General Meeting,

#### **Disclaimer of opinion**

In compliance with the engagement entrusted to us by the Annual General Meeting, it is our role to audit the accompanying consolidated financial statements of Recylex S.A. for the year ended December 31, 2020.

We are unable to express an opinion on whether the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2020 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. Due to the materiality of the matters described in the section "Basis for disclaimer of opinion", we were unable to collect sufficient and appropriate information on which to base an opinion on the consolidated financial statements.

The opinion expressed above is consistent with our report to the Audit Committee.

#### **Basis for disclaimer of opinion**

As disclosed in the notes to the consolidated financial statements ("Business continuity" section of Note 2, "Accounting policies and application of IFRS", Section 32.5, "Liquidity risk" of Note 32, "Financial risk management" and Note 39, "Post-balance sheet events"), the Group's financial and operational difficulties, and in particular those met by the German sub-group (including the Weser-Metall GmbH

foundry), as well as the impacts of the Covid-19 global pandemic on metal prices and more specifically on the price of zinc, led these entities to:

recognize that the business continuity outlook was significantly impaired, as the new financing requirements generated by this situation could not be covered by their financial partners; file a request to open insolvency proceedings. This request was granted by the Göttingen German Court on May 15, 2020. This procedure led to the immediate loss of control by the Group of its German subsidiaries and, therefore, their deconsolidation from that date. The Recylex Group is now limited to its French businesses, that is the two used lead battery recycling plants operated by Recylex S.A. and C2P S.A.S. and the 50% stake in Recytech S.A.

In this context, the Group reviewed its outlook, which is based on a certain number of assumptions, items and ongoing actions, including:

- continuation of Weser-Metall GmbH's activity and of the supply of secondary materials to its foundry by Recylex S.A. Weser-Metall GmbH is now outside the Recylex Group and is subject to insolvency proceedings,
- Recylex S.A.'s ability to find new outlets for its products in the mid-term in order to reduce its dependency on Weser Metall GmbH which is practically its only customer. No commercial agreement guarantees the purchase of volumes by this company from Recylex S.A.,
- changes in the commercial terms and conditions of secondary materials (processing costs), lead and zinc prices and the €/USD exchange rate, as Recylex S.A.'s activity is highly sensitive to changes in these parameter,
- changes in used lead battery volumes and purchase prices, as the commercial margin and cash generated by Recylex S.A.'s activity is heavily dependent on these parameters,
- changes in the recycled polypropylene market and its impact on the business of the subsidiary C2P S.A.S, Recylex S.A.'s sole outlet for the sale of polypropylene residue from battery recycling. The subsidiary C2P SAS, located on the Recylex SA recycling site in Villefranche sur Saône, uses the same infrastructures as Recylex SA, therefore enabling economies of scale. The interdependency of both companies is a factor to be taken into account when assessing their financial risks,
- extension beyond January 31, 2022 of the deferral of the maturity date of the €16 million loan granted in 2014 by Glencore International AG, conditional on the continued supply by Recylex

- S.A. of secondary materials to Weser-Metall GmbH, or the successful continuation of Recylex S.A.'s financial and non-financial debt restructuring process,
- suspension of interest payments on the €16 million loan granted by Glencore International AG for at least the next 12 month (for an amount of €1.2 million), and changes to the amount, repayment conditions and interest in the mid-term,
  - compatibility of annual rehabilitation expenditure for the former mines and the discontinued Estaque site with Recylex S.A.'s ability to generate cash, it being specified that Recylex S.A. will certainly need to find external financing for work at the Estaque site or sell the site in its current state to satisfy its current obligations. The rehabilitation schedule defined by the additional prefectural order of January 15, 2021 sets a completion date of December 31, 2024 for a total works amount of €9 million,
  - financial income and notably dividends received from Recytech S.A. (equity associate), whose results are highly sensitive to zinc prices,
  - developments in ongoing legal procedures against Recylex S.A. and contingent liabilities,
  - temporary suspension of the payment plan for the European Commission fine and changes to the payment schedule to make it compatible with Recylex S.A.'s cash generation capacity. To this end, a request was submitted to the European Commission in July 2020 seeking changes to the amount and payment plan in line with the Group's new economic situation in its new configuration,
  - Recylex S.A.'s ability to find the new financing necessary to rehabilitate the discontinued Estaque site and the former mines, or the ability to sell this site in its current state.

No definitive items of assessments allow the attainment of the assumptions and items adopted or the outcome of ongoing actions to be foreseen. A material uncertainty therefore exists, casting doubt on the Company's ability to continue as a going concern. Should the assumptions and items adopted not be confirmed or the outcome of ongoing actions be unfavorable, the application of IFRS accounting standards as adopted by the European Union in a normal context of business continuity, notably for the assessment of assets and liabilities, could prove inappropriate.

Based on a similar situation and items of the same nature, we were already unable to certify the financial statements for the year ended December 31, 2019 in our report of October 23, 2020.

We also recall that our inability to attend the physical inventory counts of the German sub-group entities as of December 31, 2019 and to attest the existence of the inventories using other control procedures was disclosed in our report on the fiscal year ended December 31, 2019. Due to the deconsolidation of the German sub-group entities during the first-half of the year, this situation could impact the presentation of current net income and non-current net income in the consolidated financial statements for the year ended December 31, 2020.

#### **Justification of Assessments - Key Audit Matters**

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*code de commerce*) relating to the justification of our assessments, we inform you that, given the disclaimer of opinion detailed above, we have no key audit matters to bring to your attention relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period, other than those detailed in the section "Basis of disclaimer of opinion".

#### **Specific verifications**

As required by law and regulations, we have also verified, in accordance with professional standards applicable in France, the information pertaining to the Group presented in the management report of the Board of Directors.

We have the same matters to report on its fair presentation and its consistency with the consolidated financial statements, as disclosed in the section "Basis of disclaimer of opinion".

## **Other Legal and Regulatory Verifications or Information**

### **Format of presentation of the consolidated financial statements intended to be included in the annual financial report**

In accordance with Article 222-3, III of the AMF General Regulation, the Company's management informed us of its decision to postpone the presentation of the consolidated financial statements in compliance with the European single electronic format as defined in the European Delegated Regulation No 2019/815 of December 17, 2018 to years beginning on or after January 1, 2021. Therefore, this report does not include a conclusion on the compliance with this format of the presentation of the consolidated financial statements intended to be included in the annual financial report mentioned in Article L. 451-1-2, I of the French Monetary and Financial Code (*code monétaire et financier*).

### **Appointment of the Statutory Auditors**

We were appointed as statutory auditors of Metaleurop S.A. (which became Recylex S.A. in 2007) by the Annual General Meeting of March 30, 2000 for Deloitte & Associés and of February 13, 1995 for KPMG.

As of December 31, 2020, Deloitte & Associés and KPMG were in the 21<sup>st</sup> year and 27<sup>th</sup> year of total uninterrupted engagement, respectively, considering the successive terms of office between legal entities of the same network.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management 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 it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

## **Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

### **Objectives and audit approach**

Our role is to conduct an audit in accordance with professional standards applicable in France and to issue a report on the consolidated financial statements.

We conducted our engagement in compliance with independence rules applicable to us, for the period from January 1, 2020 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) no. 537/2014 or in the French Code of ethics for statutory auditors.

Furthermore, the non-audit services we provided during the year to your Company and the entities it controls that are not mentioned in the management report or the notes to the consolidated financial statements were as follows:

- Issue of an observation report following agreed upon procedures conducted on the statutory and consolidated financial information of Recylex S.A. for fiscal years 2015 to 2019 (services rendered by KPMG).

### **Report to the Audit Committee**

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) no. 537/2014, confirming our independence pursuant to the rules applicable in France as defined in particular

by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

Paris La Défense, April 27, 2021

The Statutory Auditors

KPMG Audit

Deloitte & Associés

*Division of KPMG S.A.*

Alexandra Saastamoinen  
*Partner*

Frédéric Neige  
*Partner*