

BEFESA

2019 Annual Report

**LONG-TERM
GROWTH
THROUGH
SUSTAINABLE
SERVICES**



BEFESA

A YEAR OF SOLID GROWTH

In 2019, Befesa delivered strong operating results and solid strategic progress, while earnings were affected by lower metal prices.

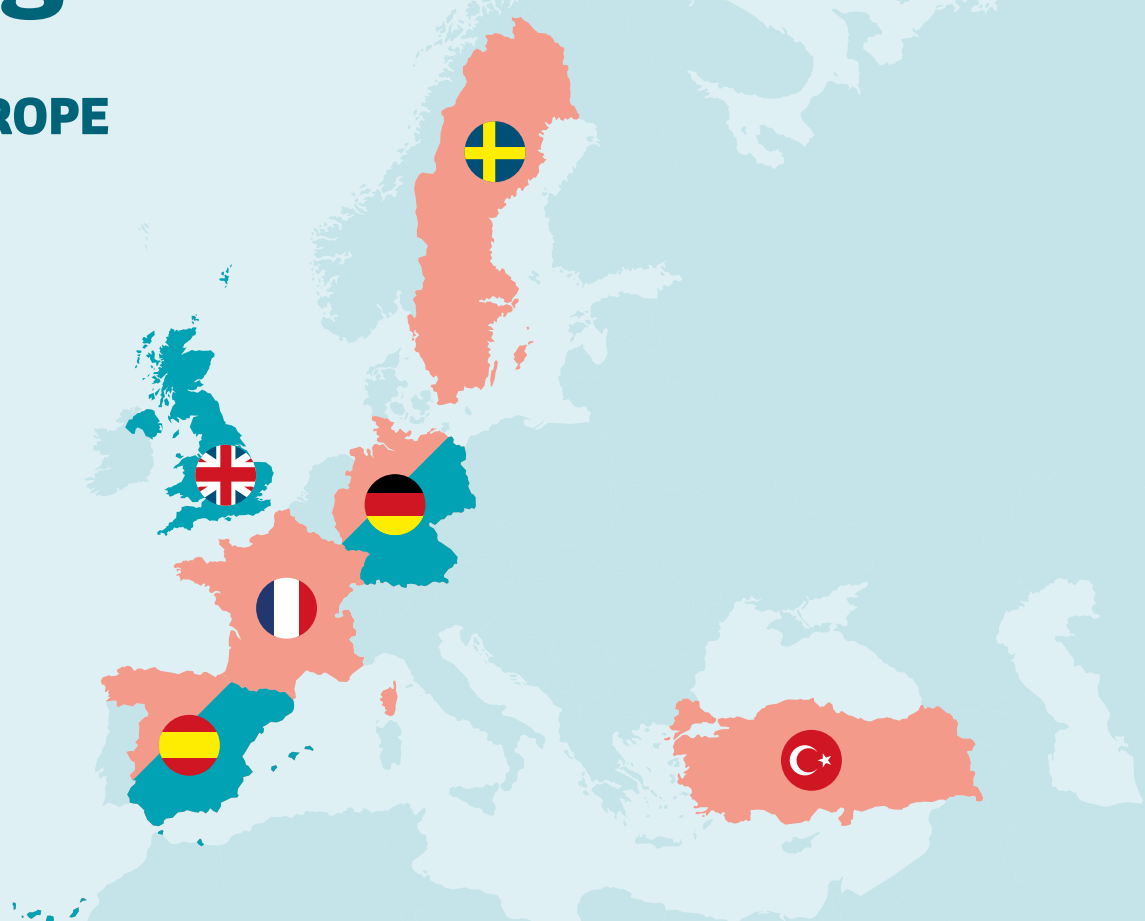
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Befesa at a glance

Market leader providing regulated critical environmental recycling services to the steel and aluminium industries in its key European and Asian markets.

EUROPE



Befesa offers crucial services taking care of hazardous waste in the value chain of secondary steel and aluminium producers.

By recycling metals from waste and other sources, Befesa uses less energy than extracting the metals as virgin and limited natural resources from the earth. For example, in the case of aluminium, energy savings can reach up to approximately 95%.¹

Befesa has continuously demonstrated its strong commitment to the circular economy.

 ~1.5

MILLION TONNES OF RESIDUES RECYCLED ANNUALLY

 ~1.2

MILLION TONNES OF RECOVERED NEW MATERIALS ANNUALLY REINTRODUCED INTO THE MARKET

¹ *The World of Metal Recycling: The Facts.* (2018). ASM Metal Recycling www.asm-recycling.co.uk/blog/the-world-of-metal-recycling-the-facts/

CLOSE PROXIMITY TO CLIENTS

Befesa's recycling plants are located in attractive markets that are strategically distributed across Europe and Asia – in close proximity to major customers.

ASIA



² Befesa is currently developing its first two electric arc furnace (EAF) steel dust recycling plants in China

● Steel Dust
● Aluminium Salt Slags

Steel Dust Recycling Services



999 thousand tonnes

Total annually installed capacity to recycle EAF steel dust (crude and stainless)

20

RECYCLING PLANTS



1,147

EMPLOYEES AS OF 31 DECEMBER 2019



Aluminium Salt Slags Recycling Services



530 thousand tonnes

Total annually installed capacity to recycle salt slags and SPL

€648m

REVENUE IN 2019



€160m

EBITDA IN 2019



205 thousand tonnes

Total annually installed capacity to produce secondary aluminium alloys

Strong EBITDA margin at 25% of revenue in 2019

³ Includes two plants in China currently under construction
⁴ Corporate employees

Befesa closely controls and monitors air emissions

Leveraging Best Available
Technology (BAT) and
industry best practices
to ensure full compliance
with rules and regulations.

01

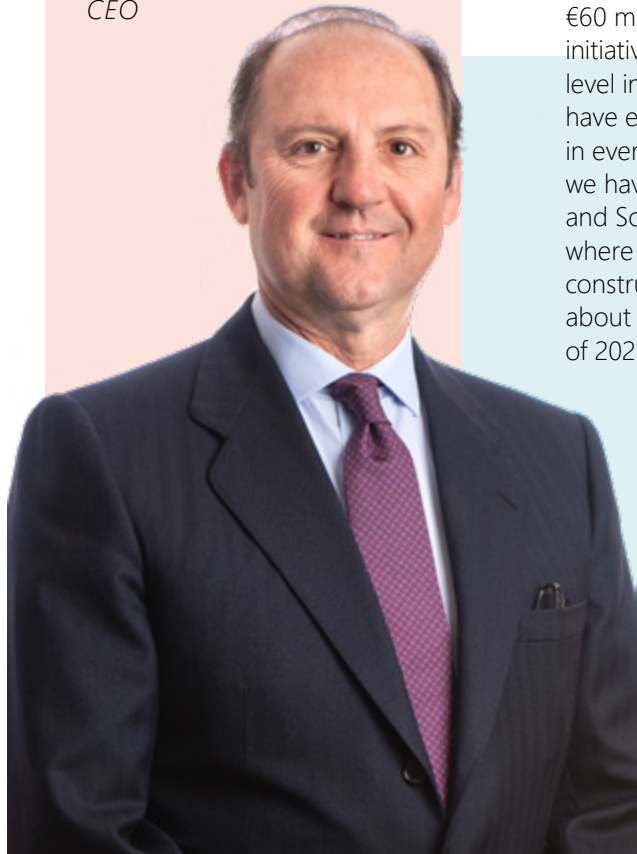
To Befesa's shareholders

06 Letter from
the CEO

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capital markets

Letter from the CEO

JAVIER MOLINA
CEO



Dear Shareholders,

The year 2019 has been a good one for Befesa. Despite the unfavourable price environment that has affected the earnings of the Company, Befesa has delivered a strong operating performance and has continued to deliver solid strategic results, setting the foundation for organic growth in the coming years across all the markets in which we currently operate. In 2019, we have deployed capital of around €60 million dedicated to growth initiatives, representing a record level in the history of Befesa. We have executed growth investments in every single geography where we have operations: Europe, Turkey and South Korea, as well as China, where we expect to complete the construction of the first plant by about the end of 2020 / beginning of 2021.

During 2019 we continued to run our recycling plants at a high capacity utilisation and the level of deliveries from our customers across all the markets where we operate have been high and similar to the previous year.

Befesa's business is a vital part of the circular economy and is well positioned within it. The Company is in a strong position from the operating, strategic and financial point of view.

Macro-economic review

Despite the global economy being affected by several uncertainties like the tariff tensions between China and the USA, Brexit, the weakness in the car industry and the European steel industry, the micro-markets in which Befesa operates have remained relatively stable during 2019.

Steel production from scrap shows strong fundamentals and stability. In addition, due to the strategic location of our recycling plants close to steel producers, amongst other factors, Befesa's business model enjoys high barriers to entry.

From the metal prices point of view, 2019 has been a challenging year for Befesa. The unfavourable price environment with a treatment

charges increase of 67% and the decrease in zinc and aluminium prices have affected the level of earnings that Befesa has generated in 2019. This impact has been partially offset by better zinc price hedges compared to 2018.

Operating & financial review

In 2019, we recycled 666 thousand tonnes of steel dust, which represents a lower volume than in 2018, mainly driven by the temporary shutdown of our plant in Turkey to expand its recycling capacity. In the Aluminium Salt Slags segment, we recycled 493 thousand tonnes of aluminium salt slags and spent pot linings (SPL) and produced 177 thousand tonnes of secondary aluminium alloys, at similar levels as the previous year.

During the period, we achieved €648 million of revenue, €160 million of EBITDA and €83 million of net profit. Our EBITDA margin remained very strong at 25%, which is slightly better than the previous year and the second-highest level in the history of Befesa. Our earnings per share (EPS) was at €2.43. The operating cash flow was solid, allowing to fund Befesa's total capex and pay an attractive dividend, while maintaining a leverage ratio of x2.6.

We want to maintain our strong commitment to pay an attractive annual dividend to shareholders, even during this high-investment period. Based on this, Befesa aims to distribute a dividend at the same level as last year or equal to €1.32 per share, representing a 3.5% dividend yield based on the closing share price as of 30 December 2019.

Although earnings have lowered in 2019, we have continued to deliver our growth plans as expected and have set the path for volume and earnings growth in the coming years.

Growth projects

At Befesa we are investing in growth and during 2019 we executed three growth projects in Europe, Turkey and South Korea; and additionally started the development of two electric arc furnace (EAF) steel dust recycling plants in China.

In the Steel Dust Recycling Services segment, we have successfully completed the enlargement of our plant in Turkey, which today has an annual recycling capacity of 110 thousand tonnes of EAF steel dust, up from 65 thousand tonnes. Overall, the project was completed on budget and on time. The plant was commissioned and ramped up successfully within Q4 2019 and is operating as expected.

In South Korea, the construction of the washing plant for Waelz oxide (WOX) was also completed on budget and on time. The plant ramped up operations in December 2019 and will allow for all the WOX that we produce in South Korea to be washed. This will increase the level of earnings and margin of our South Korean operations by providing our zinc-smelting customers with a higher quality grade WOX.

In the Aluminium Salt Slags Recycling Services segment, the furnace upgrade at our Spanish plant of Les Franqueses del Vallès (close to Barcelona) was successfully completed during H2 2019, on time and on budget. This technology upgrade will improve the efficiencies of the secondary aluminium operations, driving earnings growth.

Letter from the CEO continued

In China, we are developing two different projects in parallel in the provinces of Jiangsu and Henan.

The construction of the first EAF steel dust recycling plant in Jiangsu is expected to be completed by about the end of 2020 / beginning of 2021. With a total capex of approximately €42 million, the plant will have an annual recycling capacity of 110 thousand tonnes of EAF steel dust.

The second plant under development is in the province of Henan. Similar to the plant at Jiangsu, this plant also has a 110 thousand tonnes state-of-the-art plant design and requires a similar capex level. The completion of construction is expected by approximately the middle of 2021.

Strategy

Environmental regulation has supported Befesa's growth.

With the majority of our organic growth projects completed, Befesa's strategy focuses now on the expansion into new geographies, especially in China, due to the size of the market and the position Befesa already has in the country.

China is the largest steel market in the world and its steel industry is shifting towards more EAF steel production. This is a natural transition that many other developed economies like Japan, Germany and the USA have gone through. As economies develop, more steel scrap is generated, which gets recycled to serve as a source of raw material for the steel industry.

At the same time, environmental regulations have been established, driven by a growing concern about environmental protection and sustainability and creating the foundation of Befesa's environmental services business model.

Befesa is building a strong team of locals with their key personnel being trained across our European recycling plants. We are dedicating time and resources to the development of this business opportunity and confirm the potential that China represents for Befesa's recycling business.

The management of the volatility of zinc price variability through hedging continues to be a cornerstone of Befesa's strategy. Currently, we have hedges in place until October 2021 and we will continue to monitor the market for further hedging volume beyond that date.

In addition, during 2019 we have seen how Befesa's former main shareholder, Triton, has fully exited the shareholding of the Company. In June 2019, Triton sold its remaining stake of approximately 19% in Befesa. Since then, we are a company with a 100% free-float.

In 2019, we have continued to deliver our growth plans as expected and have set the path for volume and earnings growth in the coming years.



Waste management & sustainability

The year 2019 has been a period in which the world has seen an increased concern regarding sustainability and climate change. Waste management is one of the most critical issues we face. A global growing population, together with increased life standards, especially in emerging markets, will likely drive an increase in the volume of waste generated across the globe. According to the World Bank, by 2050 the population of the planet will increase by 25%, while the volume of waste generated is expected to rise by 70%. This enormous challenge has to be managed properly; it is essential to invest in companies with proven green technology and the right business model.

Befesa is well positioned in the circular economy to contribute sustainable solutions and at the same time create economic value for its shareholders.

Befesa's recycling services provide sustainable solutions for hazardous waste management, which solve important environmental problems in the steel and aluminium industries. Equally important is the fact that Befesa's business reduces the extraction of natural resources from the earth.



Today, Befesa manages and recycles around 1.5 million tonnes of waste each year, avoiding landfill. Furthermore, we extract and produce around 1.2 million tonnes of new materials that we reintroduce into the economy, reducing the consumption of natural resources.

In summary, in 2019 Befesa delivered strong operating results and solid strategic progress, while earnings were affected by lower metal prices. Our healthy cash flow generation allowed us to fund our growth initiatives organically, pay an attractive dividend and yet maintain

the leverage at a moderate level while we continue to execute our strategy in order to secure future volume and earnings growth.

Yours sincerely,

JAVIER MOLINA
CEO

Befesa in the capital markets

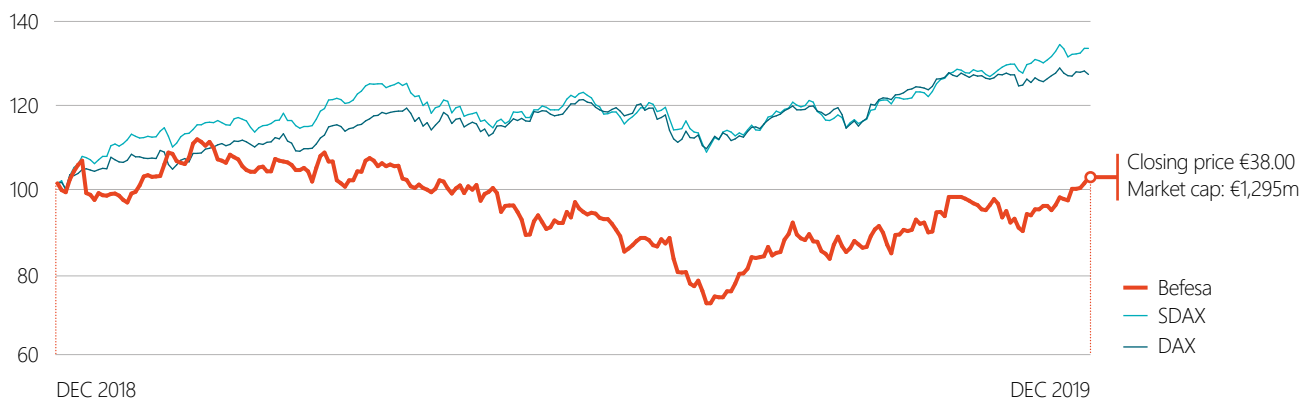
BEFESA SHARE

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	SDAX	
Number of shares	34,066,705	

In €, unless otherwise stated	2019	2018
Free-float (end of year)	100.0%	59.4%
Closing price	38.00	37.50
Highest price	41.35	46.10
Lowest price	26.95	35.50
Dividend per share	1.32 ¹	1.32
Dividend yield (based on closing price end of year)	3.5% ¹	3.5%
Market capitalisation (closing price end of year)	1,294,534,790	1,277,501,438

¹ Proposal
Data source: Bloomberg XETRA closing prices

Share performance



	Befesa	DAX	SDAX
28 December 2018	37.50	10,558.96	9,509.15
30 December 2019	38.00	13,249.01	12,511.89
Change	1.3%	25.5%	31.6%

The Befesa share started the year 2019 in line with the indices, but lost momentum rather soon. At the beginning of February, the share price could improve again and met the development of the indices. On 18 February 2019, the Befesa share reached the highest closing price in 2019 with €41.35. Afterwards, the Befesa share was affected by a lower zinc price and a weak outlook for the steel industry in combination with trade tensions between China and the USA, with anticipated negative results for the industry and lower commodity prices.

Also, the former major shareholder of Befesa – Triton Partners – sold its remaining stake in three tranches in the first half of 2019. The private placements in January, April and June took place below the current share price and resulted in pressure on the development of the Befesa share price, which reached its lowest closing price in mid-August

at €26.95. After this sell-out, in combination with a positive market development, the Befesa share managed to recover and closed the year 2019 at €38.00.

In summary, over the course of the fiscal year 2019, Befesa's share price increased by 1.5%. In addition, shareholders received a dividend of €1.32 per share. The DAX index increased in 2019 by 25.5% and the SDAX closed 31.6% higher.

Befesa's daily average volume traded in XETRA increased significantly and more than doubled in 2019. On average, 57,845 Befesa shares were traded daily. One key reason for the increase was that the free-float of Befesa increased to 100% in June 2019.

The total market capitalisation of Befesa amounted to €1,295 million as of the end of 2019.

Shareholder structure

Befesa's free-float increased during H1 2019. On 9 January 2019, funds advised by the former major shareholder – Triton Partners – communicated in a press release to have placed three million shares of Befesa with institutional investors and on 4 April 2019, an additional 4.5 million shares. On 5 June 2019, their remaining stake of 6.35 million shares was sold. In all cases the shares were placed outside the stock exchange.

As a result, 100% of shares in Befesa S.A. have been free-floating since 6 June 2019.

Befesa's free-float is owned by a large number of international investors.

Befesa in the capital markets continued

According to voting rights notifications received, as of 31 December 2019, the following shareholders held (or were attributed to) 5% or more of the total voting rights attached to Befesa shares: Allianz Global Investors GmbH, Frankfurt, Germany, reached 5.68% of voting rights on 6 June 2019; and Bestinver Gestión S.A. SGIIIC, Madrid, Spain, informed Befesa S.A. on 10 November 2017 that they owned 7.49%.

Based on voting rights notifications, other publicly available data sources and own research, British and Spanish investors account for the largest share of institutional investors, followed by investors from Germany, the USA and France. The ten largest investors hold almost 41% of Befesa.

Dividend

Within its dividend policy, Befesa balances primarily four aspects:

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

Carefully reviewing these aspects, the Board of Directors of Befesa will propose to the Annual General Meeting (AGM) on 18 June 2020 to distribute a dividend of €45.0 million or €1.32 per share – the same as the previous year. This would result in a dividend pay-out ratio of 54% of the net reported profit for the fiscal year 2019 (€82.7 million), and

therefore slightly above the prior year's distribution of 50% of the net reported profit. Based on the 2019 closing price, the proposed dividend payment would result in a dividend yield of 3.5% – the same level as the previous year.

On 18 June 2020, the AGM in Luxembourg will decide on the dividend proposal.

Indices

Since September 2018, the Befesa share is listed in the **SDAX**. The SDAX comprises the 70 largest German corporations, with the highest trading volumes and market capitalisation below the DAX 30 and the MDAX. The composition of these indices of Deutsche Börse is based on fixed inclusion criteria. Firstly, the company has to be listed in the so-called Prime Standard and needs a free-float of at least 10%. Secondly, the inclusion in the index depends on the free-float market capitalisation and the turnover of the shares in the Frankfurt Stock Exchange.

In the Deutsche Börse ranking list with all members of the Prime Standard, Befesa ranked #103 with regards to market capitalisation in December 2019. This is an improvement compared to rank #115 in December 2018. Concerning turnover, Befesa reached rank #127 in December 2019 – also an improvement compared to December 2018 when Befesa was #154. Amongst other reasons, the improvement is supported by the higher free-float.

Within the SDAX with 70 members, Befesa achieved rank #13 as of

December 2019 (2018: rank #25). The turnover rank also increased significantly from #57 to #37. This positive development is especially based on the fact that the free-float of Befesa reached 100%.

At the end of May 2019, Befesa was included in the MSCI Europe Small Cap Index as well as in the **MSCI** Germany Small Cap Index. These inclusions increased trading in the Befesa share because index trackers (ETFs) have to include the index members.

Analysts' coverage

Since the initial public offering (IPO), seven equity analysts publish regular reports and recommendations on Befesa shares.

As of the end of 2019, six of the seven analysts recommend buying the Befesa share and one analyst has a hold (neutral) view on Befesa. The median of the price targets was €42.00 per share.

ESG ratings

In 2019, four international environmental, social and governance (ESG) ratings agencies added Befesa to their research. This underlines the importance of ESG, for which Befesa is well suited, in particular because of its vital position in the circular economy value chain and its core business focus on hazardous waste management and recycling.

Further ESG research about Befesa is available from:

- ISS ESG
- MSCI
- Sustainalytics
- Vigeo

More information on ESG ratings, indices and sustainability at Befesa will be shown in the Sustainability Report 2019, which will be issued in spring 2020 and made available on Befesa's website (www.befesa.com).

Investor relations activities

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

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

Befesa continued the intensive and direct dialogue with existing shareholders, potential investors and analysts. During 2019, 17 investor conferences, 19 roadshows and in total more than 350 investor meetings were held in the relevant financial markets in Europe and North America which shows the high level of interest from the capital markets in the Befesa share.

Retail investors can obtain relevant information on request or from Befesa's website.

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

Analysts' recommendations

Institution	Analyst	Recommendation	Target price (€)
Berenberg	Benjamin Pfannes-Varrow	Buy	€48.00
Citi	Charles Mortimer	Buy	€40.00
Commerzbank	Ingo-Martin Schachel	Buy	€51.00
Goldman Sachs	Eugene King	Buy	€42.00
JP Morgan	Sylvia P. Barker	Neutral	€38.00
Santander	Jaime Escribano	Buy	€43.50
Stifel	Michael E. Hoffman	Buy	€42.00

As of 31 December 2019

During 2019, Befesa attended 17 investor conferences, conducted 19 roadshows and held more than 350 investor meetings primarily in the relevant financial markets in Europe and North America.

Water is a high-value material essential in the life of humans, animals and plants.

Befesa monitors its water consumption as a KPI, trends are analysed and good practices shared to promote the reduction of water consumption.

02

Management report

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BEFESA'S MISSION

Befesa's mission 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 the recycling of the following hazardous residues: crude steel dust, salt slags and SPL.

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 46, Boulevard Grande-Duchesse Charlotte L 1330, 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.

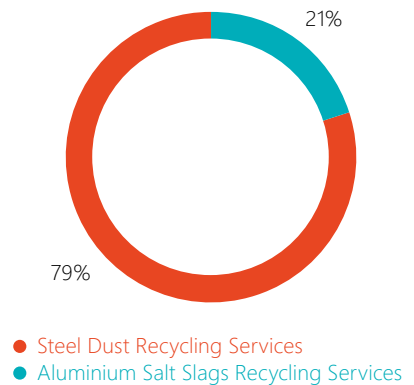
Organisation of Befesa

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 2019, the Steel Dust Recycling Services segment represented 79% of Befesa's total EBITDA, while the remaining 21% was contributed by the Aluminium Salt Slags Recycling Services segment.

EBITDA by business segment
(%, as of total EBITDA 2019)



Befesa's values

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

Befesa focuses on the following values:



HEALTH & SAFETY



ENVIRONMENTAL PROTECTION



CLIENT FOCUS



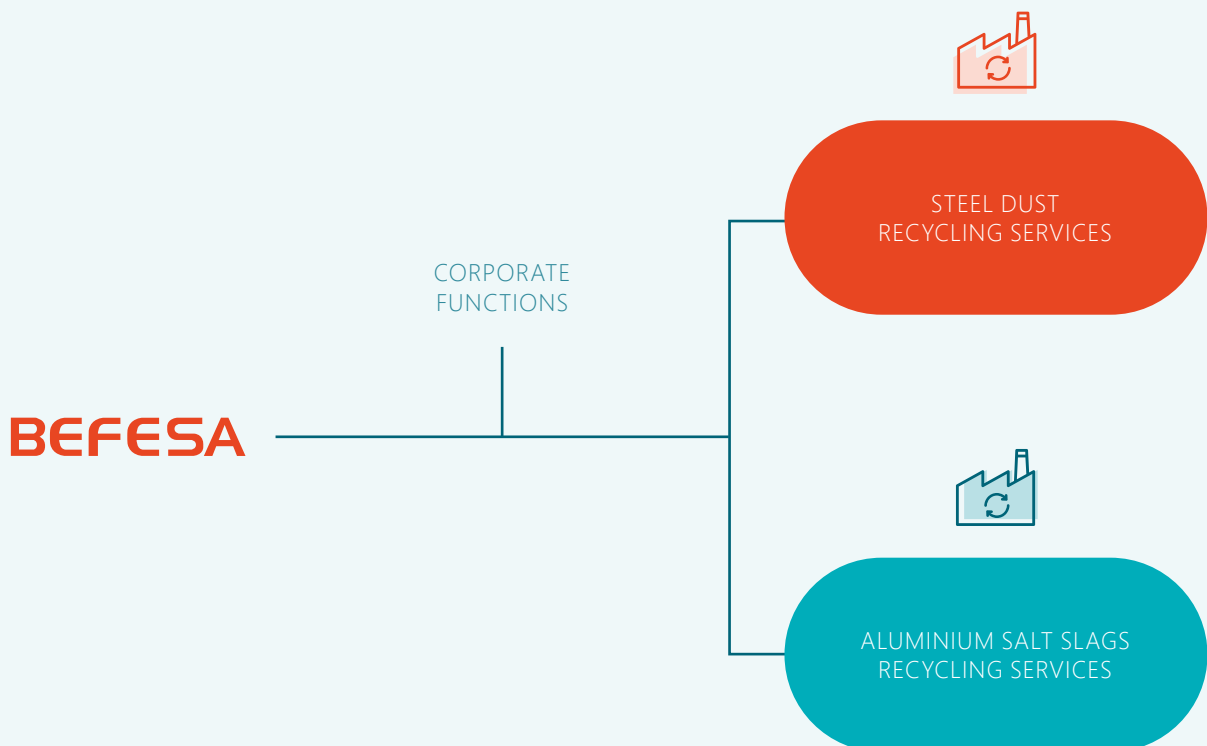
OPERATIONAL EXCELLENCE



COMPLIANCE



INTEGRITY & TRANSPARENCY



Business model

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

The services cover the timely and efficient collection and treatment of hazardous waste – 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 waste generated in their operations.

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

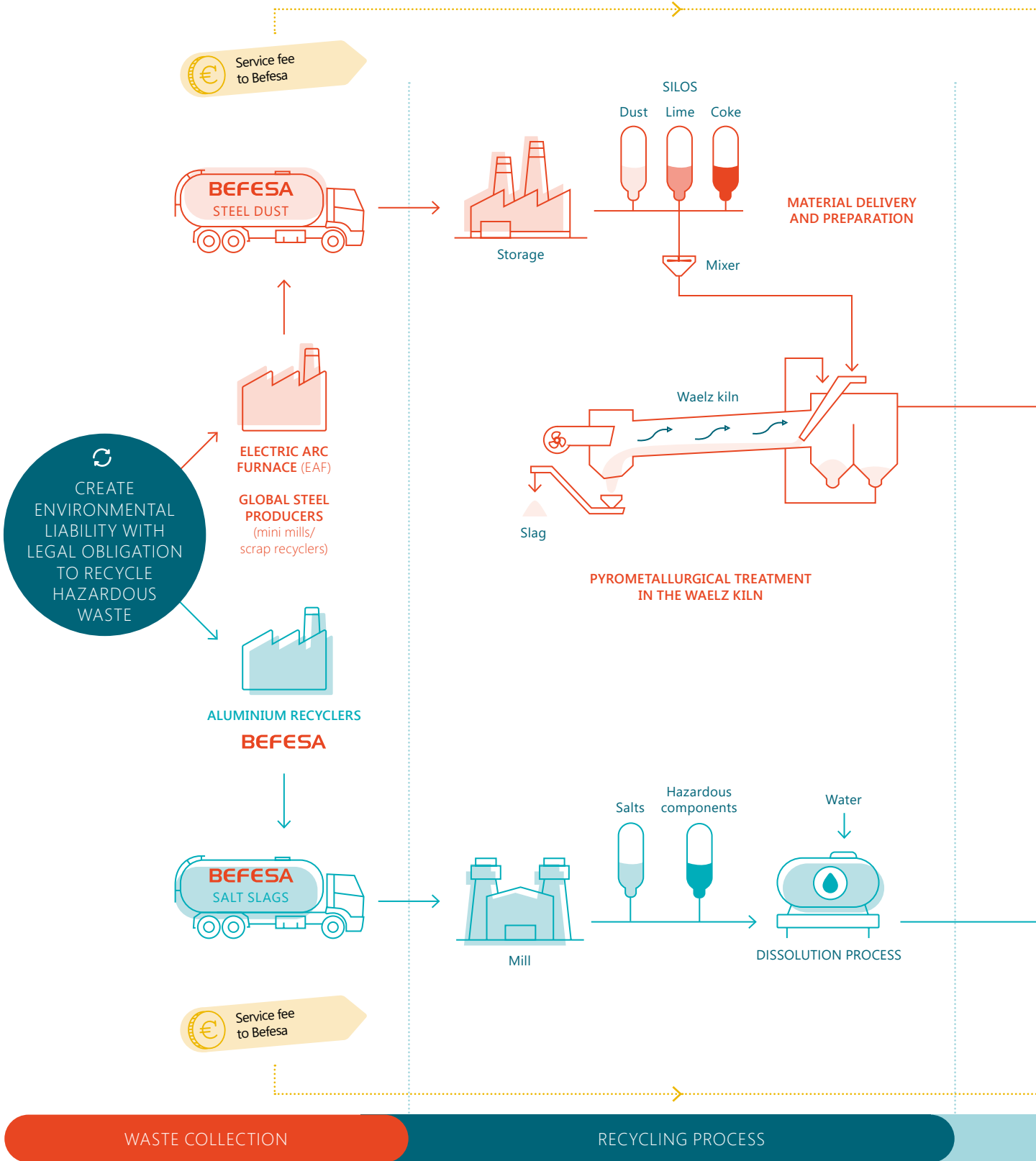
In addition, a small portion of revenue is generated by tolling fees. These fees consist of a service fee charged for collecting and treating stainless-steel residues and a fee for returning the metals – mainly nickel, chromium and molybdenum recovered in the recycling process – to stainless-steel dust customers. Whenever such recovered metals are not returned to stainless-steel dust customers, they are sold on the market.

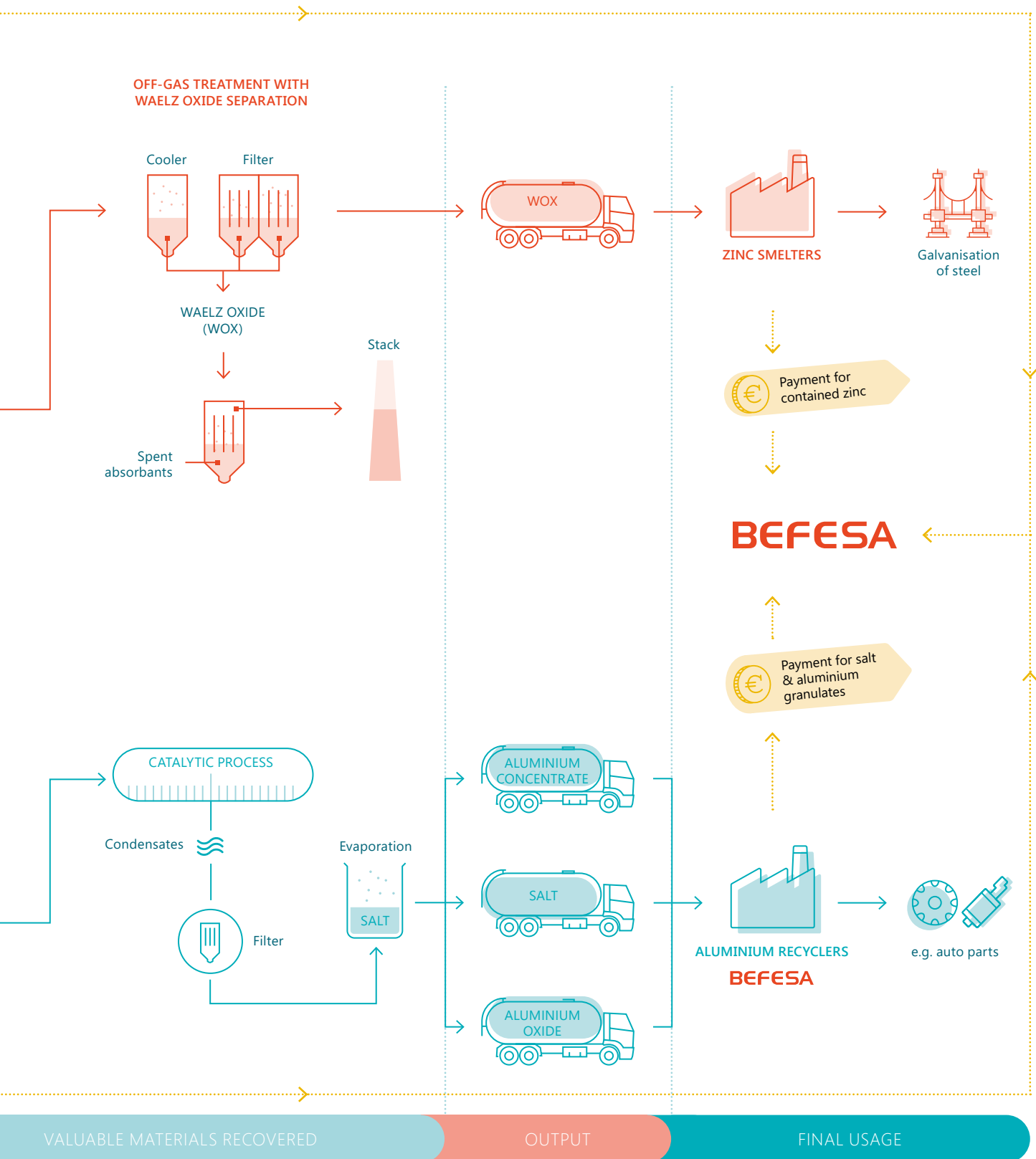
In the **Salt Slags** operations of Befesa's Aluminium Salt Slags Recycling Services segment, Befesa recycles salt slags that are collected from customers for a service fee. Further salt slags are generated during the production of secondary aluminium at Befesa's plants. In addition, Befesa recycles SPL, a hazardous waste 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 fees charged for recycling salt slags and SPL, and from the sale of aluminium concentrates and melting salt obtained from recycling salt slags and SPL. A large amount of the recovered aluminium concentrates is sold and used within the Group to produce aluminium alloys.

In the **Secondary Aluminium** operations of the Company's Aluminium Salt Slags Recycling Services segment, Befesa collects and recycles aluminium scrap and other aluminium residues such as aluminium drosses, shavings and cuttings or aluminium concentrates from, amongst 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 secondary aluminium operations are mainly derived from the sale of secondary aluminium alloys.

Value chain

Critical services for steel producers and for the aluminium industry.





VALUABLE MATERIALS RECOVERED

OUTPUT

FINAL USAGE

Befesa's business model ...

How Befesa adds value to deliver long-term benefits to all stakeholders

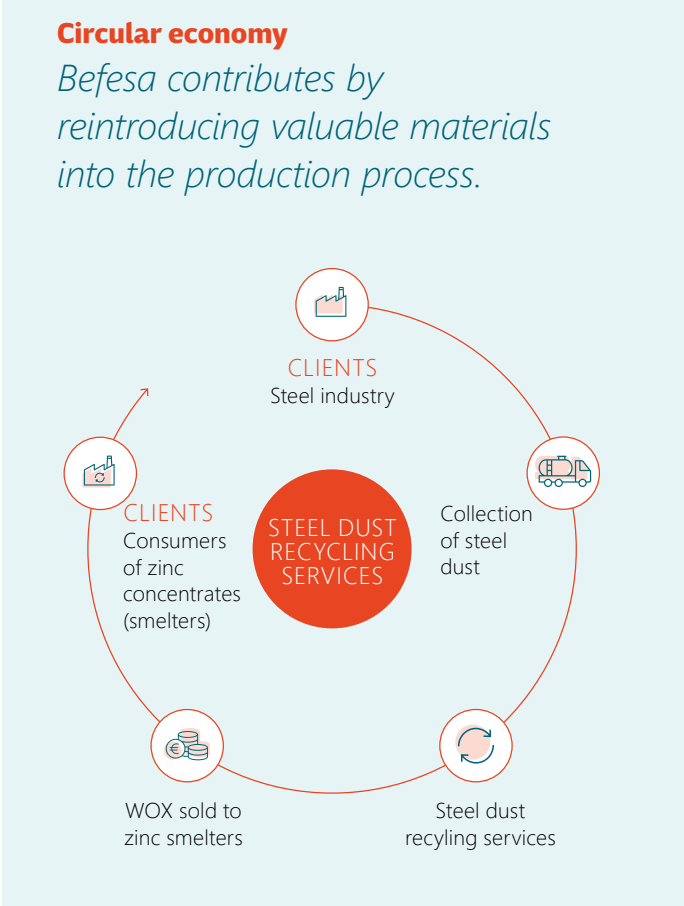
INPUTS
ACTIVITIES

Financial rigor
Befesa's focus is on securing volumes in its plants, and maintaining resilient and solid margin levels, while focusing on strong cash-flow generation by managing capital expenditures, working capital and operating earnings with the same rigor demonstrated over the past years.

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.

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

Highly qualified employees
In striving to become the leading global recycling services company, Befesa relies on a large team of highly qualified employees worldwide.



... underpinned by Befesa's core values ...



HEALTH & SAFETY



ENVIRONMENTAL PROTECTION



CLIENT FOCUS



OPERATIONAL EXCELLENCE



COMPLIANCE



INTEGRITY & TRANSPARENCY

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

OUTPUTS

Shareholder value

Financial rigor allows Befesa to grow earnings while maintaining a low leverage ratio, resulting in an attractive dividend for shareholders.

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Benefits to the environment

The focus here is on looking for new processes and services that help customers make their business more sustainable. The Company avoids the landfilling of around 1.5 million tonnes of hazardous waste and the extraction of natural resources.

56

Customer satisfaction

Sustainable technology improvements optimise operations and product quality, contributing to sustainable development and enhanced customer service.

62

Employee satisfaction

Although facing a competitive labour market, Befesa manages a stable and low turnover rate of staff.

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... and mission

Befesa's mission is to provide sustainable solutions to the steel and aluminium industry through servicing and recycling hazardous residues.

Markets & sites

CLOSE
PROXIMITY
TO CLIENTS



STEEL DUST RECYCLING PLANTS

Installed capacity by plant

1	Duisburg	Germany	Crude steel dust	87 kt
2	Freiberg	Germany	Crude steel dust	194 kt
3	Asúa – Erandio	Spain	Crude steel dust	160 kt
4	Fouquières-lès-Lens ¹	France	Crude steel dust	55 kt
5	Iskenderun ²	Turkey	Crude steel dust	110 kt
6	Gyeongju	South Korea	Crude steel dust	220 kt
7	Changzhou ³	China	Crude steel dust	Plant under construction (110 kt)
8	Xuchang ⁴	China	Crude steel dust	Plant under construction (110 kt)
9	Gravelines	France	Stainless steel dust	110 kt
10	Landskrona	Sweden	Stainless steel dust	64 kt
11	Sondika/Amorebieta	Spain	Oxide	16 kt
12	Gravelines	France	WOX washing	100 kt
13	Pohang ⁵	South Korea	WOX washing	60 kt

¹ 50/50 joint venture with Recylex; 55 kt installed capacity corresponds to Befesa
² Since August 2019, the installed capacity is expanded to 110 kt from previous 65 kt
³ Plant under construction; completion of construction expected by ~end of 2020 / beginning of 2021
⁴ Plant under construction; completion of construction expected by ~mid-2021
⁵ Plant ramp-up completed in December 2019
⁶ Total annual installed capacity does not include the capacity of the two plants under construction in China (combined additional capacity of 220 kt), nor the capacity of the two WOX washing plants

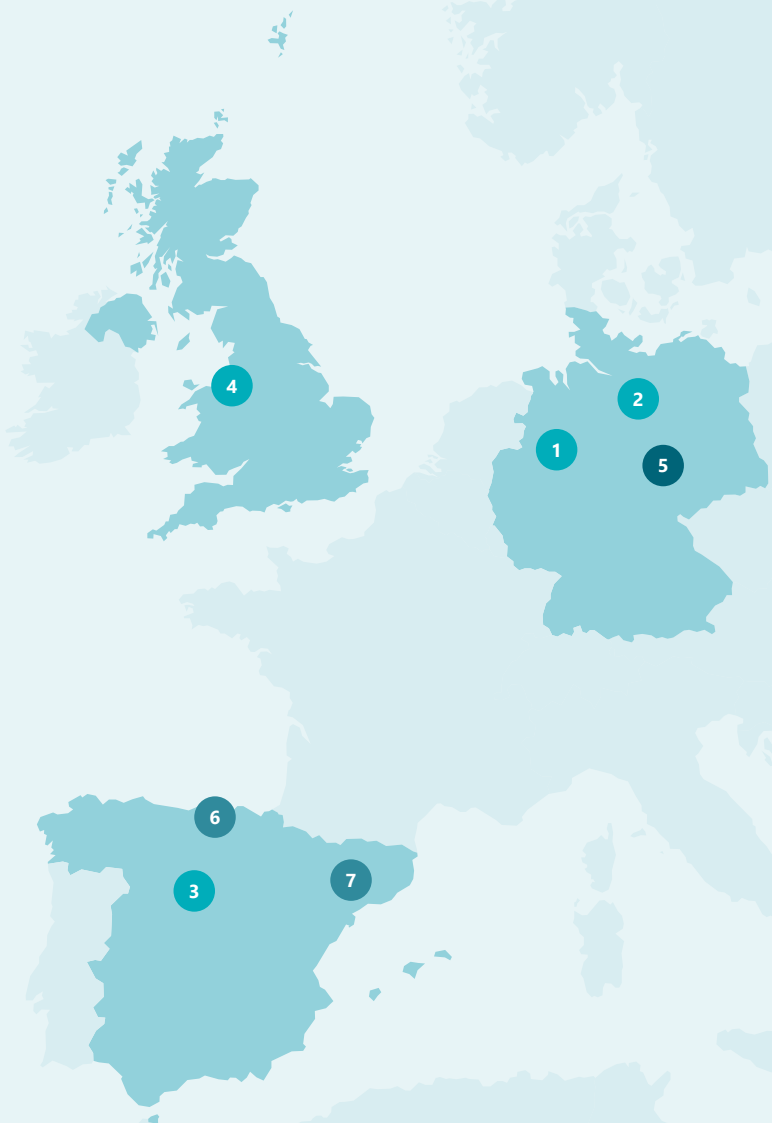
Steel dust plants

- Crude steel dust recycling services
- Stainless steel dust recycling services
- Oxide
- WOX washing



999 kt

ANNUALLY INSTALLED
CAPACITY TO RECYCLE STEEL
DUST (CRUDE AND STAINLESS)⁶



Befesa at a glance

To Befesa's shareholders

Management report

Consolidated financial statements

Statutory annual statements

Additional information

ALUMINIUM SALT SLAGS RECYCLING PLANTS

Installed capacity by plant

1	Lünen	Germany	Salt slags & SPL	170 kt
2	Hanover	Germany	Salt slags & SPL	130 kt
3	Valladolid	Spain	Salt slags & SPL	150 kt
4	Whitchurch	UK	Salt slags & SPL	80 kt
5	Bernburg	Germany	Secondary aluminium	75 kt
6	Erandio	Spain	Secondary aluminium	64 kt
7	Les Franqueses del Vallès	Spain	Secondary aluminium	66 kt

Aluminium salt slags plants

- Salt slags and SPL recycling services
- Secondary aluminium production



530 kt

ANNUALLY INSTALLED CAPACITY TO RECYCLE SALT SLAGS AND SPL

205 kt

ANNUALLY INSTALLED CAPACITY TO PRODUCE SECONDARY ALUMINIUM

Market environment

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

Favourable global macro trends

- Growing global population
- Increasing environmentally conscious middle class
- Advancing industrialisation

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

Accordingly, Befesa's business is influenced by several long-term mega trends in the steel and aluminium industries. These industries currently enjoy a stable and growing outlook, which reflects positively for Befesa as a recycling service provider.

Specifically, an increasing population, growing middle class and advancing industrialisation are all expected to drive economic growth, leading to increased steel and aluminium production. Consequently, this is expected to drive a need for further recycling – and Befesa's services.

The worldwide population is expected to grow at a compound annual growth rate (CAGR) of 0.7% from 2020 to 2050¹. Furthermore, the urban population is envisioned to increase from 56.2% of the worldwide population in 2020 to 68.6% by 2050 (CAGR of 1.4%). Moreover, the environmentally conscious middle class is expected to grow from about 46% of the total population in 2020 to approximately 62% by 2030 (CAGR of 4.0%). A total of 85% of the people who are moving into the middle class through 2030 are expected to be from Asia². The middle-class segment is likely to become a driver of demand for products requiring steel and aluminium – such as vehicles – ultimately driving the demand for recycling services.

Increased industrialisation also supports the industry, in particular the increased use of higher quality steel and galvanised materials carrying a higher zinc content to, amongst others, protect against corrosion. This potentially allows recyclers to compete with landfills in markets where regulation is unenforced or does not yet exist.

Increasing crude steel & secondary aluminium production and demand

Global crude steel production reached more than 1.8 billion tonnes in 2019, up by 3.1% year-on-year. The increase is primarily driven by China, where crude steel production continued to expand – up by 7.6% year-on-year – hitting a new record of 993 million tonnes in 2019 (or 53.8% share of global steel output). This was primarily attributed to relaxed environmental protection constraints on steel mill production, the expansion of crude steel production capacity (while phasing out unregulated induction furnaces) and a strong domestic demand for steel, especially from the construction sector, despite the economic slowdown in the country and the prolonged trade tensions with the USA.

India, with 111 million tonnes of crude steel produced in 2019 (+1.8% year-on-year) consolidated itself as the world's second-largest crude steel-producing country after China.

The positive trend of crude steel global output favours the steel dust recycling operations of Befesa. The increased galvanisation of

¹ United Nations, Department of Economic and Social Affairs, Population Division. (2019). World Population Prospects 2019, Online Edition

² Kharas, H. (2017). "The unprecedented expansion of the global middle class: An update." Global Economy & Development Working Paper 100. Washington, DC: The Brookings Institution

steel to protect against corrosion is expected to lead to a higher zinc demand and higher zinc content in scrap material. This will lead to a higher zinc content in the steel dust collected in the future, which will enable Befesa to continue to utilise its plants more efficiently in the medium-term.

Despite the decrease of crude steel output produced in the EU (-4.9% year-on-year), South Korea (-1.4% year-on-year) and Turkey (-9.6% year-on-year), Befesa managed to run its steel dust recycling plants in 2019 at high utilisation levels of around 90% (once normalised for the capacity upgrade in Turkey).

For 2020, the global demand for crude steel is expected to continue growing at the levels seen in 2019, which would result in the global steel output produced in 2019 not being sufficient to satisfy the increased demand expected for 2020, thus driving growth in global steel production in 2020.

Expected growth in global steel demand for 2020 will be mainly driven by India and China. In particular, steel demand in China is forecasted to increase by around

Crude steel production:

	2019	2018	Variation
	Million tonnes	Million tonnes	%
Global	1,845	1,789	3.1
Regions relevant to Befesa:			
Asia ¹	1,324	1,257	5.3
EU 28	159	168	-4.9
Countries relevant to Befesa:			
Germany	40	42	-6.5
Spain	14	14	-5.2
France	14	15	-6.1
Turkey	34	37	-9.6
South Korea	71	72	-1.4
China	993	923	7.6

¹ Asia includes China, India, Japan, Pakistan, South Korea, Taiwan, Thailand and Vietnam

2% year-on-year, primarily driven by demand from the construction sector and partly offset by lower steel demand from the automotive sector. This rise in Chinese steel demand in 2020 will drive crude steel output, which in 2020 is also expected to rise around 2% year-on-year, topping the billion tonnes mark for the first time ever, and keeping supply and demand largely in balance.

In the case of India, steel demand is forecasted to grow in 2020 at a pace of 5% to 6% year-on-year and

is expected to become the second-largest steel consumer globally in the near future.

In the EU, crude steel output is expected to moderately increase in line with the expected steady growth of steel demand in the region – primarily from engineering, transportation, utilities and the construction industry – leading to an expected slight increase in the generation of EAF steel dust, and thus the demand for Befesa's recycling services.

Secondary aluminium production

The trend in secondary aluminium production – which is driven primarily by the manufacturing of vehicles – slightly declined in Western Europe where automotive production trended down across most of the countries during 2019. This was primarily due to the reduced demand of the automotive industry, mainly attributed to the weak global growth together with the reduced demand from the USA and China in the context of trade tensions, the ongoing fallout from diesel emissions and uncertainties surrounding Brexit.

However, demand and production of secondary aluminium in Western Europe is expected to grow in the mid-term on the back of the expanded production of light passenger vehicles in the European automotive industry in an effort to meet legislative requirements for improved vehicle emissions and fuel efficiency.

This estimate is also based on the assumption that the aluminium content per passenger vehicle will grow by around 70%, from the current 180 kg of aluminium per passenger vehicle to about 250 kg by 2025.³ In the aluminium salt slags recycling business, the positive trend of using higher quantities of aluminium in the construction of light vehicles is also expected to continue into the future, resulting in a higher demand for aluminium and increasing the availability of scrap.

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

Trend towards recycling & regulation to protect the environment

In Europe – Befesa's primary market – both crude steel dust and salt slags are categorised as hazardous waste by the regulatory bodies, with strict rules and procedures for its handling, transport and treatment. This level of regulation and its enforcement across geographical locations supports the need for Befesa's recycling services. Driven by these regulations, landfilled waste volumes in OECD countries have decreased over the past decade. These countries have also seen increases in recycled waste volumes, especially hazardous waste containing valuable metals, supported mainly by favourable and strictly enforced environmental regulations.

In contrast to developed regions like Europe, 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 one seen in the EU, as these markets become more industrialised and environmentally conscious. More recent examples of these favourable environmental regulation developments are Turkey, South Korea and China. In Turkey, the

environmental regulation for hazardous waste was changed in 2010, in South Korea in 2012 and more recently in China during 2016 and 2017. In Turkey and South Korea, Befesa offers its hazardous waste recycling services. In China, supported by the regulation, Befesa is currently building its first two EAF steel dust recycling plants in two different provinces – Jiangsu and Henan. The constructions are expected to be finalised by about year-end 2020 / beginning of 2021 and by the middle of 2021, respectively.

In summary, favourable macro and mega trends, and positive sustainability and recycling trends, combined with favourable and strictly enforced environmental regulations, are expected to further enhance the global demand for steel and aluminium production and subsequent waste recovery.

The circular economy is a new and relevant trend across the world. Metal recycling is one of the most significant processes in the circular economy and Befesa has continuously demonstrated its strong commitment to this new trend and has based its sustainable business model around it. By recycling metals from waste and other sources to then reintroduce the recovered materials into the market, Befesa uses less energy than extracting the metals as virgin and limited natural resources from the earth. For example, in the case of aluminium, energy savings can reach up to around 95%.⁴

³ Carou, D. and Davim, J. (2018). *Machining of Light Alloys: Aluminum, Titanium, and Magnesium*. 1st edition, CRC Press

⁴ The World of Metal Recycling: The Facts. (2018). ASM Metal Recycling. [Online]. [Accessed 3 February 2020]

Development of commodity prices

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

During Q1 2019, market prices of zinc continued at the price level seen during Q4 2018. However, this positive trend was followed by a decreasing development during the remaining part of 2019, closing at US\$2,293 per tonne of zinc as of 31 December 2019, US\$169 per tonne or 7% below the initial price of US\$2,462 per tonne of zinc as of 2 January 2019. Applying the US dollar/euro exchange rates for the respective dates, zinc market prices closed at €2,042 per tonne as of 31 December 2019, €117 per tonne or 5% below the initial price of €2,159 per tonne of zinc as of 2 January 2019.

The average daily price per tonne quoted on the London Metal Exchange (LME cash seller prices) for 2019 was US\$2,546 per tonne of zinc, representing a 13% or \$376 per tonne decrease year-on-year (2018 average: US\$2,922 per tonne). Applying the US dollar/euro exchange rates for the respective periods, the average daily price in 2019 was €2,274 per tonne of zinc (€194 per tonne or 8% lower compared to the average of €2,468 during 2018).

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

The development of aluminium alloy market prices followed a decreasing trend since the start of 2019. The lowest price level was touched, at around €1,260 per tonne during the months of October and November. During the last month of the year, market prices slightly recovered, closing at €1,370 per tonne of aluminium alloy as of 31 December 2019, but still €175 per tonne or 11% below the initial price of €1,570 per tonne of aluminium alloy as of 2 January 2019.

The average weekly price per tonne of aluminium alloy referenced by the Free Metal Bulletin (average independent quotation based on prices provided by the major secondary aluminium players in the European market) was €1,397 per tonne during 2019 (€318 per tonne or 19% lower compared to the average of €1,715 per tonne in 2018).



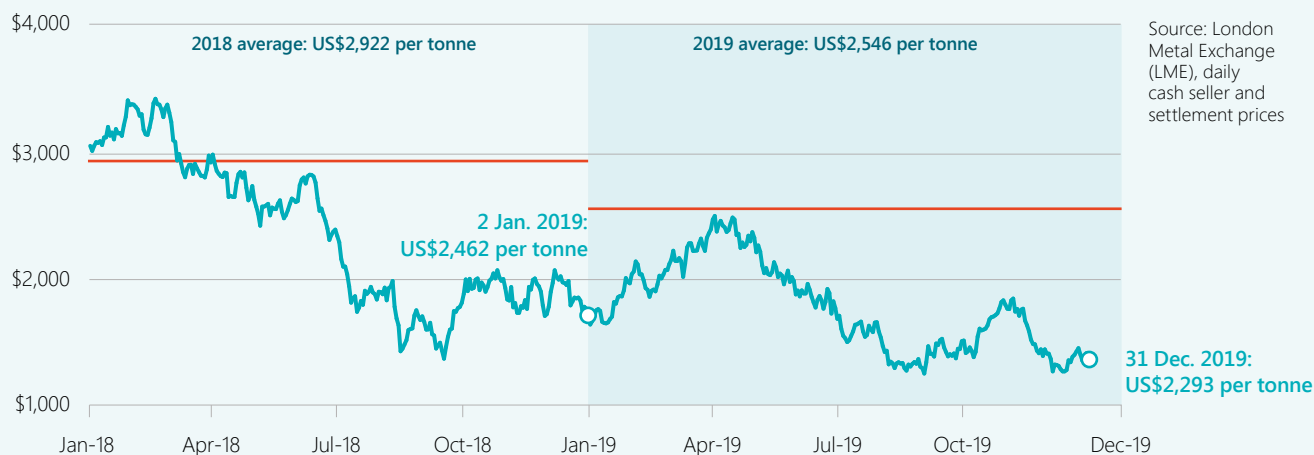
Market environment continued

LME zinc average prices

	US\$ per tonne				€ per tonne			
	2019	2018	\$ change	% change	2019	2018	€ change	% change
H1	2,732	3,268	-536	-16	2,419	2,698	-279	-10
H2	2,368	2,584	-216	-8	2,134	2,244	-109	-5
Full year	2,546	2,922	-376	-13	2,274	2,468	-194	-8

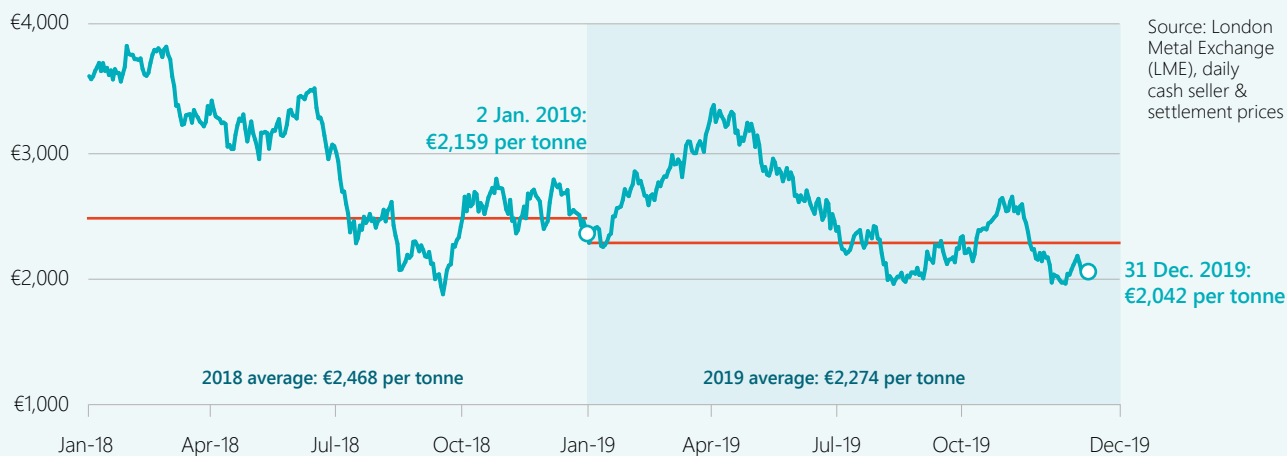
LME zinc prices

(US\$ per tonne)



LME zinc prices

(€ per tonne)

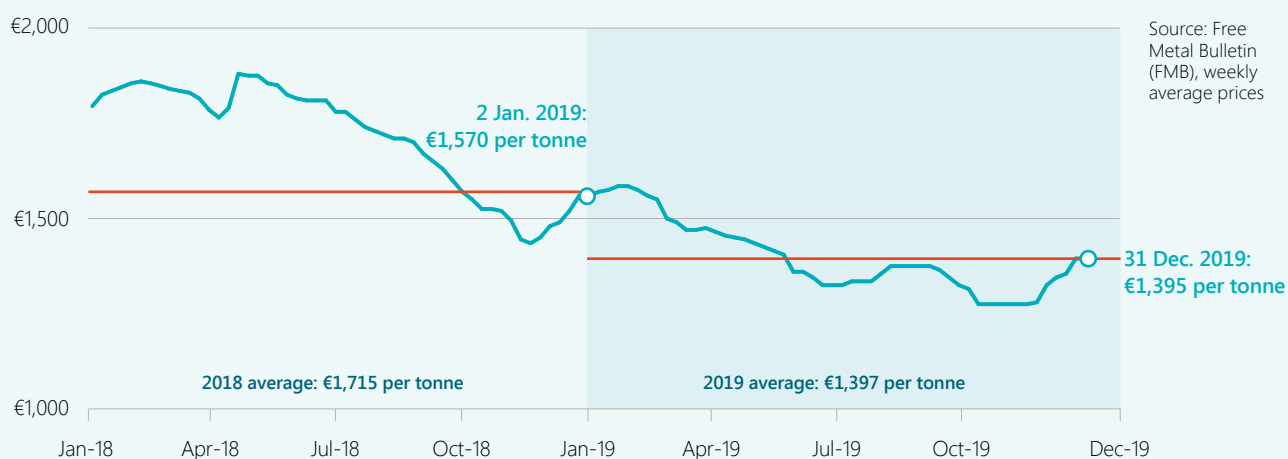


Aluminium alloy FMB average prices

	€ per tonne			
	2019	2018	\$ change	% change
H1	1,459	1,829	-370	-20
H2	1,333	1,597	-264	-17
Full year	1,397	1,715	-318	-19

Aluminium alloy market prices

(€ per tonne)



In 2019, the average prices were €2,274 per tonne of zinc (-8% year-on-year) and €1,397 per tonne of aluminium alloy (-19% year-on-year).

Strategy

Befesa's ambition is to become the global leader in steel dust and aluminium salt slags recycling services.

Befesa's strategy focuses on two main objectives:

1. Maintaining the leadership position in the markets where Befesa currently operates.
2. Expanding 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 waste generation (crude steel dust and aluminium salt slags).

In order to achieve this, Befesa has a business plan with three main pillars:

1. **Hedging strategy**
2. **Organic growth**
3. **Greenfield in new geographies**

Hedging strategy

A key element of Befesa's business model is its hedging strategy to manage zinc price volatility and increase the visibility of its earnings and cash flow going forward.

During 2019, Befesa successfully extended its zinc hedges by another three months – August, September and October – of the year 2021, at a volume of 11,100 tonnes or 3,700 tonnes each month, which represents around 50% of the usual hedged volume. The Company is closely monitoring to hedge the remaining 50% targeted hedge tonnage of Q3 2021, as well as the volume for Q4 2021 and beyond. The average hedged prices for each of the periods are as follows:

Period	Average hedged price (€/tonne)	Zinc content hedged (tonnes)
2017	€1,876	73,200
2018	€2,051	92,400
2019	€2,310	92,400
2020	€2,250	92,400
October YTD 2021	€2,200	57,300

The current hedging in place provides Befesa with improved pricing visibility through 2020 and the first ten months of 2021. The Company entered these hedges to maintain mid-term visibility on its output prices – expanding on its proven hedging strategy.

Befesa will continue its hedging strategy, targeting stability even if foregoing short-term upside from higher zinc prices. Options will be constantly monitored and re-evaluated when closing existing hedges in light of the current zinc market environment. Befesa's strategy is to hedge approximately 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 four years going forward.

Befesa has hedged for the last 15 years and its hedging strategy has proven to be a great element in improving earnings stability and visibility across different moments in the economic cycle.

The effective zinc average price (monthly blended rate between hedged volume and non-hedged volume) amounted to €2,280 per tonne in 2019, which represents €112 per tonne higher than last year (2018: €2,168 per tonne), thanks to the better hedges in place during 2019 (€2,310 per tonne in 2019 vs €2,051 per tonne in 2018).

Befesa's core environmental service activities in steel dust and aluminium salt slags recycling benefit from the increase in environmental regulation and the higher generation of industrial waste.

Organic growth

In the Steel Dust Recycling Services business segment, Befesa invested in two organic growth projects in Turkey and South Korea during 2019. Firstly, Befesa has completed the capacity expansion of its Turkish plant from 65 thousand tonnes to 110 thousand tonnes per year, building on the increased demand for steel dust recycling services. After a seven-month construction period, the Turkish plant successfully came back into operation in August 2019 – on budget and within the envisioned timeline – ramping up throughout the remaining months of October to December and reaching solid throughput levels by the end of the year. Secondly, Befesa completed the construction of its new WOX washing plant in Pohang (South Korea) in December 2019, on time and on budget. This represents the Company's first WOX washing plant in Asia and will allow Befesa to offer washed WOX to its customers, similar to its European operations.

In the Secondary Aluminium subsegment, Befesa upgraded the second furnace at the plant in Les Franqueses del Vallès (close to Barcelona) in November 2019, as planned and on budget. With the second and final phase of the upgrade complete, Befesa has concluded the execution of an operational excellence project to apply the best-in-class furnace technology, proven at Befesa's plant in Bernburg (Germany) to its other secondary aluminium production plants in Spain (Erando and Les Franqueses del Vallès). These projects are resulting in higher efficiencies and are unlocking capacity to meet additional demand for external salt slags services. The project in

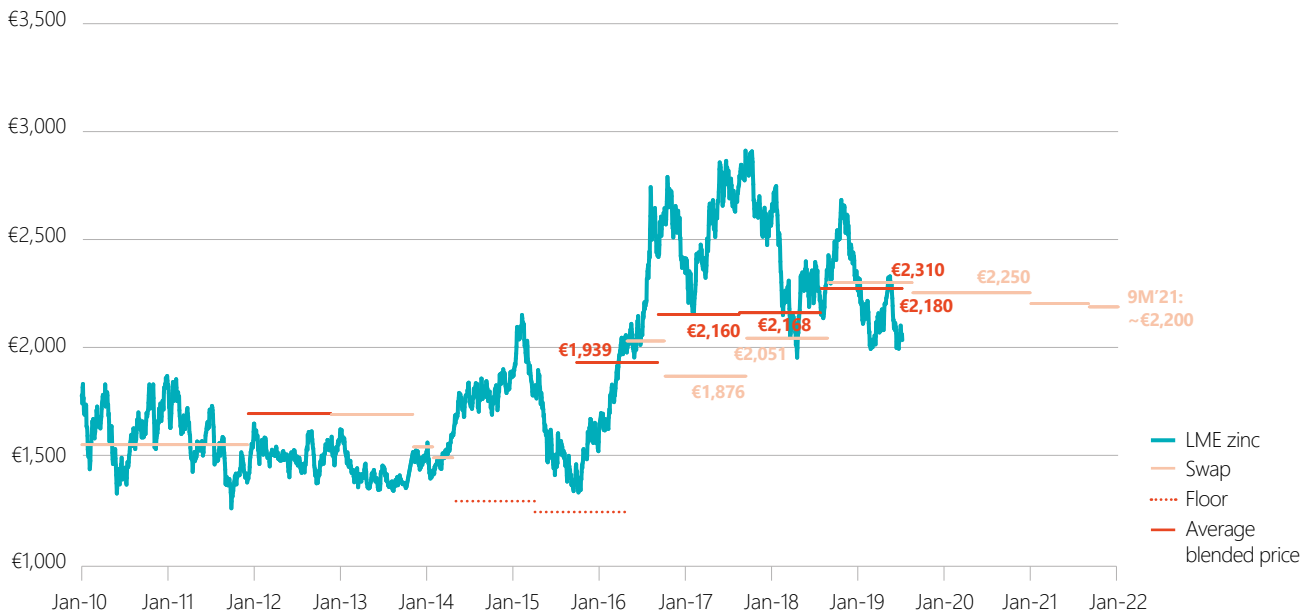
Erando (close to Bilbao) as well as the first phase of the project in Les Franqueses del Vallès (close to Barcelona) were successfully completed in H2 2018 and have delivered positive results in 2019.

In the Salt Slags subsegment of the Aluminium Salt Slags Recycling Services business, Befesa continues working on expanding the capacity of its existing salt slags recycling plant in Hanover (Germany) by 40 thousand tonnes. In 2019, the focus has been on obtaining the required permits. The improved capacity will help to meet the increase in existing and new demand from customers.



Market zinc prices vs zinc hedges

(€ per tonne)



Greenfield in new geographies

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

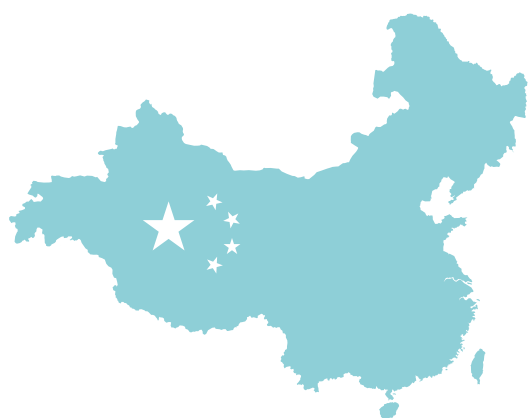
On the one hand, recycling regulations are increasing in the world, driven by a growing concern about environmental protection. The regulatory framework trends are toward stricter regulations to protect the environment across the world.

At the same time, there is a higher generation of industrial waste, specifically crude steel dust, aluminium salt slags and

SPL, driven by more steel and aluminium scrap being recycled in the world. These two macro trends will drive future needs for Befesa’s business model. Further information on macro trends is available in the “Market environment” section (pages 26 to 31).

The expansion of the Steel Dust Recycling Services operations into China is progressing in both provinces – Jiangsu and Henan.

Following the announcement in September 2018 of Befesa’s entry into China – with the signing of an agreement with the Jiangsu Changzhou Economic Development Zone to develop its steel dust recycling services business in the country –, in April 2019, Befesa started building its first EAF steel dust recycling plant



EAF steel production in China is expected to grow proportionally from current ~10% to 15% by 2025¹. The Chinese Ministry of Industry and Information Technology (MIIT) specified a replacement measure of existing vs. new steel capacity of no less than 1.25:1 – however, steelmakers are permitted to carry out a replacement of their BOFs with EAFs at a 1:1 ratio, justified by energy efficiency and emission reductions goals, favouring EAF technology²."

¹ Source: McKinsey, June 2019, <https://www.mckinsey.com/industries/metals-and-mining/our-insights/how-should-steelmakers-adapt-at-the-dawn-of-the-eaf-mini-mill-era-in-china>

² Source: OECD, 24 July 2019, <http://www.oecd.org/>, "Latest developments in steelmaking capacity"

in the Chinese city of Changzhou (Jiangsu province). The construction of the plant is progressing and is expected to be finalised by about the end of 2020 / beginning of 2021.

Secondly, Befesa signed an agreement with the Changge Dazhou Industrial Cluster in Xuchang City in April 2019 to develop the first EAF steel dust recycling plant in the Chinese province of Henan. On 13 November 2019, Befesa hosted the groundbreaking ceremony which marks the first EAF steel dust recycling plant in the province of Henan and represents Befesa's second EAF steel dust recycling plant in China. With the construction of its second plant having begun, Befesa reaffirms its Asian expansion plan launched in 2018. The development of the

plant in Henan is progressing and its construction is expected to be finished by approximately the middle of 2021.

The two plants in development are designed to each recycle 110 thousand tonnes of EAF steel dust per year and will represent Befesa's seventh and eighth crude steel dust recycling sites globally, along with existing sites in Europe, Turkey and South Korea.

China is the largest steel producer in the world, with close to one billion tonnes of crude steel being produced each year, which represents more than 50% of global production. By 2030, China is expected to produce more than 200 million tonnes of EAF steel. In addition, environmental protection has

become a key priority for the Chinese Government, where steel dust was officially classified as a hazardous waste material in 2016.

Befesa is looking forward to supporting the steel industry in China by providing state-of-the-art sustainable hazardous waste recycling solutions that contribute to environmental protection in China.

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.

More detailed information on the consolidated financial statements is available on pages 97 to 171.

Consolidated revenue decreased by 10.0% to €647.9 million in 2019. This development was mainly driven by reduced volumes in Steel Dust Recycling Services due to the seven-month scheduled plant downtime in Turkey (to expand its capacity), unfavourable zinc treatment charges and LME zinc prices, as well as lower aluminium alloy prices. The revenue decrease was partially offset by the recovery of stainless operations and the improved blended zinc prices, thanks to better hedges in place.

This year-on-year trend on revenue drove the earnings decrease versus the previous year. In 2019, EBITDA decreased by 9.3% to €159.6 million. Similarly, EBIT reduced by 15.6% to €124.0 million.

The EBITDA margin as a percentage of revenue remained strong at 24.6% in 2019, while the EBIT margin as a percentage of revenue slightly decreased from 20.4% in 2018 to 19.1% in 2019.

The reconciliation of EBITDA to the International Financial Reporting Standards (IFRS) operating results (EBIT) is available on the "Consolidated financial statements" section (pages 97 to 171).

Financial result & net profit

In 2019, the consolidated financial loss decreased by €3.3 million to €-20.1 million (2018: €-16.8 million). The main factor driving this development was the favourable reduction in financial expenses due to lower interest rates.

Detailed information on Befesa's capital structure is available on page 146 to 147.

The consolidated **net profit** attributable to the shareholders in 2019 decreased by €7.5 million to €82.7 million (2018: €90.2 million). **Earnings per share** reduced from €2.65 in 2018 to €2.43 in 2019. Befesa proposes to distribute a €45.0 million dividend in 2020 (54% of its 2019 net reported profit), which equals €1.32 dividend per share – the same level as in 2018. At the 2019 closing price of €38.00 per share.

Consolidated revenue

(€ million):



EBITDA & margin

(€ million, % margin of revenue):



€-16.4m or -9.3%

EBIT & margin

(€ million, % margin of revenue):



€-23.0m or -15.6%

24.6%

EBITDA MARGIN IN 2019

€82.7m

CONSOLIDATED
NET PROFIT IN 2019

Financial position & liquidity

Strong liquidity with cash on hand of €126 million and an undrawn €75 million revolving credit facility (RCF) as of 31 December 2019. Long-term efficient capital structure with €526 million covenant lite term loan B (TLB) maturing in around 6.5 years at July 2026. Repriced and reduced interest further by 50 bps to E+200 bps. Net debt at €417 million and x2.6 leverage.

Compared to year-end 2018, net debt has increased by €40.1 million to €416.9 million as of 31 December 2019, mainly driven by the cash position development as well as the aforementioned IFRS 16 amendment.

The following table reconciles net debt to the relevant balance sheet line items:

Befesa's capital structure was refinanced in 9 July 2019, primarily to extend its maturity to July 2026 at attractive rates and to accommodate the planned expansion to, for example, China, through increasing the basket space of the so-called general and local loan baskets. A €75 million RCF is part of the capital structure and was undrawn at year-

Net debt (€ million)	31 December 2019	31 December 2018
Non-current financial indebtedness	530.2	520.2
+ Current financial indebtedness	12.2	7.3
Financial indebtedness¹	542.4	527.5
– Cash and cash equivalents	-125.5	-150.6
– Other current financial assets ²	-0.1	-0.1
Net debt	416.9	376.8
EBITDA	159.6	176.0
Leverage ratio	x2.6	x2.1

¹ From 1 January 2019, the implemented IFRS 16 amendment affecting accounting for renting and leasing results in €14.5 million higher net debt compared to year-end 2018

² Other current financial assets adjusted by hedging valuation

end 2019 as Befesa has €126 million cash on hand. The year 2019 closed at a leverage of x2.6 EBITDA (2018: x2.1). The Company continues to be compliant with all debt covenants.

In November and December 2019, Moody's and Standard & Poor's reviewed their credit ratings assigned to Befesa. Both rating agencies maintained their credit ratings unchanged with respect to the end of 2018: Ba2, outlook stable (Moody's) and BB, outlook stable (Standard & Poor's).

Further information can be found in the "Subsequent events" section (page 74), which includes information referring to Befesa's capital structure, latest credit ratings as well as any other event of material importance which occurred after the 31 December 2019 and before the date of publication of this Annual Report.

Operating cash flow in 2019 amounted to €102.5 million, approximately in line with the previous year (2018: €103.8 million). Operating cash flow during 2019 was mainly affected, next to the lower year-on-year EBITDA, by the working capital trend (€-16.0 million at year-end 2019). This was mainly due to, on the one hand, higher inventories in connection with the scheduled ramp-up of operations after the aluminium furnace upgrade in November 2019 at the plant in Les Franqueses del Vallès (Spain) and the inauguration in December 2019 of the new WOX washing plant in Pohang (South Korea). On the other hand, the working capital trend was also impacted by the effect of accounting for the hedges on the book, which at year-end 2019 led to an asset position with the hedges "in the money" compared to year-end 2018 with a liability position.

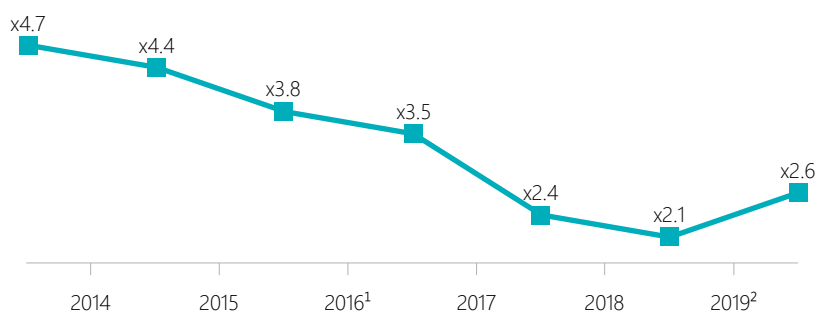
During 2019, cash on hand decreased by €25.2 million, closing with a solid **cash position** at year-end 2019 of €125.5 million (2018: €150.6 million). This reduction was mainly driven by the record high €80.2 million of net cash flows from investing activities in 2019 (2018: €40.5 million) to fund the capacity expansion in Turkey, the two plants in China, the new WOX washing plant in Korea and the secondary aluminium furnace upgrade in Les Franqueses del Vallès, in addition to the recurrent maintenance capex. Furthermore, the dividend distributed increased year-on-year (2019: €45.0 million; 2018: €29.4 million). Financial interests paid increased by €5.7 million year-on-year (2019: €19.6 million; 2018: €13.9 million). The reasons are twofold: because of one of the two biannual interest payments – the one paid in January 2018 – only included interests accrued since the closing of the prior capital structure on 7 December 2017; secondly, €2.1 million of financial expenses in relation to the refinancing process of the capital structure in July 2019. With regards to taxes, the amount paid in 2019 reduced slightly by €3.8 million year-on-year to €21.4 million (2018: €25.2 million).

Credit ratings for Befesa S.A.

	Year-end 2019	Year-end 2018
Moody's	Ba2 (outlook stable)	Ba2 (outlook stable)
Standard & Poor's	BB (outlook stable)	BB (outlook stable)

Leverage ratio evolution

(Net debt/EBITDA)



¹ Assumes pro forma net debt adjusted for IES divestiture proceeds

² From 1 January 2019 onwards, the implemented IFRS 16 amendment affecting renting and leasing resulted in €14.5 million higher net debt compared to year-end 2018

Segment information

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

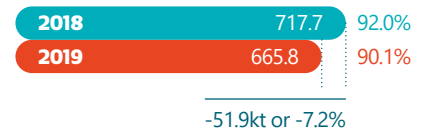
Steel Dust Recycling Services

Crude steel dust volumes processed in 2019 amounted to 665,824 tonnes, representing a decrease of 7.2% year-on-year (2018: 717,740 tonnes). This was primarily caused by the seven-month scheduled downtime of the plant in Turkey (from the end of January to mid-August 2019), to expand the capacity from 65 thousand tonnes to the current 110 thousand tonnes. The project was successfully completed on time and on budget and operations were ramped up throughout the months of September to December.

The European plants and the plant in South Korea operated at high utilisation levels. With these volumes, and normalising the installed capacity for the Turkish shutdown, the crude steel dust recycling plants have been running at an average load factor of 90.1% in 2019 (2018: 92.0%). As a result, the volume of WOX sold declined by 9.7% to 217,599 tonnes in 2019 (2018: 240,907 tonnes).

EAF steel dust throughput & load factor¹

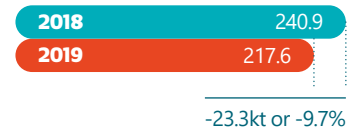
(Thousand tonnes, % of annual capacity)



¹ Installed capacity and corresponding utilisation rates in 2019 are normalised for the capacity upgrade in Turkey, from 65 kt to 110 kt (the plant in Turkey was shut down for seven months, from the end of January to mid-August)

Waelz oxide (WOX) sold

(Thousand tonnes)



The **revenue** in Steel Dust Recycling Services decreased by 5.5% to €360.1 million in 2019 (2018: €380.9 million), primarily due to the decrease in WOX volumes sold by approximately 23 thousand tonnes year-on-year, as well as unfavourable zinc treatment charges referenced at around \$245 per tonne in 2019 (compared to \$147 per tonne in 2018). The revenue decrease was partially offset by a) better zinc hedges in place, improving the effective zinc average prices (blended rate between hedged volume and non-hedged volume), which, despite the lower zinc market

Steel Dust Recycling Services achieved high 35% EBITDA margin in 2019. EBITDA was €125.3 million – down 9% year-on-year mainly due to the scheduled downtime and impact on volume in Turkey to expand capacity to 110kt as well as unfavourable LME zinc prices and treatment charges.

prices, improved in 2019 by 5.2% year-on-year to €2,280 per tonne (2018: €2,168 per tonne), and b) higher sales from the recovered stainless operations.

Revenue – Steel Dust Recycling Services segment (€ million)



Blended zinc average price (Euro/tonne)



EBITDA in Steel Dust Recycling Services decreased by 8.8% to €125.3 million in 2019 (2018: €137.4 million). The **EBITDA margins** declined from 36.1% to 34.8%. Similarly, **EBIT** decreased by 14.1% to €106.8 million in 2019 (2018: €124.3 million), and **EBIT margins** decreased from 32.6% to 29.7%.

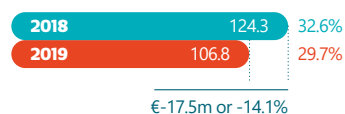
The development of earnings in the Steel Dust Services segment was impacted by the same drivers mentioned above in the revenue

section. In addition, volume mix affected results: crude steel dust volume recycled increased by around 5% year-on-year at the operations in South Korea, where Befesa still sold WOX unwashed during 2019 (the new WOX washing plant in South Korea was completed and ramped up in December 2019), and partially imported crude steel dust from South East Asia, incurring higher transportation costs. Moreover, the upgraded plant in Turkey ramped up in August and operated during the last four months of 2019 when the zinc market prices were at the lowest levels of the year.

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



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



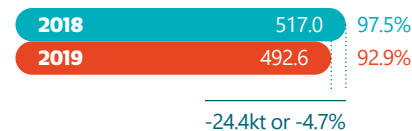
Aluminium Salt Slags Recycling Services Salt Slags subsegment

Salt slags and SPL recycled volumes in 2019 amounted to 492,603 tonnes, down by 4.7% year-on-year (2018: 516,956 tonnes). The volume decrease was primarily due to more prolonged maintenance downtimes, particularly in the Spanish plant of Valladolid, which was needed to address some technical issues that are now resolved.

On average, capacity utilisation levels at Befesa's salt slags recycling plants remained above 90% in 2019 (utilisation rates of 92.9% in 2019; 97.5% in 2018).

Salt slags & SPL volumes & load factor

(Thousand tonnes recycled, % of annual capacity)



The EBITDA of the Aluminium Salt Slags Recycling Services segment was €33.0 million in 2019 (-11% year-on-year), mainly driven by lower aluminium alloy prices; plant utilisations were >90%, normalised for furnace upgrades.

The **revenue** development in the Salt Slags subsegment (-2.2% year-on-year to €81.6 million in 2019) was primarily affected by the reduction in volumes as well as by the 18.5% decline year-on-year in aluminium alloy market average prices (2019: €1,397 per tonne; 2018: €1,715 per tonne).

Revenue – Salt Slags subsegment

(€ million)



The **EBITDA** in the Salt Slags subsegment decreased by €3.8 million to €21.0 million in 2019 (2018: €24.8 million). The **EBITDA margins** declined from 29.7% to 25.7%.

Similarly, **EBIT** in 2019 decreased by 26.7% to €12.5 million (2018: €17.1 million), and **EBIT margins** declined from 20.5% to 15.3%.

The decline of earnings in the Salt Slags subsegment was primarily a result of the aforementioned 18.5% metal price decrease year-on-year to €1,397 per tonne. The reduced aluminium alloy market prices were partially offset by improved net collection fees.

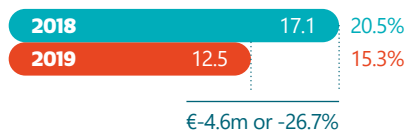
EBITDA – Salt Slags subsegment

(€ million, % margin of revenue)



EBIT – Salt Slags subsegment

(€ million, % margin of revenue)



Secondary Aluminium subsegment

Aluminium alloy production volumes

in 2019 improved by 4.4% to 176,652 tonnes (2018: 169,282 tonnes), primarily due to the more efficient furnaces upgraded in H2 2018 at the Spanish plants in Erandio and Les Franqueses del Vallès as well as the solid operations at the Bernburg plant (Germany), offsetting the expected reduced volumes at the plant in Les Franqueses del Vallès to upgrade the second furnace in H2 2019.

With these volumes and normalising the installed capacity for the scheduled shutdowns to upgrade the furnaces, the secondary aluminium production plants have been running at an average load factor of 91.1% in 2019 compared to 98.1% in 2018.

The furnace upgrade at Les Franqueses del Vallès plant was completed on time and on budget, with the new furnace pouring ingots as of November 2019. With this final upgrade, all of Befesa's secondary aluminium plants are running with similar high-efficiency furnaces as Befesa's plant in Bernburg (Germany).

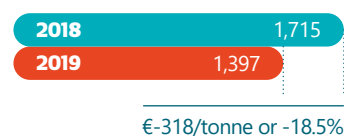
Secondary aluminium alloys volumes & load factor^{4,5}

(Thousand tonnes produced, % of annual capacity)



Aluminium alloy average market price

(Euro/tonne)



The **revenue** development in the Secondary Aluminium subsegment (-18.3% year-on-year to €245.2 million in 2019) was primarily driven by the 18.5% reduction in aluminium alloy market prices (2019: €1,397 per tonne; 2018: €1,715 per tonne).

Revenue – Secondary Aluminium subsegment

(€ million)



The **EBITDA** in the Secondary Aluminium subsegment slightly decreased by €0.4 million year-on-year to €12.0 million in 2019 (2018: €12.4 million). The EBITDA margins improved from 4.1% to 4.9%.

Similarly, **EBIT** decreased by €1.2 million to €4.5 million in 2019 (2018: €5.7 million), with an **EBIT margin** of 1.8% – a similar level as in 2018.

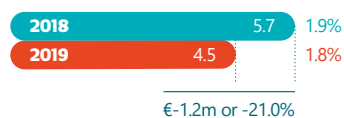
EBITDA – Secondary Aluminium subsegment

(€ million, % margin of revenue)



EBIT – Secondary Aluminium subsegment

(€ million, % margin of revenue)



Earnings were primarily affected by the expected lower volumes at Les Franqueses del Vallès plant due to the scheduled downtime to upgrade the furnace in H2 2019. This impact was partially offset by the furnace upgrades carried out at the Spanish plants during H2 2018, which have been delivering since that time.

⁴ Installed capacity and corresponding utilisation rates in 2019 are normalised for the furnace upgrade at Les Franqueses del Vallès plant – phase II (Tilting furnace): three months scheduled downtime, from the second week of August to the second week of November

⁵ Installed capacity and corresponding utilisation rates in 2018 are normalised for the furnace upgrades at Erandio plant (three months scheduled downtime, from the second week of June to the third week of September), as well as at Les Franqueses del Vallès plant – phase I (Vortex furnace): two months downtime, from the fourth week of August to the fourth week of October

Sustainability

Befesa manages and recycles around 1.5 million tonnes of residues annually, with a production of around 1.2 million tonnes of new materials. Befesa reintroduces these new materials into the market, reducing the consumption of natural resources.

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

Today’s waste, in most cases, is not waste anymore but a resource that, with the proper technology and business model, can be reprocessed to generate new products that can be used many times. For that 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.

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

Befesa contributes significantly to building this circular economy with a model that closely resembles what the visionaries and the 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.

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

Befesa services hazardous waste of the steel and aluminium metal recyclers and is a crucial part of the circular economy. Through the recycling of materials and the reintroduction of the products into the market, the materials can be reused several times and the consumption of natural resources is reduced.

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 or melting salts. And, what is worse, the second option would be limited since resources on the 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 strong and excellent contribution to the circular economy for society.

Sustainability is at the heart of Befesa's business model. 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 62 to 64).

In the following sections, topics related to sustainability, such as employees, diversity, human rights, health and safety, environment and corporate citizenship, are described to provide a general overview of how these subjects are managed at Befesa. Further information about sustainability can be found in Befesa's Sustainability Report 2019, which will be published in spring 2020.

Befesa's contribution to the environment:

BEFESA



Reduce

the consumption of natural resources and prevent around 1.5 million tonnes of wastes from reaching landfills.



Recover

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



Reintroduce

the recovered materials into the market.

Employees

Befesa's employees are playing a key role in the achievement of the Company's goals. Thanks to the high qualification of Befesa's employees, Befesa continues to be a leading global environmental services company.

As of 31 December 2019, Befesa employed 1,147 people in eight countries.

Approximately 75% of the staff work on operations and maintenance, a figure that demonstrates the productive nature of the Company. The stability of Befesa's staff remains a priority. Befesa continues to have above 85% of employees with open-ended contracts.

Befesa encourages individuals to start or expand their professional career at the Company. Befesa collaborates with different training entities, including universities and business schools. During 2019, 38 staff members participated in traineeships or internships with Befesa (2018: 49 interns).

Although facing a competitive labour market, Befesa managed to maintain a stable and low turnover rate in 2019 – a result primarily due to voluntary resignations of 1.53% globally (1.76% in 2018) and 1.26% in Europe (1.62% in 2018).

Befesa places a high value on training to ensure an up-to-date knowledge base and invested over 26,900 training hours in 2019 (24,800 in 2018).

Aligned with Befesa's Health and Safety Initiative, the Company continues to provide safety training to its employees – 63% of the training hours were spent in this field (52% in 2018).

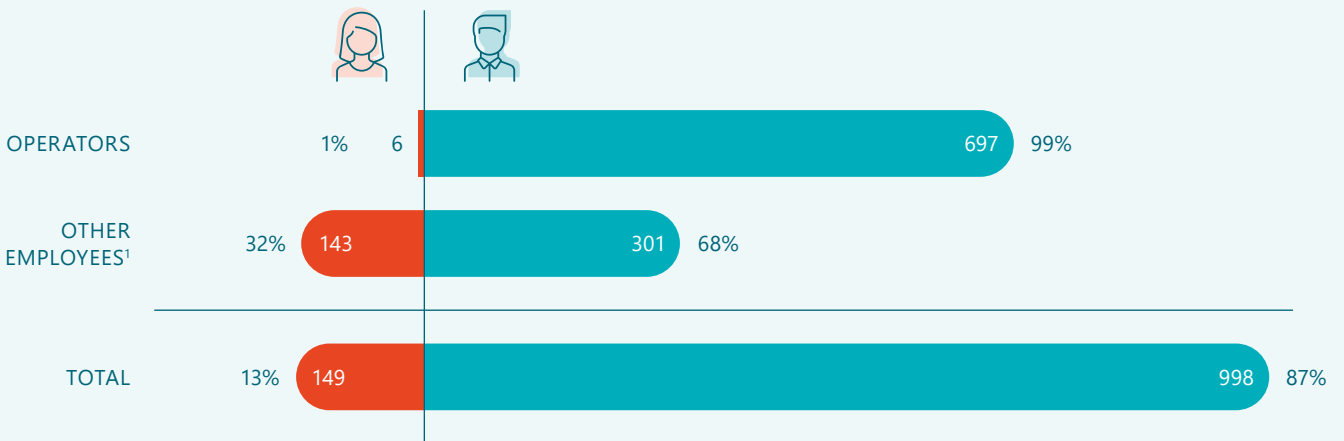
Further information on employees is available on page 156 as well as in Befesa's Sustainability Report 2019, which will be available in spring 2020 on Befesa's website (www.befesa.com).

Diversity

Befesa is committed to respecting the dignity of each person and valuing diversity, whether related to culture, ethnicity, gender, age, sexual orientation or disability. Befesa encourages and promotes diversity in its workforce.

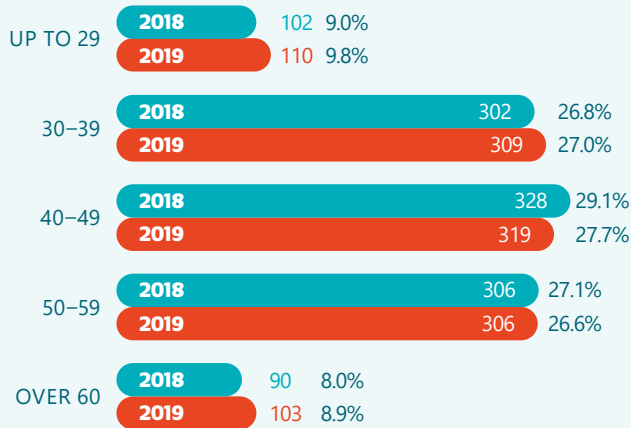
Headcount by category and gender

1,147 total employees

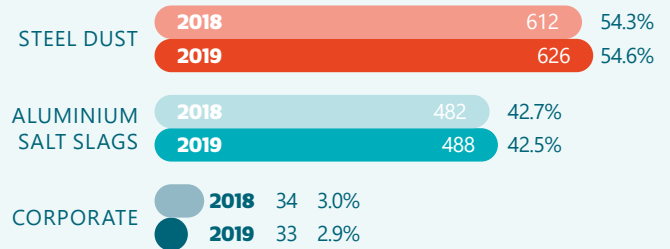


¹ Other employees refers to those employees who perform a managerial or administrative job, e.g. accountants, engineers, managers, corporate positions

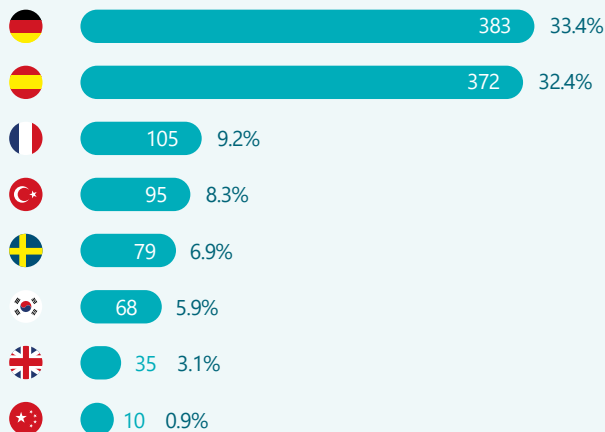
Headcount by age group



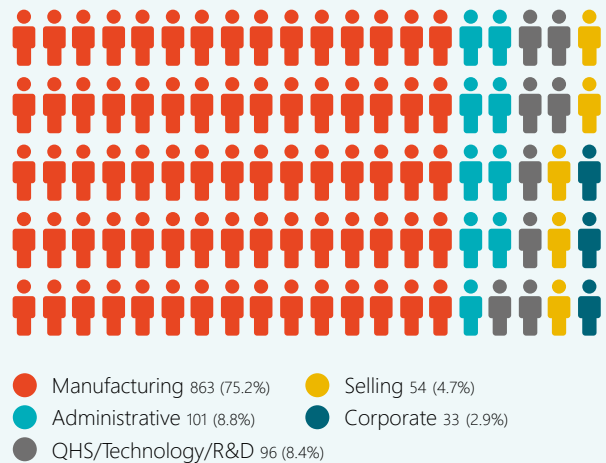
Headcount by segment



Headcount by country



Percentage of headcount by function



Befesa's management, the Human Resource processes and procedures, and Befesa's equality policy seek to create a favourable environment that encourages the respect of human rights.

Befesa considers diversity to be a resource and a source of value that must be safeguarded and promoted both within the Company and in all relationships with its stakeholders.

Befesa's management, the Human Resource processes and procedures and Befesa's equality policy seek to create a favourable environment that encourages the respect of human rights, in particular the equality of all Befesa's employees, in an effective way.

This operating model covers all Human Resources activities, such as recruitment, training, development, promotion, remuneration and so forth.

Through Befesa's international expansion, its workforce is diversifying. After the Company's expansion in Turkey and South Korea, in April 2019, Befesa started the construction of its first EAF steel dust recycling plant in China, in the province of Jiangsu. In addition, Befesa announced the development of its second EAF steel dust recycling plant in the country, in the province of Henan. According

to these milestones, Befesa further continued reinforcing its presence in the country during the year 2019.

Another aspect of a diverse workforce is its composition by age. The age chart gives a clear picture of how the generational handover follows a natural rhythm. Befesa's human capital is experienced – on average, as of 31 December 2019, seniority is 13 years and the average employee is 44 years old.

Referring to the composition of the Board of Directors by gender, the total number of directors is nine, consisting of one woman and eight men. Also, the secretary to the Board of Directors and legal counsel of Befesa is female.

Human rights

Befesa respects the rights of all people associated with the Company, including employees, customers and other stakeholders. Befesa complies with universal principles regarding human rights and labour practices worldwide, including the United Nations' Universal Declaration of Human Rights.

Befesa's code of conduct applies to all members of staff, who shall accept and accommodate different values; respect the character and personality of others; observe the right to privacy and human rights; and avoid any violation of human rights based on race, religion, sex, national origin, disability, age or sexual orientation. In addition, the Company prohibits physical abuse, sexual harassment, power harassment or the violation of the human rights of others.

Further information about how Befesa is committed to safeguarding universal human rights will be available in Befesa's Sustainability Report 2019, which will be issued in spring 2020 on Befesa's website (www.befesa.com).



[Befesa at a glance](#)

[To Befesa's shareholders](#)

[Management report](#)

[Consolidated financial statements](#)

[Statutory annual statements](#)

[Additional information](#)

Health & safety

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

Demonstrating its commitment to the safety and well-being of all staff working at Befesa brings multiple benefits. These include reduced incidents and accidents; higher morale, satisfaction and productivity; and many other tangible and non-tangible benefits. These add value to the business and benefit all stakeholders including employees, the community, customers and shareholders.

The goal is to establish Befesa as a company that leads by example in terms of its safety, health, environment and quality.

Policies

The Befesa integrated safety, health, environmental and quality policy was reviewed, updated and launched on 28 April 2016. Several cascade events across the organisation were executed to ensure the full understanding and engagement of management and employees to make the policy the driving force of continuous improvement in Befesa's operations.

Demonstrating its commitment to the safety and well-being of all staff working at Befesa brings multiple benefits to all stakeholders including employees, the community, customers and shareholders.

Principles

Befesa's policies on safety, health, environment and quality are summarised in these 12 principles:

1

Management

From senior to all line management, all staff lead by example, are committed and are accountable for safety, health, environment and quality.

2

Accidents

Our belief is that all accidents can and must be prevented. For this reason, we aspire to ZERO accidents for all our people, either internal staff or contractors.

3

Priority is safety

We never put production or economic benefits before people's safety and health.

4

Continuous improvement

Accidents and incidents must be communicated and investigated as a basis for continuous improvement.

5

Training employees

It is necessary to thoroughly train all employees to work safely.

6

Engagement

It is essential to involve and engage all people by fostering dialogue and participation.

7

Full control

All process conditions can and must be controlled.

8

Safety

Safety is a condition of career and employment.

9

Safe behaviour

We have a constructive ZERO tolerance approach to unsafe behaviour.

10

Audits & inspections

Audits, inspections and observations must be conducted with employees' participation.

11

Best industry practices

We ensure compliance with legal requirements and best industry practices.

12

Highest standards

We develop, review and maintain an integrated management system for safety, health, environment, quality and energy management according to norms and recognised international standards.

Every incident or near miss is reported and investigated by management, in a team approach involving operators, amongst others, to ensure learnings are obtained and shared across the organisation.

“Be Safe at Befesa” project

In 2014, Befesa conducted a safety benchmark with similar companies and associations and other industrial sectors.

In 2015, Befesa launched the “Be Safe” project, the initial step to take health, safety and environment to the next level of excellence.

Since then, strategy, standards and strong action plans have been implemented across all the locations, improving the environmental, health and safety (EHS) performance.

The project structure was based on:

- Executive and line management leadership of the safety programme;
- The evaluation of safety culture and process safety management (PSM) on-site; and
- The development of an improvement and culture reinforcement action plan (roadmap).

Sharing learning lessons

Every incident or near miss is reported and investigated by management, in a team approach involving operators, amongst others, to ensure learnings are obtained and spread across the

organisation. In 2019, a total of 441 incidents were reported and investigated, prioritising them based on the potential for causing an accident.

Accidents causing lost time are communicated to the manager of the plant where the accident occurred, who in turn informs Befesa’s CEO and the vice-president of the corresponding business segment, as well as the Human Resources director and the EHS director of Befesa, within the following 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 cases, a single-page document is generated with key learnings.

In 2019, 160 learning lessons from Lost Time Accidents (LTAs), Non-Lost Time Accidents (NLTAs) and incidents have been distributed at a corporate level, reaching all management and the shop floor level. This represents 96% of the LTAs, 67% of the NLTAs and more than 15% of incidents. This shows the level of work and dedication of

Befesa to learn from incidents and implement improvements coming from investigations.

Preventive safety observations

A corporate standard was published and implemented in 2016 for Preventive Safety Observations.

This behavioural safety programme is intended to detect and correct unsafe acts and conditions before they result in accidents and incidents. It aims to enhance safety culture, employee awareness and commitment through the field presence of line management to address safety issues.

Managers at all levels in Befesa are trained to detect unsafe acts and to provide constructive feedback to operators and contractors about work safety practices.

In 2019, more than 1,800 observations were completed with teams of typically two people observing and correcting unsafe acts and conditions for one hour and generating appropriate actions and reports.



THE PREVENTION OF SERIOUS
INJURY AND FATALITIES IS MANAGED
AT BEFESA BY MEANS OF WHAT IS
CALLED THE "LIFE-SAVING RULES".



Health & safety continued

Life-saving rules

Preventing serious injuries and fatalities is one of the top priorities of the health and safety programme and requires special focus. Investigating all incidents and accidents delivers a good improvement path in safety performance.

The prevention of serious injuries and fatalities is managed at Befesa by means of what is called the "Life-saving Rules". These are a selection of the most frequent causes of fatalities in the industry in which Befesa operates, based on a detailed risk evaluation.

The "Be Safe" 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 is reinforced in 2020 with the launch of a specific programme about fatal and serious injuries. This programme focuses on the identification, timely control, measurement of the effectiveness of protective clothing/equipment and the follow-up by management of all the risks with the potential to cause fatal or serious injuries.

Lost Time Injury Rate (LTIR):

	2015	2016	2017	2018	2019	% reduction vs 2015
Own employees	5.3	3.6	2.9	2.6	2.1	60.4%
Contractors	8.0	0.9	3.9	5.5	1.6	80.0%
Total	5.7	3.1	3.0	3.2	2.0	64.9%

Severity Rate (SR):

	2015	2016	2017	2018	2019	% reduction vs 2015
Total	0.77	0.77	0.31	0.44	0.41	46.8%

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.

Health & safety performance

Taking as a reference 2015 – the year when the "Be Safe" project was launched – over the course of four years, Befesa reduced by 64.9% its Lost Time Injury Rate (LTIR), per OHSAS's classification and measured as the number of accidents causing lost time divided by work hours and multiplied by 200,000.

Also, the Severity Rate (SR) – measured as the number of days the injured individual was away from work as a result of the injury per thousand hours of work – was reduced in 2019 by 46.8% compared to the base year of 2015.

After launching the "Be Safe" project in 2015, from 2016 onwards there were no fatal accidents.

In addition to the previous lagging indicators, various leading indicators are measured to continuously monitor Befesa's health and safety

performance. These include the number of incidents reported, the number of preventive safety observations per manager and the total number of preventive safety observations.

The five leadership persuasive behaviours

During 2019, all Befesa's line managers continued developing leadership-by-example skills by implementing policies and programmes in line with the Five Leadership Persuasive Behaviours which were selected at the 2018 Safety Summit.

The 5 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 rules before commencing work.*

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

Environment

Befesa's core business is sustainability and environmental services. Befesa has invested a significant amount of time and resources in the development of its environmental policies and practices.

This concerted effort has been driven by executive and line management as well as by Befesa's Board of Directors, who have provided guidance and approved funds.

Key Performance Indicators (KPIs)

Over the last five years, Befesa has developed 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 both at the EHS managers quarterly conferences and by the corporate EHS committee. The analysis includes the necessary actions to improve these parameters and achieve Befesa's goals.

Investments

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

The most relevant environmental investments carried out in 2019 were:

In the Steel Dust Recycling Services segment, the plant in Turkey was fully upgraded to improve its production yields, energy efficiency and overall efficiencies (including environmental, health and safety aspects).

Furthermore, investments in a post-combustion plant and new silos were made at the Spanish steel dust recycling plant in Erandio, as well as investments in storage buildings at several locations to improve fugitive emissions.

In the Aluminium Salt Slags Recycling Services segment, a new tilting furnace was installed at the Spanish plant in Les Franqueses del Vallès to improve the environmental impact in addition to safety, energy efficiency and production yields.

Moreover, several filtration and gas treatment systems were upgraded at the plants in the UK and Germany, and a new scrubber was installed at the plant in the UK.

Across all Befesa's locations, minor multiple investments were made during 2019 to improve fall prevention safety, mobile equipment and pedestrian segregation, and dust control.

Air protection

Air emissions generated from metal recycling could impact human health and the environment and may be subject to regulation 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 Industrial Emissions Directive (IED) regulations. 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 the Best Available Technologies (BAT) 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.

Water consumption & effluents

The processing of metal residues can require substantial quantities of water, which can be a potential risk to production as well as 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 Group level. Trends are analysed and good practices are shared to promote individual projects for the reduction of water consumption.

Waste reduction efforts

Befesa's inherent business of recycling and reusing hazardous waste from metal processing prevents those wastes from reaching landfills. Befesa's process for the treatment of 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 a minimal potential risk of contamination or environmental degradation through the disposal or landfilling of these slags.

The KPIs related to waste generation, including both hazardous and non-hazardous wastes (disposed of or recycled) are reported periodically at Group level by site.

During 2019, all EHS certifications were maintained, and the audits did not result in any major non-conformance.

Greenhouse gas emissions

Steel production and metal recycling generates emissions of direct greenhouse gases (GHGs), primarily carbon dioxide and methane from production processes, smelting activities and on-site fuel combustion. Greenhouse gas 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 materials from the metals industry and to extract or recycle the valuable content of those hazardous wastes. The Company contributes to the overall reduction of GHG emissions by applying BAT that minimise these emissions in the recycling process.

All Befesa’s facilities are ISO 14064 certified for GHG emissions monitoring, with 87% also having ISO 50001 certification. Through these management systems, Befesa measures and analyses carbon dioxide and other GHG emissions annually, and improvement projects are implemented following these analyses.

To minimise the GHG emitted by Befesa’s operations, the Company applies BAT and looks for efficiency opportunities as part of its operational excellence programme.

EHS certifications

All Befesa’s sites are ISO 14001 certified, an internationally recognised environmental management system. In addition, 87% of the sites are ISO 50001 certified, which develops an energy management system. Non-certified sites are working towards certification.

As of 2015, all of Befesa’s facilities are certified to ISO 14064 for the management of GHG emissions.

More than 50% of the plants located within the EU are registered according to EMAS, one of the most demanding environmental management systems that includes the need for public communication, transparency and recognition by environmental authorities. All Befesa’s units are also certified according to OHSAS 18001 or the new ISO 45000 occupational health and safety norm.

All Befesa’s plants have an action plan to convert their safety and occupational health from OHSAS 18001 to the new international norm – recently adopted ISO 45000.

EHS auditing

Internal and third-party external auditing processes are conducted as part of the ISO 14001, 50000 and 14064 certification processes and to comply with OHSAS 18001/ISO 45000.

During 2019, all certifications were maintained, and audits did not result in any major non-conformance. In the case of minor non-conformances and observations, these were analysed to identify the root causes and define the necessary improvements.

Further information about environmental issues at Befesa will be shown in Befesa’s Sustainability Report 2019, which will be issued in spring 2020 on Befesa’s website (www.befesa.com).

By reusing and recycling hazardous wastes, such as steel dust or aluminium residues, Befesa contributes to protecting the environment.

Corporate citizenship

Beyond its own activities, Befesa is committed to contributing to improving local communities and society as a whole.

Befesa considers the needs and interests of local communities and the consequences of Befesa's actions on the social system to be an essential business obligation. In light of this, Befesa is developing different projects within the fields of environment, culture and sports to continue building excellent neighbourhoods where Befesa is present.

In 2019, Befesa organised the second edition of the "Befesa Charity Project Contest". This contest offered Befesa's employees the opportunity of actively participating in charity projects. Employees who wanted to participate submitted specific charity projects of their choosing that are supported by an NGO or legally constituted foundation.

After an extensive review – due to the huge participation and the high quality of projects suggested by different Befesa locations – the jury of the second edition announced in November 2019 the following winning projects:

- The project "emacipaTEA" of the Autism Association of Sevilla (Spain) was awarded the first prize. This project develops the employment of people with autism spectrum disorder (ASD) in the province of Sevilla, offering training, guidance and advice to families and professionals, promoting individualised training that reduces ASD limitations and sensitising companies to create opportunities for people with ASD. The project is based on the employment model with support, in which the person is accompanied to an ordinary work environment by offering support in the same work context, as well as guiding the company for the optimal adjustment of the person in their job.
- The second prize was awarded to "Children and youth hospice Regenbogenland: Trip to Amsterdam" – a project of the Kinder- und Jugendhospiz Regenbogenland organisation in Düsseldorf (Germany). The winning organisation provides caring support to children with limited life expectancy and their respective families. This organisation also focuses on the siblings of the children affected by limited life expectancy, ensuring they receive the attention they need, experience joy and can exchange ideas with like-minded people. This has a positive effect on the whole family of children suffering from limited life. Through this donation, Befesa is supporting the maxi-sibling trip of siblings to Amsterdam that has been organised. This trip should give the siblings the opportunity of exchanging ideas with like-minded people in a protected environment, forgetting their stressful everyday life and having a good time.

Befesa's Charity Project Contest winners



- The project "Let's go to play bocce petank" of the Bocce organisation in Iskenderun (Turkey) was awarded the third prize. Through this donation, Bocce will be able to train young people between 14 and 18 years of age who are currently undergoing rehabilitation programmes through sports. This will benefit individuals through the organisation of tournaments with approximately 100 student-athletes in Iskenderun.

During 2019, Befesa reaffirmed the fact that its employees are socially committed and that their participation is increasing as Befesa organises more initiatives. The Company engaged more colleagues and resources in its initiatives during 2019 and continued its relationships with NGOs and its annual charities.

Further information about Befesa's social citizenship strategies and initiatives will be explained in Befesa's Sustainability Report 2019, which will be issued in spring 2020 on Befesa's website (www.befesa.com).

1. emacipaTEA

The Autism Association of Sevilla (Spain)

2. Sibling trip 2020 to Amsterdam

The Kinder- und Jugendhospiz Regenbogenland organisation in Düsseldorf (Germany)

3. Let's go to play bocce petank

The Bocce organisation in Iskenderun (Turkey)

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 for achieving 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 for the recycling of hazardous residues of 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, adapted to the technological processes of each of the businesses. These two teams meet on a regular basis to exchange their respective achievements, findings, knowledge and developments within their respective projects.

Employees in R&D

Befesa's R&D and innovation strength is based on the teams' experience and qualifications across various specialisations. In 2019, a total of 14 employees were dedicated to R&D activities. Of these, nine were part of the Steel Dust Recycling Services segment and five were part of the Aluminium Salt Slags Recycling Services segment.

Expenses on R&D

Total expenses on R&D activities amounted to €1.9 million in the year ended 31 December 2019, slightly above the previous year's level of €1.8 million.

In the Steel Dust Recycling Services segment, expenses on R&D activities amounted to €0.4 million in the year ended 31 December 2019, in line with the previous year's spend.

In the Aluminium Salt Slags Recycling Services segment, expenses on R&D activities amounted to €1.5 million in the year ended 31 December 2019, slightly above the previous year's level of €1.4 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 in 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 a member of the Labein Tecnalia Foundation, a private technology centre with significant business involvement that creates partnerships within their markets to develop innovative capacity using technology as a tool to increase competitiveness. Befesa has developed projects in collaboration with institutions such as Acciona Infraestructuras R&D, Cooperativa Mondragón, Edertek Fagor Ederlan, ICM-CSIC (in Spain), IAB (in Germany) and the 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) as well as with the University of Leoben (in Austria), where Befesa is contributing to the project funding scheme competence network for the assessment of metal bearing by-products (COMMBY).

€1.9m

TOTAL EXPENSE
ON R&D ACTIVITIES IN 2019

Main achievements & projects in 2019

In the **Steel Dust Recycling Services** segment, selected areas of focus are:

- Installing advanced off-gas cleaning systems (regenerative post-combustion) at the European crude steel dust recycling plants in order to comply with future emission levels, required by the new Best Available Techniques Reference Document (BREF) for non-ferrous metals;
- Software-based optimisation of stainless-steel dust recycling by simulation and evaluation of metallurgical processes;
- The study of alternative, carbon dioxide-neutral potential reducing agents for the Waelz process; and
- Testing different techniques for the treatment and reduction of different production waste streams and the transfer to by-products.

In the **Salt Slags** subsegment of the Aluminium Salt Slags Recycling Services segment, Befesa is currently:

- Constructing a pre-industrial installation (620 tonnes per year) for secondary aluminium oxide refining, to produce a new raw material as an alternative to mineral bauxite (to be used in the refractory industry);
- Developing new polymeric materials using secondary oxides to achieve fireproof properties to new advanced systems in electric vehicles;
- Studying and checking purification processes to insulate

different components of oxide, achieving the production of high purity components: alumina and spinel;

- Developing oxide specifications to be used in the ceramic industry. (The use of the oxides will be a source of alumina for designing new formulations to improve ceramic products);
- Upscaling (pilot scale) of the defined roadmap to use oxides as an alternative raw material to fused oxides in its application in the abrasive industry; and
- Evaluating the impact of the quality of recovered salts from the salt slags recycling process in the aluminium wastes melting process. Constructing a pilot crystallisation plant to produce "ad hoc" recovered salts.

In the **Secondary Aluminium** subsegment of the Aluminium Salt Slags Recycling Services segment, Befesa currently researches:

- The optimisation of the aluminium alloy production process, introducing improvements and technologies to increase energy efficiency;
- Studying and improving recovered salts from the salt slags recycling process to increase the efficiency of the aluminium recycling process; and
- The development of automotive disk brakes on recycled aluminium alloys from scraps to achieve the maximum level of recycling, ensuring OEM's requirements and highly minimising the environmental impact.

R&D and innovation continued

Projects in the research pipeline

In the Steel Dust Recycling Services segment, projects in 2020 are the continuation of projects launched in 2019 and new projects for:

- Characterisation and metallurgical evaluation of potential usage of different of carbon dioxide-neutral carbon sources to reduce the carbon footprint;
- Optimisation of the Waelz process efficiency by the installation of advanced process monitoring;
- Testing of the transfer of Waelz slag into a by-product; and the characterisation and evaluation of usability of the potential products; and
- Reduction of waste streams of stainless-steel dust recycling sites by treatment and internal recycling.

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

- **Bauxal II:** Valorisation towards a circular economy of aluminium by-products from the salt slags recycling process, to produce refractory materials as an alternative to calcined bauxite;
- **Alusalt:** Studying and improving the quality of melting salt that is recovered in the salt slags valorisation process;
- **FISSAC:** Fostering industrial symbiosis for a sustainable resource-intensive industry across the extended construction value change;
- **Radius:** Recycling automotive brake disks by upgrading metallic scraps;

- **Al fused:** New corundum-based abrasive materials from secondary bauxite of the aluminium recycling process;
- **Alumelt:** New quality of secondary aluminium across the improvement of the recycled salts; and
- **Mat EV:** New polymeric materials with advanced properties to produce new-generation components and systems in electric vehicles.





Befesa at a glance

To Befesa's shareholders

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Risks & opportunities

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

Befesa's risk management system

i. Introduction

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

The purpose of this risk management system is the identification and assessment of the major risks which affect or may affect Befesa, as well as providing the organisation with a supporting tool in decision-making through the provision of strategies aimed at risk management and control.

The risk management system approach implies:

- Elaboration of a risk map;
- Definition of the current controls;
- Implementation and development of a "risk mindset";
- Implementation of action plans; and

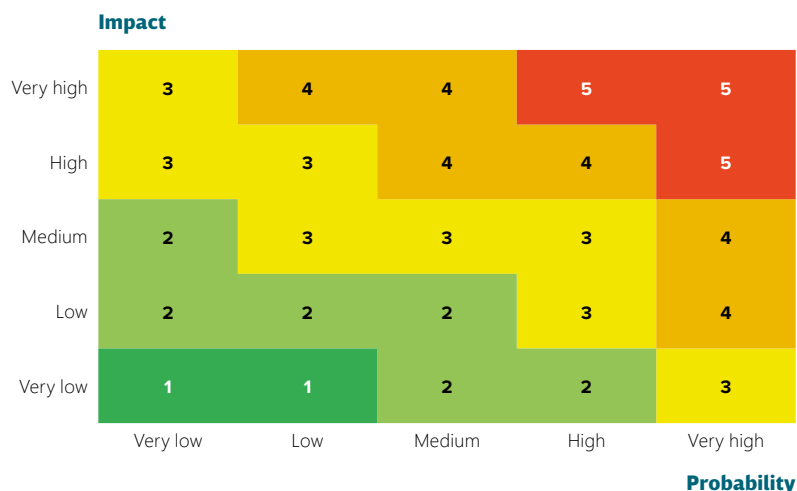
- Regular review and analysis in the future.

ii. Risk methodology

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

The process followed is divided into two phases:

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



2. Risk assessment process: After having the risk catalogue, the next step is the risk assessment. The risk assessment was carried out by people from the different areas of the organisation included in the scope. They were 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.

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

Impact (I):

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

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

iii. Risk map

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

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

iv. Risk monitoring

Befesa's risk management system is a systematic mode of identification, assessment and treatment of risks. Therefore, it must not be understood as 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 annually updated, including new risks (or modifying the current ones), and new controls are incorporated 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 which may influence the organisation.

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

- The actions and strategies proposed for the mitigation of risks are effective and efficient, both in design and execution;
- Enough information is available to improve the assessment of existing risks, as well as for the identification, analysis and assessment of new risks that should be considered; and
- An 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 for their review.

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 as well as non-financial risks, the most relevant ones being described below.

Financial risks

i. 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 and IFRS. A defined calendar ensures that financial reports and statements are produced in a timely manner. Regular reviews at Group level and segment level ensure that potential errors are detected and corrected promptly.

The reviews of the Board of Directors and 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 as well as of 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. The Company strives for the continuous improvement of its risk management and internal control system. The main risks with a potential material influence are further detailed in note 4 of the "Consolidated financial statements" section of this Annual Report.

ii. 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 related to commodity price fluctuation. The Company 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. Therefore, Befesa's main risk management tool is its zinc hedging programme, which targets hedging one to four years forward and at a volume level of around 60% to 75% of zinc payable output tonnage.

During 2019, Befesa further extended its zinc hedges by another three months, until and including October 2021, at a volume of 3,700 tonnes per month. Befesa is closely monitoring to hedge the remaining 50% targeted hedge tonnage of Q3 2021, as well as the volume for the remainder of 2021, in order to reach the usual 92,400 tonnes annually hedged, which represents approximately 68% of the current normalised annual zinc payable output of around 135,000 tonnes of Befesa globally. Befesa's average hedged zinc forward price was approximately €2,310 per tonne for 2019, and it will be



approximately €2,250 per tonne and €2,200 per tonne for 2020 and 2021, respectively.

Also, Befesa does not provide a collateral for the contracted hedges. Befesa conducts its hedging programme with reputable hedging partners such as JP Morgan, Citibank and Goldman Sachs.

iii. Capital structure

Befesa's capital structure was refinanced on 9 July 2019, primarily to extend its maturity to July 2026 at attractive rates and to accommodate the planned expansion to, for example, China, through increasing the basket space of the so-called general and local loan baskets. A €75 million RCF is part of the capital structure and was undrawn at year-end 2019 as Befesa has €126 million cash on hand. Subsequently, on 17 February 2020 Befesa repriced its (TLB), covenant lite, lowering the reference interest rate from Euribor +250 bps to Euribor +200 bps. The 50-bps interest rate reduction equals €2.6 million interest expense savings on an annualised basis. The covenant-lite TLB carries an initial interest of

Euribor +200 bps for nine months. After the first nine months, this rate could be reduced alongside certain leverage ratchets, similar to the existing loan, down to a margin of Euribor +125 bps for leverage lower than x1.75.

The facility's long-term July 2026 maturity date as well as all other documentation terms remain without further amendment. Following Befesa's capital structure refinancing in mid-2019, the repricing is yet another measure to continually improve the Company's long-term capital structure and financial efficiency.

Befesa swapped 60% of the €526 million notional TLB, the underlying variable interest rate of three months Euribor "0" floor to a fixed interest rate for the period up to the end of 2022 to minimise the risk of a rapid increase in the interest rate. Nevertheless, Befesa faces potential liquidity risks if the demand for its services and products decreases significantly, as this would reduce the cash from operating activities and could deplete current cash resources, leading to insufficient

funds to meet future cash needs. 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.

The Company has established adequate short-, medium- and long-term liquidity processes that form part of the risk management framework. Regular reviews, adequate cash reserves and the above described capital structure, including credit lines, are in place to address the risk related to Befesa's capital structure and liquidity. The Company complied with its debt covenants in 2019 and, based on the financial planning for 2020, foresees to once more be fully compliant.

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 and took the opportunity to hedge 60% of the

Risks & opportunities continued

capital structure from variable to fix interest rates forward. Based on this, there is no material interest rate risk that could affect Befesa's business until the end of 2022.

v. Foreign exchange

Befesa's functional currency is the euro. However, the Company has subsidiaries and operations in a number of jurisdictions, including the UK, Sweden, Turkey and South Korea, where Befesa generates revenues in currencies other than the euro. In light of its growth plans, the Company 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. Around 80% of the zinc forward hedges in 2019 were euro-denominated. In 2019, Befesa hedged 92,400 tonnes of zinc payable output, mostly through euro-denominated zinc forwards, which represented slightly above 70% of the output of Befesa's largest segment, Steel Dust Recycling Services.

Non-financial risks

i. Industry & business risks

Befesa is exposed to risks and opportunities related to the level of activity of the global economy – in particular, to the level of economic activity in the jurisdictions of the markets the Company serves in Europe and Asia. The business is dependent on the availability of the materials to which the services relate and which Befesa recycles – in particular, steel dust in the Steel

Dust Recycling Services segment, and salt slags and aluminium residues in the Aluminium Salt Slags Recycling Services segment. In periods of slowing economic growth, the industrial recycling industry is affected, resulting in a reduction in the demand for Befesa's services and products. One important initiative to address slower economic growth has been to expand Befesa's operations in emerging markets such as South Korea, South East Asia, Turkey and, most recently, China. Nevertheless, the global economy might be affected by macro-economic events, such as the ongoing China–USA trade tensions, Brexit and the coronavirus-related issues.

Zinc smelters, which are significant consumers of the WOX that Befesa produces in the Steel Dust Recycling Services segment, typically experience variation in demand for their products due to a change in the level of activity, amongst 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. As such, the demand for and pricing of Befesa's services and products is, amongst others, dependent on the developments in the automotive and construction industries.

ii. Environmental risks

The nature of Befesa's business subjects the Company to government regulations, including but not limited to increasingly stringent environmental laws and regulations in most jurisdictions where the Company operates. Such laws and regulations also

require permits and authorisations to be obtained and manifests to be completed and delivered in connection with Befesa's business operations, and in connection with any shipment of prescribed materials. This is so that the movement and disposal of such material can be traced and the persons responsible for any mishandling of such material can be identified.

Generally, Befesa could be held liable for any risks associated with hazardous waste substances from the moment the Company collects or receives such substances from its customers. However, liability can also arise at an earlier stage based on Befesa's contractual obligations to provide collection and recycling services.

In addition, environmental laws and regulations impose liabilities, fines and penalties on persons found to be responsible for the release of hazardous substances and pollution or contamination of the soil, water, ground water, air or otherwise. Such liability may arise from negligent or faulty actions or may arise based on the ownership of hazardous waste. Furthermore, Befesa is required to comply with emissions regulations.

The main potential environmental impacts that may be caused by the activity of Befesa's plants and their corresponding control measures implemented by Befesa are the following:

a. Air protection

Befesa closely controls and monitors air emissions according to regulations, and BAT and industry practices, so that in the metal recycling processes no significant negative impacts to human health or the environment occur.

Befesa's risk map includes financial as well as non-financial risks.

During the last few years, detailed work has been conducted to ensure compliance with the regulations of the Industrial Emissions Directive (IED). In addition, the implementation of ISO 14001 and the EU Eco-Management and Audit Scheme (EMAS) ensures that Befesa proactively reviews regulations that may be applicable to each site.

The Company has updated all plants according to BAT to minimise air emissions and to ensure compliance with current and forthcoming legislation.

Befesa measures and reviews air emissions at each plant on a periodic basis, depending on the parameter's technical needs and legal requirements. These measurements are reported internally and to the authorities. Deviations, if present, are investigated, analysed and corrected.

b. Soil protection

Befesa's plants are designed according to BAT to ensure that the Company's processes safeguard the soil against any potential damage or contamination.

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.

Proper soil and underground water monitoring is provided where required and according to local legislation to ensure the soil is maintained in an uncontaminated state.

c. Water consumption & effluents

A reference of the most sustainable approaches and technologies showing the correct stewardship of water is demonstrated in several of the Steel Dust Recycling Services and Salt Slags Recycling Services plants, with a ZERO effluent policy. While leading technologies and regulations allow companies to produce effluent under controlled limits of suspended solids, oils, heavy metals and other elements, Befesa's plants have been designed with the capability of recycling 100% of the effluent produced. The effluents are reintroduced into the process, significantly reducing water consumption but also minimising the chances of any possible contamination through the effluent.

Reducing water use and wastewater discharge (e.g. by recycling)

can result in lower operating costs, reduce the risk of regulatory impacts and minimise potential production limitations due to the continuous and increasing scarcity of water in some geographic areas.

Befesa monitors its water consumption as a KPI, which is reported by each site and consolidated at Group level. Trends are reported and analysed, and good practices shared to promote individual projects for consumption reduction.

d. Waste reduction efforts

Befesa is an environmental recycling services company that has the potential to position itself for revenue growth while playing a critical role in the circular economy, reducing the environmental impact of the steel and aluminium industries.

Befesa's inherent business of recycling hazardous waste from metal processing prevents those wastes from reaching landfills. Befesa's process for the treatment of aluminium 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

Risks & opportunities continued

environmental impact as a result of the disposal or landfilling of these slags.

The KPIs related to waste generation, including both hazardous and non-hazardous wastes that are disposed of or recycled, are reported quarterly at Group level from each site.

e. GHG emissions

Steel production and metal recycling generates direct GHG emissions, primarily of carbon dioxide and methane from production processes, smelting activities and on-site fuel combustion. These GHG emissions contribute to climate change and create risks for companies, as regulations are developed and implemented on a regional and global scale. Opportunities exist to improve operational efficiency by implementing industry-leading technologies and processes that reduce GHG emissions from operations in a cost-effective manner. There are also potential financial opportunities for the reduction of GHG emissions, such as energy efficiency, the use of cleaner fuels and improvements in the manufacturing process.

Metal processing and recycling also requires energy, which is sourced primarily from the direct combustion of fossil fuels and the electric grid. The type of energy used can play an important role in influencing the cost and reliability of the energy supply as well as Befesa's overall profitability.

The Company's primary business is to recycle hazardous residues from the metals industry and extract the valuable content of these hazardous wastes. Befesa contributes to the overall reduction of GHG emissions by providing the best available technologies to minimise these emissions in the recycling process.

All facilities are ISO 14001 and ISO 14064 certified, with 87% having ISO 50001 certification as well. Through these management systems, as well as other internal protocols, Befesa measures and analyses carbon dioxide and other GHG emissions annually. Improvement projects are implemented following the analysis. As part of the KPI programme, Befesa measures total annual energy use from fuel, from electricity and from renewable energy and steam. In addition, total Kyoto Scope 1 and Scope 2 emissions are reported.

To minimise the GHG emitted by Befesa's operations, the Company applies BAT and looks for efficiency opportunities as part of its operational excellence programme. The programme identifies opportunities for the reduction of CO₂ emissions and energy savings, which are prioritised and implemented. One such example includes the continued renewal of aluminium melting furnaces with units that have lower emissions.

Carbon dioxide emissions are measured in all Befesa's units and reports are validated (by an independent organisation that is a recognised body) as part of the ISO 14064 certification system that covers all plants.

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 such as chemical agents exposition; entrapment between objects/in moving parts; the risk of being run over in the plants (by vehicles); incidents with subcontracted companies/personnel; high temperature exposition; damage due to thermal injury; high noise exposure; confined spaces entry; the threat of explosion; damage due to electrical injury; and entrapment of operators because of machinery overturning.

To manage this risk, Befesa has a wide variety of controls in place, following the approved H&S policy and plan, which are the most relevant ones and include: "Be Safe at Befesa" programme, OSHAS 18001 and 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); accidents 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 accidents insurance.

iv. IT risks

As a result of being a publicly listed company, the exposure to IT risks such as cyber-attacks or malicious software (malware) dissemination increases.

In the case of cyber-attacks, the potential threat may come through an increasing frequency rate and/or the severity of the cyber-attacks and fraud attempts. Befesa currently outsources the control measures to manage this risk to best-in-class vendors. In parallel, the Company has launched

IT security training across the organisation through an external advisor to raise awareness about this risk.

With regards to malware dissemination risk, the latter may come from the portable equipment of administrative staff. To reduce the threat of this risk, Befesa has in place active (antivirus) and passive (security risk-detection probes) mechanisms. Moreover, informative notes are shared with employees via e-mail to raise awareness about this risk across the organisation.



Subsequent events & outlook

Subsequent events

Between the balance sheet date (31 December 2019) and the date of publication of this Annual Report (26 March 2020), the following events of material importance to an assessment of the asset, financial and earnings position of Befesa occurred.

On 17 February 2020, Befesa repriced its long-term TLB, lowering the reference interest rate from Euribor +250 bps to Euribor +200 bps, with a floor of 0%. The 50-bps interest rate reduction equals €2.6 million interest expense savings on an annualised basis. After the first nine months, this rate could be reduced alongside certain leverage ratchets, similar to the existing loan, down to a margin of Euribor +125 bps for leverage lower than x1.75. The remaining terms of the long-term capital structure, including its maturity at July 2026, remain unchanged.

On 11 March 2020, the World Health Organisation declared the coronavirus COVID-19 outbreak a pandemic, due to its fast spread around the world, after impacting more than 150 countries. Most governments are taking constraints measures to contain the spread, which include: isolation, confinement, quarantine and restrictions to free movement of people, closure of public and private facilities, except for health and essential goods, border closures and substantial reduction of air, sea, and land traffic.

This situation is affecting significantly the global economy, due to disruption or slowdown of supply chains and a significant increase in economic uncertainty, as shown by an increase of volatility in the price of assets, exchange rates and a decrease in long-term interest rates.

The consequences of the COVID-19 crisis are considered a non-adjusting subsequent event for the 2019 financial statements, although they will be reflected on the 2020 financial information.

At the date of these consolidated financial statements, the main effect is the temporarily closure of Befesa's construction site in Changzhou where the Company is building its first EAF steel dust recycling plant in China, which was restarted on 10 March 2020. The Company's management is expecting significant events for the future, whose impact cannot be reliably estimated at this time.

The Group started 2020 with strong liquidity, a long-term efficient covenant-lite capital structure and a solid zinc hedge book. With €126 million cash on hand at year-end 2019 and a €75 million entirely undrawn revolving credit facility (RCF) Befesa shows strong liquidity. Befesa's long-term covenant-lite capital structure matures in July 2026 only and has been successfully repriced in February 2020 to an

efficient Euribor +200 bps for leverage at or above x2.25. In addition, Befesa sold 150 thousand tonnes of zinc forward between January 2019 and up to and including October 2021 at approximately €2,250 per tonne in 2020 and at around €2,200 per tonne in 2021 representing, against a zinc spot price of €1,800 per tonne, a value of approximately €64 million.

The Company's management will evaluate during 2020 the impact of the matters previously described and those that could be identified in the future on the financial position of the Company as at 31 December 2020.

On 19 March 2020, Standard & Poor's published a review of the credit rating assigned to Befesa in light of, amongst others, the "implementation of restrictions across Europe to limit the spread of the coronavirus". Standard & Poor's maintained the ratings at BB, outlook stable. The full report published by Standard & Poor's can be accessed at www.spglobal.com/ratings/

Outlook

The year 2020 is expected to be a period of good operating performance benefiting from the executed projects of 2019 as well as further strategic expansion contributing beyond 2020. This is primarily highlighted by volume increase in steel dust as well as the "progress in the completion" of the

first EAF steel dust recycling plant in China.

The Company expects the operating performance to drive earnings growth; on the other hand, the earnings for 2020 will depend on the level of zinc treatment charges and the LME zinc average price for the year which affects approximately 30% of the volume of zinc that is not covered by hedges. Befesa expects to provide more detailed guidance with the release of Q1 earnings on 30 April 2020, like last year.

The main steel markets where Befesa operates show stable EAF steel production levels. As such, and combined with the completed growth initiatives, the Company expects to achieve high levels of steel dust recycled volume and capacity utilisation. On the main European aluminium markets, Befesa expects a year-on-year approximately stable trend, particularly in the secondary aluminium industry. Correspondingly, Befesa expects to continue its high plant utilisation levels in the business segment of aluminium recycling services.

During 2019, Befesa invested strongly, and successfully executed the majority of the organic growth projects that form one of the vital building blocks of Befesa's mid-term growth roadmap.

For 2020, the Company expects these projects to deliver a positive earnings contribution:

- In the Steel Dust segment, the upgraded plant in Turkey has an annual recycling capacity of 110 thousand tonnes of EAF steel dust. For 2020, Befesa expects to increase the total volume of the steel dust recycled by approximately 10% year-on-year, mainly driven by higher volume in Turkey, a moderate volume increase in Europe due to shorter expected maintenance shutdowns, and incremental volume in South

Korea. Based on this, Befesa expects to achieve high levels of steel dust throughput and plant utilisation in 2020.

- In South Korea, the new washing plant for WOX will increase the level of earnings and margin of the South Korean operations by providing a higher grade of WOX to Befesa's zinc-smelting customers.
- In the Aluminium Salt Slags segment, the furnace upgrades at the plants in Erandio and Les Franqueses del Vallès will continue to improve the efficiencies of the secondary aluminium operations, contributing to earnings growth in 2020.

The other key building block of Befesa's mid-term growth roadmap is the expansion in China, driving volume and earnings growth beyond 2020. The construction of the first EAF steel dust recycling plant in Jiangsu, with an annual recycling capacity of 110 thousand tonnes, is expected to be completed by approximately the end of 2020 / beginning of 2021. This is a key milestone for the development of Befesa's operations in China, the largest steel-producing market in the world. The second plant under development is in the province of Henan, also Befesa's state-of-the-art, 110 thousand tonnes annual recycling capacity plant-design like in Jiangsu and is scheduled for completion by about the middle of 2021.

To the date of the publication of this Annual Report, the overall impact of the coronavirus outbreak on Befesa's business in 2020 cannot be quantified reliably. In China, in the short-term, Befesa expects some delay in terms of the construction of its two plants under development in the country. However, in the mid-term, Befesa's expectations about the business opportunity in China remains unchanged. The Chinese Government is strongly committed

to environmental protection and the EAF steel market in China is already the largest worldwide. These two items highlight the need for the recycling service solutions that Befesa provides.

The cash flow of Befesa will allow the Company to:

- Continue to fund another high-investment year focusing mostly on developing the two steel dust recycling plants in China;
- Maintain an attractive annual dividend distribution to its shareholders; and
- Manage the leverage ratio at approximately current levels.

Additionally, Befesa started 2020 with strong liquidity and a long-term efficient capital structure. With €126 million cash on hand at year-end 2019 and a €75 million entirely undrawn revolving credit facility (RCF) Befesa shows strong liquidity. The capital structure is a long-term covenant lite term loan B of €526 million maturing in July 2026. Befesa has no covenant, unless it would use more than 40% of the RCF, in which case the net debt over EBITDA leverage shall stay at or below x4.5.

Despite the temporary challenges that the coronavirus outbreak could pose, the Company remains fully confident about its future growth prospects thanks to its strong leading position within an attractive industry supported by mega trends.

Finally, in 2020 Befesa will continue to improve its communication regarding sustainability and ESG with its investors and other stakeholders to ensure that the contribution of the Company to the circular economy and to a more sustainable world are clearly understood.

Corporate governance report

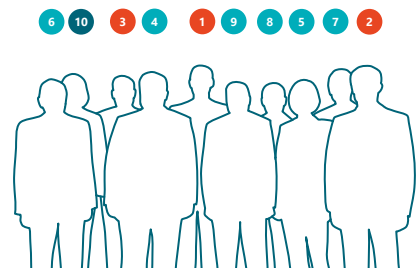
Board of Directors



The Board of Directors is the corporate body in charge of the management of Befesa S.A., which supervises and controls the activity of the Company and focuses on the strategic direction.

It acts in the corporate interest and serves the common interests of all the shareholders ensuring the implementation of its strategy. The Board of Directors also ensures the monitoring of the business activities of its affiliates. The Board of Directors is vested with the

broadest powers, to act in the name of Befesa S.A. and to take any action necessary or useful to accomplish its corporate purpose, with the exception of the powers reserved by the Luxembourg law on commercial companies of 10 August 1915, as amended (the



“Luxembourg Companies Law”) and the Articles of Association to the General Meeting. The Board of Directors has created an Audit Committee and Nomination and Remuneration Committee to perform its task effectively.

1 Javier Molina Montes Chairman and Chief Executive

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

2 Wolf Uwe Lehmann Chief Financial Officer

Mr. Lehmann was appointed chief financial officer of Befesa upon joining in 2014, including responsibilities for operational excellence, cost savings and information technologies. Prior to joining Befesa, Mr. Lehmann was chief financial officer at Wilsonart International, Austin, Texas. He started his professional career as finance trainee (FMP) and travelling corporate auditor (CAS) at General Electric (GE) in various international locations (1996-2002). He was manager of finance at Propulsion and Specialty Services at GE Transportation, Erie, Pennsylvania (2002-2005), and later became chief financial officer at Momentive Performance Materials (previously GE Silicones) in various locations and responsibilities, including USA/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).

3 Asier Zarraonandia Ayo Vice-President Steel Dust Recycling Services

Mr. Zarraonandia is the vice-president of Befesa's Steel Dust Recycling Services business unit since 2006. Mr. Zarraonandia joined the Befesa Group 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 ten years and specialised 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.

4 Romeo Kreinberg Chairman of the Board of Directors

Mr. Kreinberg has over 40 years of experience in executive management of public and private companies in the chemical industry, including various executive positions at Dow Chemical (1977-2007). He is also senior advisor at Triton Partners, Germany. Throughout the course of his career, Mr. Kreinberg has served as a director of companies in the United States, Europe, Latin America and Asia, and is fluent in six languages. Mr. Kreinberg holds a degree from the faculty of architecture and urban planning from the University of Buenos Aires, Argentina.

5 Frauke Heistermann Non-Executive Director

In 1999, Mrs. Heistermann founded, and has been a member since, the management board of AXIT GmbH, a digital service platform managing global supply chains. AXIT GmbH was sold to Siemens in 2015, and Mrs. Heistermann served as chief digitalisation officer at Siemens Postal, Parcel & Airport Logistics GmbH in 2017. She is currently chairman of the Technology Council Federal State Rhineland-Palatinate as well as board member of BVL International – Bundesvereinigung Logistik e.V. Prior to her management career, Mrs. Heistermann worked as consultant and product manager. She holds a diploma in logistics and business administration (Diplom-Betriebswirtin) from the Cooperative State University, Mannheim, Germany.

6 Manuel Soto Non-Executive Director

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

7 Georg Graf Waldersee Non-Executive 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. Until his retirement with EY in 2016 he was the managing partner of EY in Germany, Switzerland and Austria. Since then he has been a member of various supervisory and advisory boards. Mr. Waldersee studied economics at the University of Bonn and holds a degree in business administration from the University of Hamburg, Germany.

8 Helmut Wieser Non-Executive Director

Mr. Wieser was chief executive officer at AMAG Austria Metall AG. Previously he served as Group President Global Rolling at Alcoa Inc, Member of the Executive Board at Austria Metall AG and held several management positions at VOEST-Alpine Industrieanlagenbau. He is also Member of the Supervisory Boards at OJSC Novolipetsk Steel (Russia), Holdmayr International AG (Austria) and Cobex GmbH (Germany). Currently, he serves as Senior Industry Expert at Triton since April 2019. Mr. Wieser graduated as Dipl.-Ing. in mechanical engineering and economics from Technical University in Graz, Austria.

9 Santiago Zaldumbide Non-Executive Director

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

10 Birke Fuchs Board Secretary

Mrs. Fuchs is the Board secretary and Group's general counsel. She joined Befesa in 2007. She is a German-qualified lawyer, holds a Master of Laws degree from Tulane Law School, United States, and has absolved the program for management development at ESADE Business School, Spain.

Changes to the Board of Directors

Mr. Johannes Maret and Mr. Roland Oelschläger, proprietary directors, resigned from their positions as members of the Board of Directors of Befesa S.A. with effect as of 24 July 2019, due to the fact that Triton Partners fully divested their shareholding in Befesa, S.A. in June 2019.

On the same day, 24 July 2019, the Board of Directors appointed by co-optation Mr. Helmut Wieser as independent director and Mr. Asier Zarraonandia as executive director to fill the vacant positions on the Board of Directors following the resignations of Mr. Johannes Maret and Mr. Roland Oelschläger. These are provisional appointments until the ratification and confirmation at the next Annual General Meeting of Befesa, currently scheduled for 18 June 2020.

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 good corporate governance is a basis for all 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”) applicable to companies that are listed and admitted to trading on the regulated market of the LuxSE, or to the German corporate governance regime applicable to stock corporations organised under German law. In light of the aforementioned legal framework, Befesa has developed its own corporate governance rules based on the recommendations of the German Corporate Governance Code but with the necessary modifications required by the one-tier board structure, the Articles of Association of Befesa S.A. and Luxembourg Companies Law. Befesa’s corporate governance system is continuously reviewed by the Board of Directors and updated to incorporate new best practices in corporate governance.

Befesa places a strong emphasis on

- i) A skilled and balanced composition of the Board of Directors with a majority of independent directors;
- ii) Acting in the best interests of all of the Company’s shareholders, including minority shareholders,
- iii) Internal control and reporting with emphasis on an effective risk management,
- iv) A compliance management system ensuring strict compliance with applicable laws and regulations and enhancing business integrity,
- v) Promotion of social responsibility and ethical values in all of Befesa’s areas of activity and
- vi) Commitment to sustainability.

Befesa is committed to adherence to good corporate governance practices which provide for the necessary decision-making processes and controls to balance the interest of all stakeholders to ultimately ensure the long-term success of Befesa. The main corporate bodies are the Board of Directors and the AGM of shareholders. Befesa currently has a majority of independent directors in the Board of Directors and all members of the Audit Committee as well as of the Nomination and Remuneration Committee are independent. To enhance the transparency with regards to executive compensation, Befesa provides the compensation of all members of the Board of Directors on an individual basis for the first time with respect to the compensation received in 2019. 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, and thereby exercise their voting rights.

Executive Directors

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

Non-Executive Directors

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

Corporate governance report continued

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

Required skills, experience & background

All appointments of the members of the Board of Directors of Befesa S.A. are made on individual merit, and all directors need to have the required balance of skills, qualifications, background, experience, diversity – including gender diversity – and ability to perform the duties of the Board of Directors adequately.

The selection and nomination process of new directors generally takes into account the following criteria:

- Alignment of skills with Befesa's strategic direction
- Value added to the current Board of Directors' composition
- Cultural fit with the Board of Directors
- Time it will take to be an effective contributor
- 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. Of course, men as well as women 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 Human Resources & 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 relevant skills based on their experience which is also shown in their *curricula vitae*.

Composition

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

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

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

Diversity of skill sets and expertise are a foundation to create an effective Board of Directors contributing to the success of Befesa and creating value for its shareholders.

Meetings of Board of Directors, Audit Committee and Nomination and Remuneration Committee including attendance:

During 2019, the Board of Directors, the Audit Committee and the Nomination and Remuneration Committee held the following meetings:

Board of Directors meetings

No.	Date	Attending Board members	Attendance record
1	22/01/2019	9/9	100 %
2	20/02/2019	9/9	100 %
3	19/03/2019	9/9	100 %
4	07/05/2019	9/9	100 %
5	13/06/2019	9/9	100 %
6	19/06/2019	9/9	100 %
7	24/07/2019	8/9	89 %
8	24/07/2019	7/7	100 %
9	17/09/2019	9/9	100 %
10	30/10/2019	9/9	100 %
11	20/11/2019	9/9	100 %
12	19/12/2019	9/9	100 %
		Total attendance	99%

Audit Committee meetings

No.	Date	Attending Board members	Attendance record
1	18/03/2019	4/4	100 %
2	06/05/2019	4/4	100 %
3	23/07/2019	4/4	100 %
4	30/10/2019	3/3	100 %
		Total attendance	100 %

Nomination and Remuneration Committee meetings

No.	Date	Attending Board members	Attendance record
1	18/03/2019	5/5	100 %
2	07/05/2019	5/5	100 %
3	30/10/2019	3/3	100 %
		Total attendance	100 %

Corporate governance report continued

Changes

Mr. Johannes Maret and Mr. Roland Oelschläger, proprietary directors, resigned from their positions as members of the Board of Directors of Befesa S.A. with effect as of 24 July 2019 due to the fact that Triton Partners fully divested their shareholding in Befesa, S.A. in June 2019.

On the same day, 24 July 2019, the Board of Directors appointed by co-optation (i) Mr. Helmut Wieser as independent director to replace Mr. Johannes Maret, and (ii) Mr. Asier Zarraonandia as executive director to replace Mr. Roland Oelschläger. These are provisional appointments until the ratification and confirmation by the next AGM of Befesa, scheduled for 18 June 2020.

Meetings

The Board of Directors holds meetings in person or by teleconference and can take decision 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, and the Chairman of the Board of Directors shall have no casting vote in case of a voting tie. The Board of Directors met on 12 occasions in 2019 with an attendance record of 99%.

Committees

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

- Audit Committee
- Nomination and Remuneration Committee

The committees shall have at least three members each and shall meet as often as necessary, but at least twice a year.

During 2019, the Audit Committee met on four occasions, whereas the Nomination and Remuneration met on three occasions. All committees had an attendance record of 100%.

i. Audit Committee

The Audit Committee consists of Mr. Georg Graf Waldersee (chairman), Ms. Frauke Heistermann and Mr. Manuel Soto. All members are independent. This committee is responsible for:

- The consideration and evaluation of all material questions concerning the auditing and accounting policies of the group,
- The group's financial controls and systems, and
- Matters concerning compliance.

Mr. Roland Oelschläger resigned from his position as member of the Audit Committee with effect as of 24 July 2019.

ii. Nomination and Remuneration Committee

Mr. Romeo Kreinberg (chairman), Mr. Helmut Wieser and Mr. Santiago Zaldumbide are the members of the committee and are independent. Mr. Johannes Maret and Mr. Roland Oelschläger resigned from their position as members of the Nomination and Remuneration Committee with effect as of 24 July 2019, and Mr. Georg Graf Waldersee resigned from his position on 17 September

2019. On 17 September 2019, Mr. Helmut Wieser was appointed as member of this committee.

The Nomination and Remuneration Committee shall ensure that the directors have the necessary knowledge, experience, abilities and professional background to assume the responsibility. 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, it is responsible for:

- Implementation of human resources related policies
- Making recommendations to the Board of Directors on the terms of appointment and the long-term and short-term benefits of executive directors
- Making recommendations on bonus payments to be made 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.

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 and 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 on the investor relations section of Befesa's website and 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 from the end of the preceding financial year in accordance with Luxembourg law and the Articles of Association. 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, amongst 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 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 thereof to attend all General Meetings, either in person or by proxy, to address the General Meeting and to exercise voting rights. Each share entitles the holder to one vote.

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

Shareholders holding – individually or collectively – at least 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 to be included on 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 and 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 generally ordinary resolutions.

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

- A limitation or exclusion of preemptive rights
- Approval of a statutory merger or demerger (scission) or certain other restructurings
- Dissolution of Befesa; and
- An amendment to the Articles of Association.

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

Dividend rights

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

The General Meeting shall resolve how the remainder of the annual net profits, after allocation to the aforementioned legal reserve, will be disposed of by allocating the whole or part of the remainder to a reserve or to a provision, by carrying it forward to the next 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.

- An increase or decrease of the authorised or issued capital

Corporate governance report continued

Subject to the provisions of the laws and in compliance with the provisions set forth herein, the Board of Directors may resolve that the Company pays out an interim dividend to the 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 such 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.

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, as well as compliance with social responsibility and ethical values.

The core of the ethics and compliance program at Befesa is the code of conduct. The Company's code of conduct provides the legal and ethical framework for the conduct of all directors, officers and employees of Befesa, and defines the basic behavioral standards within Befesa itself and in connection with other parties. In addition, Befesa has implemented a whistleblowing channel and complementary specific compliance policies such as, for example, a group security dealing code, and provides continuous training in compliance matters. More information on Befesa's CMS can be found in the "Compliance" section of this Annual Report (pages 89 to 95).

Risk management system

Befesa has established internal procedures which describe in more detail in the "Compliance" section of this Annual Report and which form an integral part of Befesa's risk management system (RMS) which is explained in detail in the "Risks & Opportunities" section of this Annual Report (pages 66 to 73).

Independent auditors

In accordance with the Luxembourg law on commercial companies, the consolidated financial statements and the individual accounts of Befesa S.A. are certified by an approved statutory auditor (Réviseur d'Enterprises agréé) appointed by the shareholders at the AGM. The AGM held on 19 June 2019 approved the appointment of KPMG Luxembourg Société Coopérative as approved statutory auditor (Réviseur d'Enterprises agréé) for the fiscal year ending 31 December 2019. Prior to the appointment of KPMG Luxembourg Société Coopérative, PricewaterhouseCoopers, Société Coopérative had audited the consolidated financial statements and the individual accounts of Befesa S.A. since the financial year ending 31 December 2013, i.e. for a period of six years.

Compensation

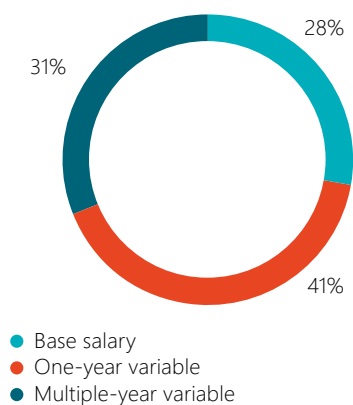
For Befesa S.A., to maintain and apply a transparent and comprehensive reporting on the compensation of the Board of Directors is an element of good corporate governance. The compensation disclosed in the Annual Report covers the remuneration of the members of the Board of Directors. As part of preparing for the IPO, Befesa conducted –with the help of one of the "big-four" independent auditing and advisory service providers– a compensation study and benchmark of the listed companies in the German stock indices SDAX and MDAX covering the positions of the three executive directors.

Befesa's remuneration structure and levels are aligned with this market benchmark. In 2019, Befesa expanded this study with the help of the external advisor to cover also the non-executive directors.

Remuneration of executive directors

Remuneration of the executive directors of the Board of Directors for the year ended 31 December 2019:

% Base salary / One- and multiple-year variable



Notes to the remuneration of executive directors:

I. Fixed remuneration

Base salary is the fixed gross compensation per fiscal year.

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

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

II. Variable remuneration

One-year variable remuneration represents the value of the annual bonus paid out in 2019 awarded for the performance achieved in the year 2018. The predetermined performance targets cover four criteria:

1. Environmental, health and safety, and corporate governance
2. EBIT and EBITDA
3. Net debt and cash flow

4. The execution of strategic initiatives and return on growth projects

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

Multi-year variable remuneration is shown in the table using an illustrative valuation method to conceptually approximate the potential market value of the multi-year variable program. The method uses one-third of the number of shares granted in tranche I (vesting over 2018 to 2020) as well as one-third of the number of shares granted in tranche II (vesting over 2019 to 2021), multiplied by the closing stock price at year-end 2019 of €38.00 per share. The number

Name of executive director, position	I. Fixed remuneration			II. Variable remuneration		III. Extraordinary items	IV. Social security/Pension expense	V. Total remuneration	VI. Proportion of fixed and variable remuneration
	Base salary	Fees	Fringe benefits	One year variable	Multi-year variable				
Mr. Javier Molina Montes, CEO	€504,900	n/a	€17,189	€803,400	€599,441	€370,897	€12,552	€2,308,378	23%/61%
Mr. Wolf Uwe Lehmann, CFO	€408,000	n/a	€10,804	€536,000	€424,607	€299,715	€13,635	€1,692,761	26%/57%
Mr. Asier Zarraonandia Ayo, Vice-president Steel	€357,000	n/a	€11,339	€536,000	€399,627	€262,250	€12,552	€1,578,769	24%/59%
Total remuneration	€1,269,900	n/a	€39,333	€1,875,400	€1,423,675	€932,861	€38,739	€5,579,908	24%/59%

Corporate governance report continued

of performance stocks granted for tranche I are: 21,429 shares for Mr. Javier Molina, CEO; 15,179 shares for Mr. Wolf Uwe Lehmann, CFO and 14,286 shares for Mr. Asier Zarraonandia, vice-president of Steel Dust Recycling Services. The number of performance stocks granted for tranche II are on the same level. The actual remuneration is depending on the share price at the respective year of vesting as well as the performance level cumulative over the three-year vesting period of the respective tranches.

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

The predetermined performance criteria cover three performance targets:

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

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

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

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

- a. Transfer of Befesa S.A. shares
- b. Cash pay-out of the value of the Befesa S.A. shares

III. Extraordinary items

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

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

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

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

IV. Social security/pension expense

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

V. Total remuneration

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

VI. Proportion of fixed & variable remuneration

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

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

Remuneration of non-executive directors

Remuneration of the non-executive directors of the Board of Directors for the year ended 31 December 2019 (page 85).

Others

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

Name of non-executive director	Total compensation in 2019	Status
Romeo Kreinberg	€150,000	Served from 01.01.2019 to 31.12.2019
Frauke Heistermann	€60,000	Served from 01.01.2019 to 31.12.2019
Johannes Maret	€30,000	Served from 01.01.2019 until resignation on 24.07.2019
Roland Oelschlaeger	€30,000	Served from 01.01.2019 until resignation on 24.07.2019
Manuel Soto	€60,000	Served from 01.01.2019 to 31.12.2019
Georg Graf Waldersee	€60,000	Served from 01.01.2019 to 31.12.2019
Helmut Wieser	€30,000	Appointed on / served from 24.07.2019 to 31.12.2019
Santiago Zaldumbide	€60,000	Served from 01.01.2019 to 31.12.2019

Note: Non-executive directors were remunerated in 2019 by the above specified base salary and were not remunerated through further fixed compensation such as fees, fringe benefits or pension contribution, nor variable compensation such as short-term or long-term incentives.

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 2019 amounts to €94,575,646.35, represented by 34,066,705 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 2019, the following shareholders hold (or to whom were attributed) 5% or more of total voting rights attached to Befesa S.A. shares:

Name of shareholder (direct or indirect)	% of voting rights in the share capital of Befesa	Based on notification received on
--	---	-----------------------------------

Bestinver Gestión, S.A. SGIC	7.49% attached to shares	10 November 2017
	5.60% attached to shares	
Allianz Global Investors GmbH	0.08% through financial instruments	11 June 2019

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

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 its 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 shareholder (the "Record Date") and only shareholders holding shares on such Record Date will be able to participate at the relevant General Meeting. In addition, a shareholder willing to participate in any General Meeting shall notify Befesa of its intention to participate by a declaration in writing to be submitted to Befesa and/or its designated depositary agent by no later than on 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, except for the transfer restrictions disclosed in section 4.9 (Market Protection Agreement lock-up of the prospectus of Befesa), the shares issued by Befesa S.A. are

Corporate governance report continued

freely transferable in accordance with 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 replacement of members of the Board of Directors and changes to the Articles of Association are contained in articles 11 and 32 of the Articles of Association of Befesa S.A.. This document is available at https://www.befesa.com/web/en/informacion_inversores/gobierno-corporativo/estatutos/index.html

In particular, the following applies:

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

In particular, the following applies:

- Befesa S.A. is managed by its Board of Directors
- The Board of Directors is vested with the broadest powers to perform all acts necessary or useful to accomplish Befesa's objectives
- The Board of Directors may delegate the daily management of Befesa and the representation of Befesa for that daily management to one or more persons or committees, specifying the limits of such delegated powers and the manner in which to exercise them
- 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; (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 18 October 2017;

- The Board of Directors is currently not authorised to buy back shares.

j. Significant agreements

With exception of the senior facility agreement signed on 9 July 2019, there are no significant agreements that Befesa S.A. is party to and which take effect, alters or terminates upon a change of control of Befesa S.A. following a takeover bid.

k. Agreements with directors & employees

The services 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 services 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 the Company is recognised as a reliable business partner. Befesa

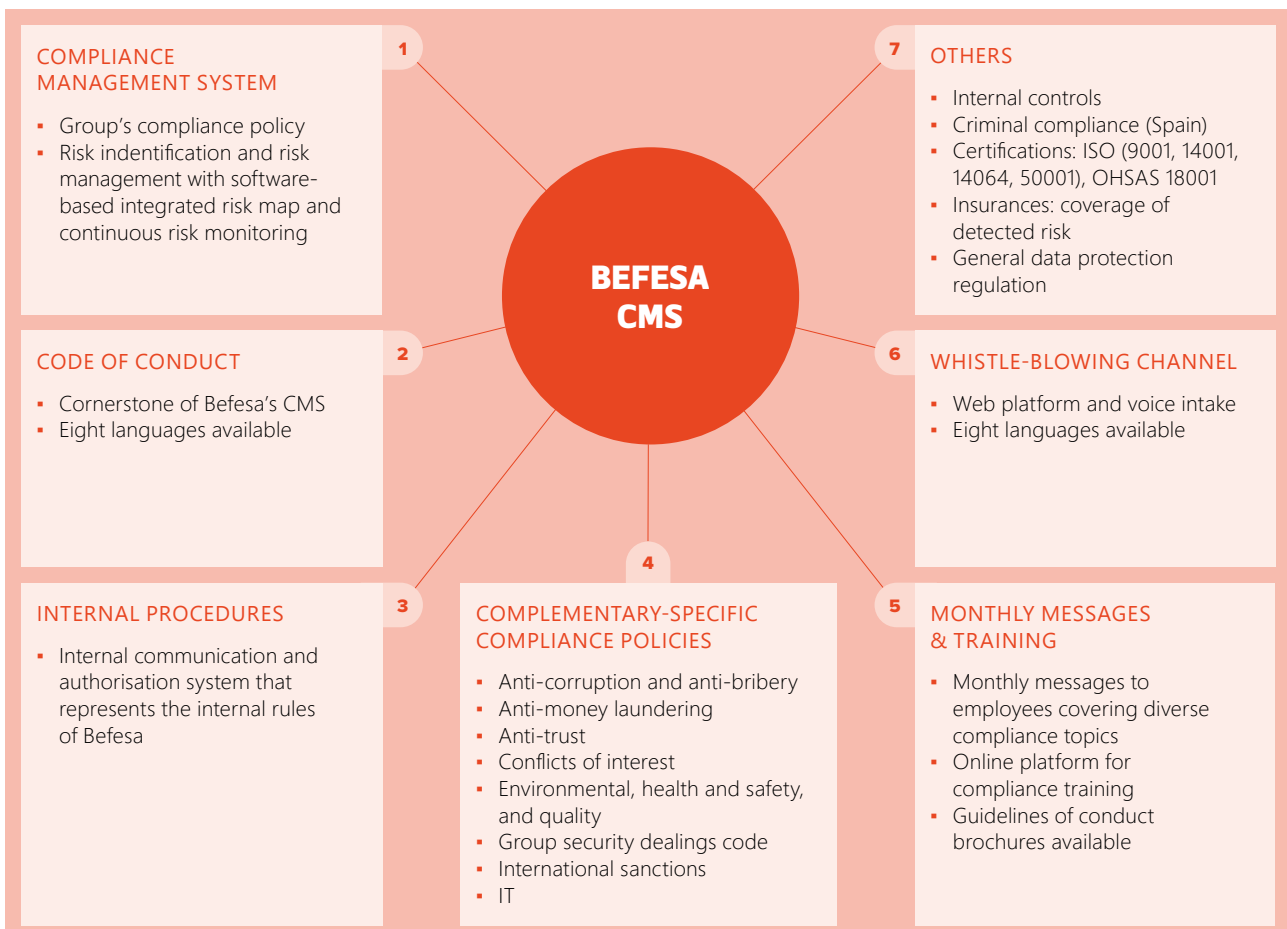
must, at all times, fully respect all applicable laws, regulations and the environment in which it operates.

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

Befesa's CMS includes, but is not limited to, internal guidelines

and policies such as a code of conduct and guidelines addressing competition law requirements, anti-corruption, anti-money laundering, IT services, environmental, health and safety, conflicts of interest and international sanctions. These measures, as well as the whistle-blowing channel, guide members in ensuring that Befesa complies with all laws, regulations and values.

Befesa's compliance management system (CMS)



Befesa has established a code of conduct that is binding for all employees and which is the cornerstone of its Compliance Management System (CMS).

ii. Befesa's general compliance policy

Befesa considers 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 compliance management system.

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 to the entire organisation.

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 investor relations/ corporate governance/compliance section of Befesa's website (www.befesa.com).

The code provides the legal and ethical framework for the conduct of directors, executives, managers and employees of Befesa and defines basic behavioural standards within the Company 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 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 currently 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 it operates. Befesa's principle is to compete by making deals and servicing its customers based on the quality and price of its products and services, 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. Therefore, all employees of Befesa must strictly comply with the pertinent money-laundering legislation and with Befesa's internal procedures that are designed to detect and prevent suspicious payment methods. All Company 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 the

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



Compliance continued

their operations. Non-compliance will be taken very seriously by Befesa's management and will lead to personal consequences for the relevant employees.

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. Each 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. Each employee must avoid any relationship or activity that could affect their independent judgement in the conduct of Befesa's business or 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, in so far as they affect their activities. The aforementioned CMS of Befesa includes a specific section on policies, systems and controls in relation to international sanctions.

Internal procedures

i. Concept

The internal procedures of Befesa are a suitable internal control system that represents the internal rules of the Company. It works through an internal system of communication and authorisations,

with the main goal of having a common way to operate, assess and mitigate the business risks inherent in Befesa's activities.

That implies:

- 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-four procedures are in place and include controls for the following areas:

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

Befesa has implemented three tools to guarantee that everyone within the organisation has access to the latest compliance initiatives: monthly messages, regular trainings and guidelines of conduct available online as well as brochures.



Communication to employees & engagement

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

i. Monthly messages

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

ii. Training

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

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

ii. Guidelines of conduct brochures

During 2019, printed brochures of the guidelines of conduct were prepared and sent to all Befesa's employees. These brochures are available in the eight languages of the Group and cover 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 analysis and insurance coverages, and data protection regulations.

Compliance continued**i. Internal controls**

In addition to preventive policies, Befesa uses detective internal controls to verify that all its subsidiaries follow Befesa's internal control requirements.

Headed by the internal audit department and following SOX 404 standards, Befesa has in place an internal control matrix that contains more than 400 controls, which cover the most significant areas of the Company:

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

This internal control matrix is audited annually by the internal audit department in all Befesa's subsidiaries. The audit results are shared with management.

ii. Risk analysis & insurance coverage

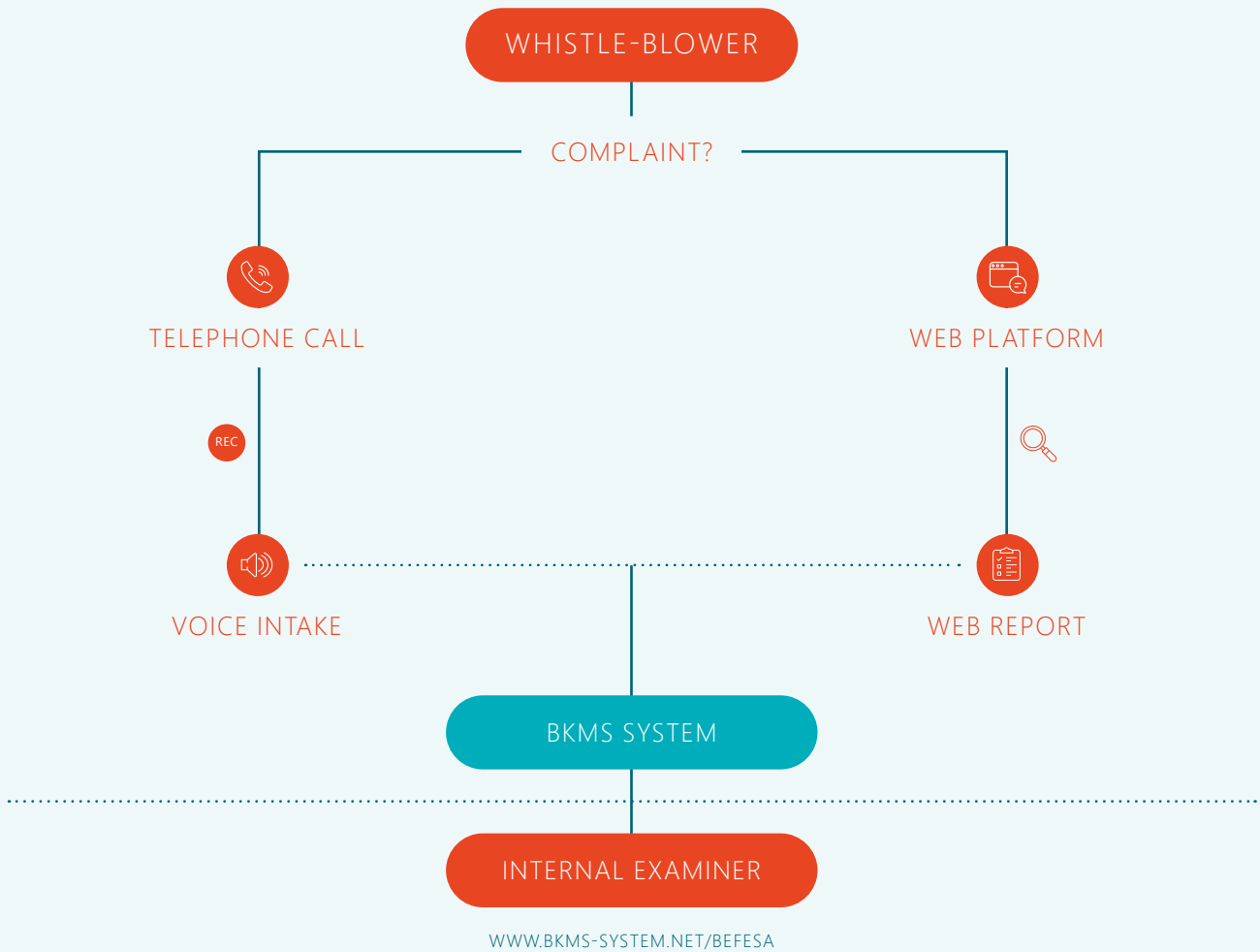
Befesa has in place a risk management system (RMS), which is explained in detail in the "Risks & opportunities" section (pages 66 to 73).

iii. Data protection regulations

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

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.



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

**Recycling protects
our earth.**

Befesa's recovery levels and yields are industry leading which results in minimal environmental impact.

03

Consolidated financial statements

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Consolidated balance sheet as at 31 December 2019

(Thousands of euros)

Assets	Note(s)	2019	2018
Non-current assets:			
Intangible assets			
Goodwill	6	335,564	335,564
Other intangible assets	7	86,912	87,104
		422,476	422,668
Right-of-use assets	10	17,409	–
Property, plant and equipment	8		
Property, plant and equipment		263,357	236,366
Property, plant and equipment under construction		45,235	25,148
		308,592	261,514
Non-current financial assets	9		
Investments in Group companies and associates		118	558
Other non-current financial assets		18,507	45,960
		18,625	46,518
Deferred tax assets	18	70,913	57,399
Total non-current assets		838,015	788,099
Current assets:			
Inventories	11	54,739	46,049
Trade and other receivables	12	42,786	59,695
Trade receivables from related companies	12 – 24	751	924
Accounts receivable from public authorities	12 – 19	10,771	9,231
Other receivables	12	18,557	10,807
Other current financial assets	9	24,737	20,668
Cash and cash equivalents	4	125,460	150,648
Total current assets		277,801	298,022
Total assets		1,115,816	1,086,121

The accompanying Notes 1 to 28 and the Appendix are an integral part of the consolidated financial statements.

Consolidated balance sheet as at 31 December 2019 (Thousands of euros) continued

Equity and liabilities	Note(s)	2019	2018
Equity:			
Parent Company	13		
Share capital		94,576	94,576
Share premium		263,875	263,875
Hedging and revaluation reserves		26,951	46,240
Other reserves		(117,286)	(158,918)
Translation differences		(4,396)	(2,759)
Net profit/(loss) for the year		82,713	90,189
Equity attributable to the owners of the Company		346,433	333,203
Non-controlling interests	13	13,785	9,426
Total equity		360,218	342,629
Non-current liabilities:			
Long-term provisions	17	8,759	6,422
Loans and borrowings	14	519,210	520,091
Lease liabilities	10 – 14	11,013	78
Deferred tax liabilities	18	68,053	65,991
Other non-current liabilities	15	9,265	9,084
Total non-current liabilities		616,300	601,666
Current liabilities:			
Loans and borrowings	14	8,621	7,269
Trade payables to related companies	24	835	1,432
Trade and other payables		90,916	100,191
Lease liabilities	10 – 14	3,572	60
Short-term provisions		124	231
Other payables			
Accounts payable to public administrations	15–19	17,033	15,067
Other current liabilities	15	18,197	17,576
		35,230	32,643
Total current liabilities		139,298	141,826
Total equity and liabilities		1,115,816	1,086,121

The accompanying Notes 1 to 28 and the Appendix are an integral part of the consolidated financial statements.

Consolidated income statement for the year ended 31 December 2019

(Thousands of euros)

	Note(s)	2019	2018
Continuing operations:			
Revenue	5	647,940	720,090
Changes in inventories of finished goods and work in progress		16,708	(4,006)
Procurements	21	(269,094)	(319,152)
Other operating income	21	8,555	5,127
Personnel expenses	21	(75,621)	(75,918)
Other operating expenses	21	(168,929)	(150,176)
Amortisation/depreciation, impairment and provisions	21	(35,584)	(28,991)
Operating profit		123,975	146,974
Finance income		330	271
Finance costs	22	(19,491)	(20,434)
Net exchange differences		(931)	3,330
Net finance income/(loss)		(20,092)	(16,833)
Profit/(loss) before tax		103,883	130,141
Corporate income tax	19	(15,987)	(33,043)
Profit/(loss) for the year from continuing operations		87,896	97,098
Profit/(loss) for the year from discontinued operations		–	(2,205)
Profit/(loss) for the year		87,896	94,893
Attributable to:			
Parent Company's owners		82,713	90,189
Non-controlling interests		5,183	4,704
Earnings(losses) per share from continuing and discontinued operations attributable to owners of the Parent (expressed in euros per share)			
Basic earnings per share			
– From continuing operations	27	2.43	2.71
– From discontinued operations	27	–	(0.06)
		2.43	2.65

The accompanying Notes 1 to 28 and the Appendix are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2019

(Thousands of euros)

	Note(s)	2019	2018
Consolidated profit/(loss) for the year		87,896	94,893
Other comprehensive income from continuing operations:			
Items that may subsequently be reclassified to income statement:			
Income and expense recognised directly in equity		(18,854)	74,948
– Cash flow hedges	16	(23,419)	112,524
– Translation differences		(2,461)	(3,819)
– Tax effect	18	7,026	(33,757)
Transfers to the income statement		(2,896)	24,486
– Cash flow hedges	16	(4,067)	35,268
– Tax effect	18	1,171	(10,782)
Other comprehensive income/(loss) for the year, net of tax		(21,750)	99,434
Total comprehensive income/(loss) for the year		66,146	194,327
Attributable to:			
Parent Company's owners		61,787	191,245
Non-controlling interests		4,359	3,082
Total comprehensive income/(loss) attributable to the Parent Company's owners resulting from:			
Continuing operations		61,787	193,450
Discontinued operations		–	(2,205)

The accompanying Notes 1 to 28 and the Appendix are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2019

(Thousands of euros)

	Attributable to owners of the Parent							Non controlling interests (Note 13)	Total equity
	Share capital (Note 13)	Share premium (Note 13)	Hedging and revaluation reserves (Note 13)	Other reserves (Note 13)	Translation differences (Note 13)	Net profit (loss) for the year (Note 13)			
Balances at 31 December 2017	94,576	288,744	(57,013)	(205,836)	(562)	49,251	10,567	179,727	
Total comprehensive income for the year	–	–	103,253	–	(2,197)	90,189	3,082	194,327	
Distribution of profit for the year									
Reserves	–	–	–	49,251	–	(49,251)	–	–	
Dividends	–	(24,869)	–	–	–	–	–	(24,869)	
Other movements	–	–	–	(2,333)	–	–	(4,223)	(6,556)	
Balances at 31 December 2018	94,576	263,875	46,240	(158,918)	(2,759)	90,189	9,426	342,629	
Total comprehensive income for the year	–	–	(19,289)	–	(1,637)	82,713	4,359	66,146	
Distribution of profit for the year									
Reserves	–	–	–	90,189	–	(90,189)	–	–	
Dividends	–	–	–	(44,968)	–	–	–	(44,968)	
Other movements	–	–	–	(3,589)	–	–	–	(3,589)	
Balances at 31 December 2019	94,576	263,875	26,951	(117,286)	(4,396)	82,713	13,785	360,218	

The accompanying Notes 1 to 28 and the Appendix are an integral part of the consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2019

(Thousands of euros)

	2019	2018
Cash flows from operating activities:		
Continuing operations	103,883	130,141
Discontinued operations	–	(2,980)
Profit/(Loss) for the year before tax including discontinued operations	103,883	127,161
Adjustments for:		
Depreciation and amortisation (Notes 7, 8 and 10)	35,584	29,039
Changes in provisions (Note 17)	2,337	1,764
Interest income	(330)	(279)
Finance costs	19,491	23,374
Other profit and loss	(2,993)	(1,058)
Exchange differences	931	(3,330)
Changes in working capital:		
Trade receivables and other current assets	8,789	(9,113)
Inventories	(11,755)	(857)
Trade payables	(12,417)	(16,949)
Other cash flows from operating activities:		
Interest paid	(19,572)	(13,872)
Other payments	–	(6,819)
Taxes paid	(21,426)	(25,217)
Net cash flows from/(used in) operating activities	102,522	103,844
Cash flows from investing activities:		
Investments in Group companies and associates	–	(439)
Investments in intangible assets (Note 7)	(2,586)	(2,384)
Investments in property, plant and equipment (Note 8)	(74,401)	(37,953)
Collections from disposals of Group companies and associates, net of cash (Note 26)	–	200
Payments for right-of-use assets	(3,199)	–
Collections from sale of property, plant and equipment	172	181
Investments in other current financial assets	(144)	(87)
Net cash flows from/(used in) investing activities	(80,158)	(40,482)
Cash flows from financing activities:		
Cash inflows from bank borrowings and other liabilities	1,777	–
Cash outflows from bank borrowings and other liabilities	(4,037)	(652)
Dividends paid to shareholders (Note 13)	(44,968)	(29,387)
Net cash flows from/(used in) financing activities	(47,228)	(30,039)
Effect of foreign exchange rate changes on cash and cash equivalents	(324)	(257)
Net increase/(decrease) in cash and cash equivalents	(25,188)	33,066
Cash and cash equivalents at the beginning of year	150,648	117,582
Cash and cash equivalents at the year end from continuing operations	125,460	150,648

The accompanying Notes 1 to 28 and the Appendix are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as at 31 December 2019

(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 1 March 2018, the registered office of the Company was transferred to 46, Boulevard Grande-Duchesse Charlotte, L-1330, 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 extraordinary 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 extraordinary General Shareholders' Meeting to change the name of the Company from Bilbao Midco, S.à.r.l. to Befesa, S.A.

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 2019 and 2018 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 13) (ISDN 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 2019 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 2019, 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 2019, authorised for issue on 18 June 2020, will be approved with no changes by the shareholders at their Annual General Meeting.

2.1 Fair presentation

The consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for 2019 include comparative figures for the prior year, which formed part of the 2018 consolidated financial statements approved by the shareholders of the Parent at their Annual General Meeting held on 19 June 2019.

The Company's consolidated financial statements for 2019 were formally prepared:

- In accordance with 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 2019 and the consolidated results of its operations, changes in consolidated equity and consolidated cash flows in 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 2019. However, since the accounting policies and measurement bases used in preparing Befesa, S.A. consolidated financial statements (IFRS) 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.

2.2 Adoption of new standards and interpretations issued

2.2.1 First-time application of standards

IFRS 16 Leases

The Group adopted IFRS 16 on 1 January 2019.

The Group has opted to implement IFRS 16 using the modified retrospective approach, recognising the right-of-use asset at an amount equal to the initial measurement of the lease liability at 1 January 2019. Applying this approach means the Group does not restate comparative information.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

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

(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 (2.75%).

Pending lease payments comprise fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of the purchase option if the lessee is reasonably certain to exercise that option, 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.

Furthermore, as part of the initial application of the standard, the Group has chosen to apply the following expedients:

- Applying the practical expedient regarding the recognition and measurement of leases where the underlying asset has a low value of less than €5 thousand, for these types of contracts, the Group recognises payments on a straight-line period over the lease term;
- Relying on a previous definition and/or assessment of whether an arrangement is a lease in accordance with current guidance with respect to agreements that exist at the date of initial application;
- Assessing whether a contract is onerous in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets (hereinafter: "IAS 37") immediately before the date of initial application instead of assessing impairment of right-of-use assets;
- Applying the practical expedient regarding the recognition and measurement of short-term leases, for both leases that end within 12 months from the date of initial application and leases for a period of up to 12 months from the date of their inception for all groups of underlying assets to which the right-of-use relates;
- Excluding initial direct costs from measurement of the right-of-use asset at the date of initial application;
- Using hindsight when determining the lease term if the contract includes an extension or termination option.

Impact on the consolidated balance sheet

	Amounts 1.01.2019	IFRS 16 adjustments	Amounts with adoption of IFRS 16
Assets			
Non-current assets			
Right-of-use assets	–	14,776	14,776
Total non-current assets	788,099	14,776	802,875
Total assets	1,086,121	14,776	1,100,897
Equity and liabilities			
Non-current liabilities			
Finance lease liabilities	–	12,022	12,022
Total non-current liabilities	601,666	12,022	613,688
Current liabilities			
Finance lease liabilities	–	2,754	2,754
Total current liabilities	141,826	2,754	144,580
Total equity and liabilities	1,086,121	14,776	1,100,897

The effect on the consolidated income statement and on the consolidated statement of cash flows at 31 December 2019 is negligible.

The following other new and amendments to standards and interpretations which are applicable for the first time in 2019, are either not relevant or do not have a material impact on the consolidated financial statements of the Group:

- IFRIC Interpretation 23 Uncertainty over income tax treatments. The Directors of the Group companies and of the Parent consider that there are no relevant uncertain income tax treatments.
- Amendments to IFRS 9: Prepayment features with negative compensation.
- Amendments to IAS 28: Long-term interest in associates and joint ventures.
- Amendments to IAS 19: Plan amendment, curtailment or settlement.
- Annual Improvements to IFRS standards 2015-2017 Cycle.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

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

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 2020, are as follows:

- IAS 1 (Amendment) and IAS 8 (Amendment) "Definition of material".
- Amendments to references to the conceptual framework in IFRS standards.
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

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:

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures";
- IFRS 3 (Amendment) "Definition of a business";
- IFRS 17 Insurance Contracts;
- IFRS 14 Regulatory Deferral Accounts.

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, Chinese yuan and British pound.

2.4 Use of estimates and judgements

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

In the Group's consolidated financial statements for 2019 estimates are occasionally made by senior management of the Parent Company and of the consolidated companies, and later ratified by the Directors, in order to qualify certain assets, liabilities, income, expenses and obligations reported herein. Those estimates relate to the following:

Impairment losses on goodwill and certain assets (see Notes 6, 7 and 8).

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. The recoverable amounts in cash-generating units (CGUs) have been determined based on calculations of value in use. These calculations require the use of estimates.

With respect to the assumptions used to determine EBITDA (operating profit plus depreciation and amortisation, essential to calculate free cash flow) of the CGUs and its future growth, a conservative scenario has been used, such that negative variations in gross margin are unlikely to arise.

Useful lives of property, plant and equipment and intangible assets (see Notes 7 and 8).

Management determines the estimated useful lives and related depreciation/amortisation charges for its fixed assets. This estimate is based on the actual decline in the asset's value due to use, operation and possession. Management will increase depreciation/amortisation charges when the useful life is lower than the lifetime estimated previously or will depreciate or eliminate technically obsolete or non-strategic assets which have been abandoned or sold.

Corporate income tax and deferred taxes (Note 3.17 and 18).

The Group is subject to income taxes in numerous jurisdictions. Tax is calculated based on management's best estimates according to the current situation as regards tax legislation and taking into account expected developments in this area in the different jurisdictions applied to the Group. The Group recognises liabilities in respect of possible tax claims on the basis of estimates concerning whether additional tax will be required. When the final tax result differs from the amounts initially recognised, such differences will have an effect on corporate income tax and provisions for deferred tax in the year in which the relevant calculation is made.

The Group only recognises deferred tax assets up to the limit of estimated future taxable profits. These calculations require the use of estimates and a sensitivity analysis is performed of the most significant variables in such estimates.

Fair value of derivatives or other financial instruments

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.

The amount of certain provisions and/or contingent liabilities

Provisions are recognised when it is likely that a present obligation, resulting from past events, will give rise to a future outflow of funds, and if the amount of the obligation can be reliably estimated. Significant estimates are required to fulfil the applicable accounting requirements. Group management makes estimates, evaluating all relevant information and events, of the probability of occurrence of a contingency and the amount of the liability to be settled in the future.

Although these estimates were made on the basis of the best information available at 31 December 2019 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.

2.5 Changes in the scope of consolidation

Following is a description of the main changes in the scope of consolidation in 2019 and 2018:

2019

Following the growth plan for the Group, three new companies were incorporated in China, Befesa (China) Investment Co., Ltd., Befesa Zinc Environmental Technology (Jiangsu) Co., Ltd. and Befesa Zinc Environmental Technology (Henan) Co., Ltd. Additionally, Befesa Holding S.à r.l. company has been dissolved due to the simplification process of the corporate structure.

2018

Following the growth plan for the Group, a new company was incorporated in South Korea, Befesa Zinc Pohang Co., Ltd.

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 analysts community.

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

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

**Notes to the consolidated financial statements
as at 31 December 2019 (Thousands of euros) continued**

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

2.6.1 Net debt

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

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

The following table reconciles net debt to the relevant balance sheet line items:

	2019	2018
Non-current financial debt (Note 14)	519,210	520,091
Non-current lease liability (Notes 10 and 14)	11,013	78
Current financial debt (Note 14)	8,621	7,269
Current lease liability (Notes 10 and 14)	3,572	60
Cash and cash equivalents (Note 4)	(125,460)	(150,648)
Other current financial assets net of derivative financial instruments (Note 9)	(61)	(60)
Net debt	416,895	376,790

2.6.2 EBITDA, Adjusted EBITDA and EBITDA margin

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

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

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

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

	2019	2018
Revenue (Note 5)	647,940	720,090
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions) (Note 21)	(488,381)	(544,125)
Amortisation/depreciation, impairment and provisions (a) (Note 21)	(35,584)	(28,991)
EBIT (Operating profit/(loss)) (b)	123,975	146,974
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (a+b)	159,559	175,965
One-time projects	-	-
Non-recurrent charges/income	-	-
Adjusted EBITDA	159,559	175,965

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

	2019	2018
Revenue (a)	647,940	720,090
EBITDA (b)	159,559	175,965
One-time projects	-	-
Non-recurrent charges/income	-	-
Adjusted EBITDA (c)	159,559	175,965
EBITDA margin (%) (b/a)	25%	24%
Adjusted EBITDA margin (%) (c/a)	25%	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 one-time projects/non-recurrent charges or incomes.

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

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

	2019	2018
Revenue (Note 5)	647,940	720,090
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions) (Note 21)	(488,381)	(544,125)
Amortisation/depreciation, impairment and provisions (Note 21)	(35,584)	(28,991)
EBIT (Operating profit/(loss))	123,975	146,974
Extraordinary impairments/provisions	–	–
EBITDA adjustments	–	–
Adjusted EBIT	123,975	146,974

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

	2019	2018
Revenue (a)	647,940	720,090
EBIT (b)	123,975	146,974
Extraordinary impairments/provisions	–	–
EBITDA adjustments	–	–
Adjusted EBIT (c)	123,975	146,974
EBIT margin (%) (b/a)	19%	20%
Adjusted EBIT margin (%) (c/a)	19%	20%

2.6.4 Net debt/EBITDA (Adjusted leverage ratio)

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

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

	2019	2018
Net debt (Note 4)	416,895	376,790
EBITDA	159,559	175,965
Net debt/EBITDA	2.6	2.1

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

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

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:

	2019	2018
Cash flows from investing activities:		
Investments in intangible assets (Note 7)	2,586	2,384
Investments in property, plant and equipment (Note 8)	74,401	37,953
Payments for right-of-use assets (Note 10)	3,199	–
Capex expenditure	80,186	40,337

3. Accounting principles and policies and measurement methods applied

3.1 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 like 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.

3.2 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 2019 are increased by approximately €12,989 thousand, €2,252 thousand, €21,225 thousand and €14,538 thousand, respectively (approximately €15,938 thousand, €2,641 thousand, €25,325 thousand and €15,846 thousand, respectively, at 31 December 2018), before consolidation adjustments and eliminations.

3.3 Non-controlling interests

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.

3.4 Goodwill

This heading in the consolidated balance sheet 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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

3.5 Other intangible assets

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

Internally generated intangible assets – Research and development expenditure

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

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

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 €944 thousand (31 December 2018: €980 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 balance sheet. 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 (5 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 (Note 3.3). Licenses with indefinite useful life are tested for impairment at least annually (Note 7).

3.6 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 2019, €2,532 thousand was recognised in this regard (2018: €1,154 thousand) (Note 21.2). At 31 December 2019, 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 work carried out in Turkey in connection with the capacity expansion of the plant and in South Korea in connection with the construction of the new WOX washing plant. (2018: work carried out in the subsidiary Befesa Aluminio S.L. in connection with production process improvements and product development (Note 8)).

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	25 – 50
Plant and machinery	10 – 25
Other plant, tooling and furniture	5 – 10
Computer hardware and other items of plant, property and equipment	4 – 10

Since the Group has to meet certain costs in relation to the closure of its facilities, the accompanying consolidated balance sheet includes the provisions raised for such costs (Note 17).

Assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each balance sheet 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 3.4).

3.7 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 sheet 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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

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 pre-tax discount rates, which reflect the time value of money and the risks specific to the cash-generating unit. 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.

3.8 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".

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

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.
- 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.
- 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.

The business model is determined by key Group personnel and at 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.

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 that 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 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 per cent 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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

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 2019 and 2018, balances receivable not due which were extinguished as a result of the aforementioned non-recourse factoring operations amounted to €37,653 thousand and €38,646 thousand, respectively. Unlike the above, Befesa does not derecognise amounts receivable transferred to financial institutions for which it retains substantially the associated risks.

3.9 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 effectiveness at each accounting close or when there are significant changes affecting 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.

(i) *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.

3.10 Cash and cash equivalents

This item includes cash in 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 balance sheet as current borrowings.

3.11 Inventories

"Inventories" in the consolidated balance sheet 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.

3.12 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 revenue 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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

3.13 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 balance sheet 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 2019 and 2018. 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 balance sheet also include, where applicable, the estimated amounts required to close certain facilities (Note 17), 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 21).

Share-based payments

The fair value of options granted under share-based compensation plans is recognised as an employee benefits expense with the corresponding increase in long-term liabilities.

For cash-settled share-based payment transactions, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period, with any changes in fair value recognised in the consolidated income statement. Services received or goods acquired and the liability payable are recognised over the vesting period or immediately if vesting is immediate. The Group only recognises as personnel expenses the amount accrued in accordance with the vesting conditions of the fair value of the payment on the grant date, and the residual amount accrued is recognised as finance income or expense.

3.14 Revenue recognition

a) Sale of goods

Sales 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 not variable component.

No critical judgements in recognising revenue are identified.

b) 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.

c) Income from dividends

Income from dividends is recognised when the shareholder's right to receive payment is established.

3.15 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.

3.16 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 balance sheet 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; and
- 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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

3.17 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 balance sheet 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 18 and 19).

The Directors of the Parent consider that the deferred tax assets will be recovered in 10 years, approximately.

In view of the Group's international nature, there are several tax rates depending on the applicable legislation, ranging mainly from 19% to 33%.

3.18 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.

3.19 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.

3.20 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.

3.21 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.

3.22 Consolidated statement of cash flow

The following terms are used in the consolidated statement of cash flow, 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.

3.23 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, and liquidity risk, use of derivative and non-derivative instruments and investment of cash surpluses. There were no changes in risk management policies between 2019 and 2018.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

4. Financial risk management policy continued

4.1 Financial risk factors

a) Market risk

i) Foreign currency risk

The Group companies operate internationally and, therefore, are exposed to foreign currency risks in foreign currency transactions (especially between US dollar, Korean won, Swedish krona, Turkish lira, Chinese yuan and British pound).

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 Group's functional currency.

All transactions, assets and liabilities are presented in foreign currency at the subsidiary located in a given country and, therefore, translation differences arise on consolidation.

For financial reporting purposes, each subsidiary designates hedges with the Corporate Financial Department as fair value hedges or as cash flow hedges, as appropriate. Additionally, at corporate level, external foreign currency hedges are designated as foreign currency risk hedges on certain assets, liabilities or future transactions.

Details of the most significant foreign currency transactions (basically in US dollar, Korean won, Swedish krona, Turkish lira, Chinese yuan and British pound) having an impact on the results of continuing operations in the consolidated income statement are as follows:

	2019	2018
Sales	140,787	172,037
Purchases	22,440	33,395

Since most transactions (expenses and revenues) shown above are carried out locally by the subsidiaries, a significant part of these transactions denominated in a currency other than the euro are actually denominated in the functional currency of the subsidiary, and therefore do not give rise to a significant exposure to foreign currency risk.

There are no significant trade balances or loans denominated in a currency other than the functional currency of each subsidiary at the end of 2019.

Part of the transactions in foreign currency have been hedged, pursuant to the Group's policy.

The Group owns several foreign operations, whose net assets are exposed to the risk of foreign currency translation. Below are presented, in thousands of euros, major net assets by currency (including non-controlling interests):

Currency	2019	2018
Swedish krona	4,323	2,860
Korean won	83,421	92,066
Turkish lira	22,460	13,029
British pound	(68)	302
Chinese yuan	23,824	–

If the average exchange rate of the euro in 2019 and 2018 had depreciated/appreciated by 10% 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 2019 and 2018, had the average interest rates on the financial debt denominated in euros increased/decreased by 10 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:

	2019	2018
Total external financial debt (Note 14)	542,416	527,498
Effect of interest rate swaps (Note 16)	(316,000)	(316,000)
Financial debt subject to variable interest	226,416	211,498

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.

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 16 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.

Additionally, 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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

4. Financial risk management policy continued

In this regard, factored receivables are recognised off the balance sheet provided that all the conditions established in IFRS 9 are met for their derecognition from the consolidated balance sheet. 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.

Additionally, 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, etc.).

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

A prudent management of liquidity risk entails the maintenance of sufficient cash and marketable securities, availability of financing through a sufficient level of committed credit facilities and the capacity to settle market positions. Given the dynamic nature of the core businesses, the Group's Treasury Department has the objective of maintaining flexible financing through the availability of committed credit lines.

Management monitors the Group's liquidity reserve projections and changes in net borrowings, calculated as follows at 31 December 2019 and 2018:

	2019	2018
Cash and cash equivalents	125,460	150,648
Other current financial assets (Note 9)	61	60
Undrawn credit facilities and unused financing (Note 14)	75,000	75,000
Liquidity reserve	200,521	225,708
Financial debt (Note 14)	527,831	527,360
Finance lease payables (Note 14)	14,585	138
Cash and cash equivalents	(125,460)	(150,648)
Other current financial assets (Note 9)	(61)	(60)
Net debt (Note 2.6)	416,895	376,790
Less non-current borrowings (Note 14)	(530,223)	(520,169)
Current net financial debt	(113,328)	(143,379)

Cash and cash equivalents comprise:

	2019	2018
Cash on hand and at banks	125,460	150,648
Total	125,460	150,648

One of 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 2019 and 2018 the Group made significant efforts to control and reduce collection periods with customers and other debtors and to optimise payment terms, unifying policies and conditions across the Group.

The table below presents an analysis of the financial liabilities that will be settled, grouped to reflect the term remaining from the balance sheet date to contractual maturity. This breakdown does not include long-term provisions (Note 17) since they do not have a contractual maturity date. However, the Parent's Directors consider that these liabilities will be settled in a period of more than five years. The amounts shown in the table relate to the cash flows stipulated in the contract.

	Within one year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2019				
Bank borrowings (Note 14)	12,193	2,420	2,627	525,176
Trade and other payables (*)	126,981	156	3,388	–
Unaccrued interest payable	11,461	11,111	33,332	16,353
At 31 December 2018				
Bank borrowings (Note 14)	7,329	56	520,113	–
Trade and other payables (*)	134,266	240	2,164	–
Unaccrued interest payable	13,815	13,815	41,368	–

(*) Long-term payables do not include capital grants amounting to €5.7 million and €6.7 million in 2019 and 2018, 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' balance sheets.

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, on the one hand, 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 shareholder compatible, 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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

4. Financial risk management policy continued

Details of the debt/equity ratios (excluding balances with Group companies) at 31 December 2019 and 2018 are as follows:

	2019	2018
Total bank borrowings (Note 14)	542,416	527,498
Less: Cash and cash equivalents	(125,460)	(150,648)
Other current financial assets (Note 9)	(61)	(60)
Net debt	416,895	376,790
Total equity	360,218	342,269
Total capital invested	777,113	719,059
Borrowing ratio	53.6%	52.4%

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.

Based on the content of IFRS 13 and in accordance with IFRS 7 on financial instruments measured at fair value, the Group reports on estimating the fair value hierarchy levels as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. reference prices) or indirectly (i.e. derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (unobservable market data) (Level 3).

The table below shows the Group's assets and liabilities that were measured at fair value at 31 December 2019 and 2018:

2019

	Level 2	2019
Assets		
– Derivatives (Note 16)	40,180	40,180
Total assets at fair value	40,180	40,180
Liabilities		
– Derivatives (Note 16)	3,174	3,174
Total liabilities at fair value	3,174	3,174

2018

	Level 2	2018
Assets		
– Derivatives (Note 16)	63,731	63,731
Total assets at fair value	63,731	63,731
Liabilities		
– Derivatives (Note 16)	1,987	1,987
Total liabilities at fair value	1,987	1,987

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 balance sheet 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 balance sheet date.
- It is assumed that the book value of trade payables and receivables approximates their fair value.
- The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The instruments included in Level 2 relate to derivative financial instruments (Note 16).

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).

**Notes to the consolidated financial statements
as at 31 December 2019 (Thousands of euros) continued**

5. Segment reporting continued

The financial information received by the Board of Directors also includes finance income and costs and tax aspects, as well as cash flow and net debt.

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 for the year ended 31 December 2019 and for the year ended 31 December 2018 (thousands of euros).

	2019				
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total
Revenue	360,076	81,569	245,162	(38,867)	647,940
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(234,785)	(60,575)	(233,155)	40,134	(488,381)
Amortisation/depreciation, impairment and provisions	(18,491)	(8,476)	(7,495)	(1,122)	(35,584)
EBIT (Operating profit/(loss))	106,800	12,518	4,512	145	123,975
	2018				
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total
Revenue	380,936	83,424	300,110	(44,380)	720,090
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(243,505)	(58,633)	(287,663)	45,676	(544,125)
Amortisation/depreciation, impairment and provisions	(13,109)	(7,716)	(6,736)	(1,430)	(28,991)
EBIT (Operating profit/(loss))	124,322	17,075	5,711	(134)	146,974

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

	2019	2018
EBIT	123,975	146,974
– Extraordinary impairments/provisions	–	–
Operating profit/(loss)	123,975	146,974
Finance income (cost)	(20,092)	(16,833)
Corporate income tax	(15,987)	(33,043)
Profit/(loss) attributable to continuing operations	87,896	97,098
Profit/(loss) attributable to discontinued operations	–	(2,205)
Non-controlling interests	(5,183)	(4,704)
Profit/(loss) attributed to the Parent Company	82,713	90,189

Set out below is the distribution by segment of EBITDA for the years ended 31 December 2019 and 2018 (thousands of euros):

	2019				Total
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	
Revenue	360,076	81,569	245,162	(38,867)	647,940
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(234,785)	(60,575)	(233,155)	40,134	(488,381)
Amortisation/depreciation, impairment and provisions (a)	(18,491)	(8,476)	(7,495)	(1,122)	(35,584)
EBIT (Operating profit/(loss)) (b)	106,800	12,518	4,512	145	123,975
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (a+b)	125,291	20,994	12,007	1,267	159,559

**Notes to the consolidated financial statements
as at 31 December 2019 (Thousands of euros) continued**

5. Segment reporting continued

	2018				Total
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	
Revenue	380,936	83,424	300,110	(44,380)	720,090
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(243,505)	(58,633)	(287,663)	45,676	(544,125)
Amortisation/depreciation, impairment and provisions (a)	(13,109)	(7,716)	(6,736)	(1,430)	(28,991)
EBIT (Operating profit/(loss)) (b)	124,322	17,075	5,711	(134)	146,974
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (a+b)	137,431	24,791	12,447	1,296	175,965

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

	2019	2018
EBITDA	159,559	175,965
– One-time projects	–	–
– Non-recurrent costs/incomes	–	–
Amortisation/depreciation, impairment and provisions	(35,584)	(28,991)
Operating profit/(loss)	123,975	146,974
Finance income (cost)	(20,092)	(16,833)
Corporate income tax	(15,987)	(33,043)
Profit/(loss) attributable to continuing operations	87,896	97,098
Profit/(loss) attributable to discontinued operations	–	(2,205)
Non-controlling interests	(5,183)	(4,704)
Profit/(loss) attributed to the Parent Company	82,713	90,189

Details of sales by geographical segment for the years ended 31 December 2019 and 2018 are as follows:

Geographical area	2019	%	2018	%
Spain	167,509	26%	194,451	27%
Germany	102,895	16%	109,015	15%
France	25,697	4%	37,571	5%
United Kingdom	19,597	3%	15,361	2%
Rest of Europe	184,296	28%	199,172	28%
South Korea	30,698	5%	38,663	5%
Rest of the world	117,248	18%	125,857	18%
	647,940	100%	720,090	100%

The distribution of property, plant and equipment, intangible assets (excluding goodwill and licences) and right-of-use assets is as follows (Notes 7, 8 and 10):

	2019	2018
Spain	80,751	70,929
Germany	98,220	89,934
France	32,504	29,218
United Kingdom	12,766	11,567
Rest of Europe	14,443	13,776
Turkey	24,305	6,638
China	15,009	–
South Korea	53,915	45,556
	331,913	267,618

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

	2019					2018				
	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 8 and 21)	(14,861)	(6,653)	(5,752)	(81)	(27,347)	(14,126)	(6,704)	(5,662)	(77)	(26,569)
– Intangible assets (Note 7 and 21)	(574)	(384)	(866)	(938)	(2,762)	(798)	(285)	(1,000)	(1,353)	(3,436)
– Right-of-use assets (Notes 10 and 21)	(1,735)	(1,439)	(720)	(103)	(3,997)	–	–	–	–	–
– Reversal/ (recognition) of impairment losses and other (Note 21)	(1,321)	–	(157)	–	(1,478)	1,815	(727)	(74)	–	1,014
Total	(18,491)	(8,476)	(7,495)	(1,122)	(35,584)	(13,109)	(7,716)	(6,736)	(1,430)	(28,991)

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

5. Segment reporting continued

Details of segment assets and liabilities are as follows:

	2019					2018				
	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	357,638	51,201	13,315	322	422,476	357,416	49,937	14,329	986	422,668
Property, plant and equipment	173,816	61,830	72,323	623	308,592	132,681	59,241	68,909	683	261,514
Right-of-use assets	10,232	5,353	1,430	394	17,409	–	–	–	–	–
Investments in associates and other non-current assets	59,852	1,505	42,271	(14,090)	89,538	76,118	1,432	33,326	(6,959)	103,917
Current assets	174,822	19,816	35,136	48,027	277,801	180,912	19,801	41,599	55,710	298,022
Total assets	776,360	139,705	164,475	35,276	1,115,816	747,127	130,411	158,163	50,420	1,086,121
Equity and liabilities										
Equity	255,243	61,380	14,305	29,290	360,218	289,041	65,988	36,945	(49,345)	342,629
Non-current liabilities	427,457	63,327	95,796	29,720	616,300	369,432	52,134	58,595	121,505	601,666
Current liabilities	93,660	14,998	54,374	(23,734)	139,298	88,654	12,289	62,623	(21,740)	141,826
Total equity and liabilities	776,360	139,705	164,475	35,276	1,115,816	747,127	130,411	158,163	50,420	1,086,121

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

	2019					2018				
	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 7 and 8)	59,524	9,284	10,016	283	79,107	20,411	9,455	10,938	372	41,176
Disposals of non-current assets (Notes 7 and 8)	(13,304)	(96)	–	–	(13,400)	(3,326)	–	(12,078)	(3)	(15,407)
Net investments in the year (Notes 7 and 8)	46,220	9,188	10,016	283	65,707	17,085	9,455	(1,140)	369	25,769

Investments in non-current assets include additions to property, plant and equipment (see Note 8) and intangible assets (see Note 7).

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.

b) Information on customers

Customer concentration is calculated based on the representativeness of the five most significant customers of the business unit's revenue of each segment. Details are as follows:

	%	
	2019	2018
Steel Dust	74.4%	79.8%
Salt Slags	36.8%	31.2%
Secondary Aluminium	37.6%	36.2%

6. Goodwill

Details of goodwill on the consolidated balance sheets at 31 December 2019 and 2018 (no movements during the years) are as follows:

	Balance at 31/12/19	Balance at 31/12/18
Steel Dust	290,778	290,778
Salt Slags	35,829	35,829
Secondary Aluminium	8,957	8,957
	335,564	335,564

Impairment analysis

The Group has implemented a procedure whereby at each year end any impairment of goodwill and licenses with indefinite useful life (Note 7) 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.

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/group of cash generating units 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. Perpetuity growth is 2% (g).
- The gross margins used in the calculation of the value for 2019 and 2018 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.

The measurement methods indicated above led to discount rates used to perform the impairment test in a range of between 8.47% and 5% in 2019 and 2018. The discount rates used are net of taxes and reflect the risks specific to the significant CGU segments. The Directors consider that a change in the discount rate used (approximately 50 basis points) would not have a significant impact on these consolidated financial statements.

The cash flow budget is determined by the Group's management in their strategic plans, considering a similar activity structure as the present one and based on previous years' experience.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

6. Goodwill continued

At the end of 2019 and 2018, estimates were made of the recoverable amounts of the CGUs to which goodwill and/or licenses with indefinite useful life had been allocated in accordance with Note 3.1 and the methods described above. No impairment has been recognised in 2019 and 2018.

The results of the sensitivity analyses carried out on the main assumptions were also taken into account in this conclusion.

7. Other intangible assets

Movements in "Other Intangible Assets" in the consolidated balance sheet for 2019 and 2018 are as follows:

	Development expenditure	Licenses and other ^(*)	Computer software	Administrative concessions and others	Total
Cost:					
Balance at 31/12/18	8,981	81,000	17,633	1,966	109,580
Additions	1,499	–	1,087	82	2,668
Disposals	–	–	(2,529)	–	(2,529)
Transfers	–	–	16	–	16
Translation differences (net)	–	–	(4)	(82)	(86)
Balance at 31/12/19	10,480	81,000	16,203	1,966	109,649
Accumulated amortisation					
Balance at 31/12/18	(5,143)	–	(15,481)	(1,852)	(22,476)
Additions (Note 21.5)	(1,135)	–	(1,601)	(26)	(2,762)
Disposals	–	–	2,500	–	2,500
Translation differences (net)	–	–	2	(1)	1
Balance at 31/12/19	(6,278)	–	(14,580)	(1,879)	(22,737)
Other intangible assets, net at 31/12/18	3,838	81,000	2,152	114	87,104
Other intangible assets, net at 31/12/19	4,202	81,000	1,623	87	86,912

^(*) These licenses were considered to have an indefinite useful life. They were tested for impairment as at 31 December 2019 (Note 6).

	Development expenditure	Licenses and other ^(*)	Computer software	Administrative concessions and others	Total
Cost:					
Balance at 31/12/17	8,284	81,000	17,211	1,965	108,460
Additions	1,345	–	1,038	1	2,384
Disposals	(648)	–	(612)	–	(1,260)
Transfers	–	–	25	–	25
Translation differences (net)	–	–	(29)	–	(29)
Balance at 31/12/18	8,981	81,000	17,633	1,966	109,580
Accumulated amortisation					
Balance at 31/12/17	(4,618)	–	(13,897)	(1,783)	(20,298)
Additions	(1,173)	–	(2,194)	(69)	(3,436)
Disposals	648	–	612	–	1,260
Translation differences (net)	–	–	(2)	–	(2)
Balance at 31/12/18	(5,143)	–	(15,481)	(1,852)	(22,476)
Other intangible assets, net at 31/12/17	3,666	81,000	3,314	182	88,162
Other intangible assets, net at 31/12/18	3,838	81,000	2,152	114	87,104

(*) These licenses were considered to have an indefinite useful life. They were tested for impairment as at 31 December 2018 (Note 6).

Licenses are intangible assets with an indefinite useful life. The recoverability of these licenses has been evaluated by the Group's management based on impairment tests disclosure in Note 6.

2019

The most significant additions for the year relate to development expenses capitalised in the "Secondary Aluminium" segment amounting to €1,499 thousand and to the ERP implementation in the "Steel Dust" segment, €810 thousand.

2018

The most significant additions for the year relate to development expenses capitalised in the "Secondary Aluminium" segment amounting to €1,345 thousand and to the new ERP implementation in the "Steel Dust" segment amounting to €624 thousand.

Investment commitments

At 31 December 2019 and 2018, the Group had no significant investment commitments.

**Notes to the consolidated financial statements
as at 31 December 2019 (Thousands of euros) continued**

8. Property, plant and equipment

Movements in this consolidated balance sheet caption in 2019 and 2018 are as follows:

2019

	Land and buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:					
Balance at 31/12/18	157,963	428,491	26,979	25,148	638,581
Additions	1,140	5,549	2,287	67,463	76,439
Disposals	(348)	(9,801)	(536)	(186)	(10,871)
Transfers	4,313	41,013	1,552	(46,894)	(16)
Translation differences (net)	(357)	(1,143)	(10)	(296)	(1,806)
Balance at 31/12/19	162,711	464,109	30,272	45,235	702,327
Accumulated depreciation and provisions:					
Balance at 31/12/18	(60,528)	(284,151)	(18,797)	–	(363,476)
Additions (Note 21.5)	(4,037)	(21,939)	(1,370)	–	(27,346)
Disposals	248	9,299	1,097	–	10,644
Translation differences (net)	9	16	9	–	34
Balance at 31/12/19	(64,308)	(296,775)	(19,061)	–	(380,144)
Impairment losses at 31/12/18	–	(13,591)	–	–	(13,591)
Additions	–	–	–	–	–
Disposals	–	–	–	–	–
Impairment losses at 31/12/19	–	(13,591)	–	–	(13,591)
Carrying amount at 31/12/18	97,435	130,749	8,182	25,148	261,514
Carrying amount at 31/12/19	98,403	153,743	11,211	45,235	308,592

2018

	Land and buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:					
Balance at 31/12/17	155,875	416,452	27,262	18,195	617,784
Changes in the scope of consolidation	–	–	–	–	–
Additions	804	5,094	1,042	31,852	38,792
Disposals	(424)	(11,901)	(1,782)	(40)	(14,147)
Transfers	2,183	20,980	503	(23,692)	(26)
Translation differences (net)	(475)	(2,134)	(46)	(1,167)	(3,822)
Balance at 31/12/18	157,963	428,491	26,979	25,148	638,581
Accumulated depreciation and provisions:					
Balance at 31/12/17	(56,772)	(275,920)	(19,285)	–	(351,977)
Changes in the scope of consolidation	–	–	–	–	–
Additions	(4,051)	(21,228)	(1,290)	–	(26,569)
Disposals	113	11,354	1,753	–	13,220
Translation differences (net)	182	1,643	25	–	1,850
Balance at 31/12/18	(60,528)	(284,151)	(18,797)	–	(363,476)
Impairment losses at 31/12/17	–	(17,616)	–	–	(17,616)
Additions	–	(975)	–	–	(975)
Disposals	–	5,000	–	–	5,000
Impairment losses at 31/12/18	–	(13,591)	–	–	(13,591)
Carrying amount at 31/12/17	99,103	122,916	7,977	18,195	248,191
Carrying amount at 31/12/18	97,435	130,749	8,182	25,148	261,514

2019

The main additions for the year are related to fund the capacity expansion in Turkey (€19.6 million), the starting of the construction of the two plants in China (€11.7 million), the new WOX washing plant in Korea (€14.6 million), the secondary aluminium furnace upgrade in Barcelona (€10.8 million) and environmental projects and maintenance investments made at each plant.

2018

The main additions for the year are related to investments made in Befesa Aluminio S.L., amounting to €12.2 million, regarding to the implementation of the new furnace in Bilbao and Barcelona, expansion plan in Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S. (Turkey), amounting to €5 million; and compliance investments made in Befesa ScanDust AB, amounting to €3 million. Remaining additions relate to other investments in health and safety, and environmental projects and maintenance investments made at each plant.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

8. Property, plant and equipment continued

Impairment losses

In 2018, a reversal of impairment amounting to €5 million in Befesa Valera, SAS, after estimating that the future cash flows generated by the subsidiary would be sufficient to recover the carrying amount of the plant.

Insurance

The Group takes out insurance policies to cover possible risks to which its property, plant and equipment are subject. The coverage is considered to be sufficient.

Capitalisation of borrowing costs

There are no borrowing costs capitalised in 2019 and 2018.

Mortgaged property, plant and equipment

At 31 December 2019 and 2018 there are no significant fixed assets pledged to secure loans.

Investment commitments

At 31 December 2019, the Group had investment commitments amounting to €36.9 million mainly due to the organic project in China. At 31 December 2018, the Group had investment commitments amounting to €28.8 million mainly due to the organic project in Turkey and expansion project in China.

9. Financial assets by category and class

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

	2019		2018	
	Current	Non-current	Current	Non-current
Financial assets at amortised cost				
Loans	–	11,621	–	11,566
Impairment	–	(8,975)	–	(8,975)
Trade and other receivables	72,865	–	80,657	–
Security deposits	61	357	60	246
Financial assets measured at fair value				
Hedging derivatives (Note 16)	24,676	15,504	20,608	43,123
Total financial assets	97,602	18,625	101,325	46,518

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

10. Right-of-use assets and lease liabilities

Details of and movement in classes of right-of-use assets during 2019 are as follows:

	Land and buildings	Plant and machinery	Other property, plant and equipment	Total
Cost:				
Balance at 01/01/19	11,784	2,133	859	14,776
Additions	3,170	2,868	592	6,630
Disposals	–	–	–	–
Balance at 31/12/19	14,954	5,001	1,451	21,406
Accumulated amortisation-				
Balance at 01/01/19	–	–	–	–
Additions (Note 21.5)	(1,524)	(1,991)	(482)	(3,997)
Disposals	–	–	–	–
Balance at 31/12/19	(1,524)	(1,991)	(482)	(3,997)
Right-of-use assets and lease liabilities, net at 31/12/19	13,430	3,010	969	17,409

Details of lease payments and liabilities

An analysis of the contractual maturity of lease liabilities, including future interest payable, is as follows:

	2019
Within 1 year	3,515
Between 1 and 2 years	2,400
Between 2 and 3 years	1,427
More than 3 years	7,166
	14,508

11. Inventories

Details of inventories in the accompanying consolidated balance sheets at 31 December 2019 and 2018 are as follows:

	2019	2018
Finished goods	17,860	13,838
Goods in progress and semi-finished goods	10,683	3,550
Work in progress	–	145
Raw materials	9,029	12,161
Other	14,181	12,569
Advances to suppliers	2,986	3,786
Total	54,739	46,049

"Other" at 31 December 2019 and 2018 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 2019 (Thousands of euros) continued

12. Accounts receivable

The breakdown of accounts receivable in the accompanying consolidated balance sheet at 31 December 2019 and 2018 is as follows:

	2019	2018
Work completed not invoiced	721	1,144
Trade and other receivables	43,659	60,435
Trade receivables from related companies (Note 24)	751	924
Other receivables (Note 20)	18,557	10,807
Public authorities (Note 19)	10,771	9,231
Loss-allowance for doubtful debts	(1,594)	(1,884)
Total	72,865	80,657

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 2019 and 2018 are as follows:

	2019	2018
Opening balance	(1,884)	(2,237)
Write-off uncollectible accounts receivable and other transfers	290	353
Closing balance	(1,594)	(1,884)

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.

Details of accounts receivable denominated in foreign currency and recognised at the end of 2019 and 2018 in the accompanying consolidated balance sheet are as follows (in thousands of euros):

	2019	2018
US dollars	4,086	12,791
Swedish krona	1,521	1,360
British pound	1,401	2,329
Korean won	4,167	5,227
Other	1,957	1,474
	13,132	23,181

13. Equity

a) Share capital

As at 31 December 2016, subscribed and fully paid-up capital was represented by 5,728,116 Class-A preference shares and 6,403,591,150 Class-B ordinary shares with a par value of €0.01 each.

At 31 December 2016, the Class A preference shares and Class B ordinary shares differed as follows: in respect of each distribution of dividend, the amount allocated to this effect shall be distributed in the following order of priority:

- First, each Class A preference share shall give an entitlement to the Preference share return (Preference share return means the cumulative dividend in an amount of 10% per annum of the nominal value of the preference shares and share premium attached to these preference shares).
- Second, any remaining dividend amount after allocation of the Preference share return shall be allocated pro rata among the Class B ordinary shares.

On 18 October 2017, the shareholders changed the legal form of the Company from a limited liability company (*société à responsabilité limitée*) to a limited company (*société anonyme*).

The shareholders also resolved to reduce the total number of shares, to cancel the nominal value of the shares, and to set the Company's share capital at €64,093,192.67 divided into 20,633 Class A preference shares and 23,066,112 ordinary shares. All the shares dematerialised. The authorised capital is set at €138,809,495.32 divided into 49,999,998 shares.

On 2 November 2017, prior to the closing of the Initial Public Offering (IPO), the 20,633 Class A preference shares were converted into 11,000,593 ordinary shares, increasing the share capital to €94,575,646.35.

As of the date of the IPO, on 3 November 2017, 45.18% of the ordinary shares of the Company were listed on the Frankfurt Stock Exchange at an initial price of €28.00.

The number of shares as at 31 December 2019 and 2018 is 34,066,705, with a par value of €2.77 each.

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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

13. Equity continued

The shareholder structure as at 31 December 2019 is as follows:

	Percentage of ownership	
	2019	2018
Triton	–	40.6%
Free-float (including management)	100.0%	59.4%
Total	100.0%	100.0%

b) Share premium and other reserves

Details in the consolidated balance sheet are as follows:

	2019	2018
Share premium	263,875	263,875
Hedging reserves and revaluation reserves	26,951	46,240
Other reserves	(117,286)	(158,918)
Total	173,540	151,197

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.

Other reserves

The Parent 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.

In June 2019, the shareholders at their Annual General Meeting resolved to approve the distribution of a dividend of €44,968 thousand from the net profit of the year 2018.

c) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2019 and 2018 is as follows:

Company or group of companies	2019	2018
Befesa Zinc Korea, Ltd.	4,167	5,441
Befesa Salt Slags, Ltd.	(786)	(1,537)
Befesa Scandust AB	(2,081)	(1,777)
Befesa Silvermet Iskenderum Celik Tozu Geri Donusumu, A.S.	(3,349)	(2,486)
Other	(2,347)	(2,400)
Total	(4,396)	(2,759)

d) Profit/(Loss) for the year

Details, by business segment, of the contribution to consolidated profit/(loss) attributable to the Parent for the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019	2018
Steel Dust	71,519	84,951
Salt Slags	7,991	11,138
Secondary Aluminium	917	3,838
Corporate, other minor and consolidation adjustments ^(*)	2,286	(7,533)
Profit/(loss) for the year from discontinued operations	–	(2,205)
Total	82,713	90,189

^(*) Consolidation adjustments are mainly related to the elimination of dividends and changes in impairment losses on investments attributable to the Parent. In addition, the consolidation adjustments attributable to the other companies are included in their respective income statements.

e) Non-controlling interests

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

	2019	2018
Steel Dust:		
Befesa Silvermet Turkey, S.L. and subsidiaries	13,785	9,426
Total	13,785	9,426

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	
	2019	2018
Assets	52,701	23,739
Liabilities	22,954	3,398
Equity	29,747	20,341
Sales	7,056	26,247
Profit before taxes	(1,222)	13,346
Profit after taxes	11,184	10,150

At 31 December 2019 and 2018, the percentages of non-controlling interests of Befesa Silvermet Turkey, S.L. amounted to 46.4%.

f) 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 shareholder 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.).

Group management considers that the minimal leverage ratio (Note 2.6) is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2019 and 2018, most of the debts are related to business acquisitions made in prior years.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

14. Financial debt

Details of the related line items in the accompanying consolidated balance sheets are as follows:

	2019		2018	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Bank loans and credit facilities	1,777	519,210	–	520,091
Unmatured accrued interest	6,844	–	7,269	–
Finance lease payables	3,572	11,013	60	78
Total	12,193	530,223	7,329	520,169

The fair values of borrowings are not materially different to their carrying amounts, since the interest payable is close to current market rates.

The main terms and conditions of borrowings are as follows:

Limit in nominal currency (thousands of currency)	Maturity date	2019		2018	
		Current maturity	Non-current maturity	Current maturity	Non-current maturity
€636,000	2026	6,844	519,210	7,269	520,091
Other		5,349	11,013	60	78
		12,193	530,223	7,329	520,169

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 June 2026 with a 7-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 has been signed by the Parent of the Group (Befesa, S.A.) and has been designed to meet the financing needs of all Group companies.

The Facilities Agreement comprises:

- Term Loan B (TLB) Facility Commitment in an amount of €526 million, which is a bullet with a maturity of 7 years.
- Revolving Credit Facility (RCF) in an amount of €75 million with a maturity of 6 years.
- A Guarantee Facility Commitment in an amount of €35 million with a maturity of 6 years.

Interest on the initial TLB facility was Euribor plus a spread of 2.75%, and 2.5% in the case of the RCF. These spreads could be adjusted downwards to 1.75% in the case of the TLB and to 1.25% in the case of the RCF, depending on the ratio of net financial debt/EBITDA.

In November 2018, due to the improvement in the Group's leverage ratio, the spread was reduced by 25 bps from Euribor plus 275 bps to Euribor plus 250 bps in the case of the TLB.

In March 2019, the margin applicable to the TLB was reduced again 25 bps to Euribor plus 225 bps due to the decrease on the leverage ratio.

After the refinancing in July 2019, the margin was set to 250 bps for the following nine months.

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 2019 and 2018, 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.

The Group has analysed whether there is a substantial modification of the conditions, having concluded that there is no cancellation of the original liabilities.

At 31 December 2019, "Other" mainly includes short-term payables for leases (2018 includes short-term payables for leases and factoring).

The repayment schedule for long-term loans is as follows:

	2019	2018
2020	–	78
2021	2,420	–
Subsequent years	527,803	520,091
Total	530,223	520,169

At 31 December 2019, an amount of €75 million was undrawn from the syndicated financing arrangement (€75 million in 2018) (Note 4.c).

The evolution of net financial debt during the 2019 and 2018 is as follows:

	Cash and cash equivalents (Note 4)	Other current financial assets (Note 9)	Financial debt (Note 14)	Total
Net financial debt as at 31 December 2017	(117,582)	(300)	524,237	406,355
Cash flows	(32,809)	33	(652)	(33,428)
Exchange rate adjustments	(257)	–	–	(257)
Other non-monetary movements	–	207	3,913	4,120
Net financial debt as at 31 December 2018	(150,648)	(60)	527,498	376,790
Cash flows	25,512	(1)	(2,260)	23,251
Exchange rate adjustments	(324)	–	–	(324)
Other non-monetary movements ⁽¹⁾	–	–	17,178	17,178
Net financial debt as at 31 December 2019	(125,460)	(61)	542,416	416,895

⁽¹⁾ Mainly due to the implementation of IFRS 16

**Notes to the consolidated financial statements
as at 31 December 2019 (Thousands of euros) continued**

14. Financial debt continued

14.1 Financing currencies

The carrying amount of the Group's borrowings is denominated in the following currencies:

	2019	2018
Euro	539,663	527,431
US dollar	1,777	–
Swedish krona	976	67
	542,416	527,498

15. Other current and non-current payables

	2019		2018	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Payable to non-current asset suppliers	9,211	–	6,308	–
Derivative financial instruments (Note 16)	–	3,174	193	1,794
Accounts payable to public authorities (Note 19)	17,033	–	15,067	–
Remuneration payable	7,372	–	8,268	–
Other	1,614	6,091	2,807	7,290
Total	35,230	9,265	32,643	9,084

"Other" mainly includes the capital grants not yet released to income and debts with official bodies amounting to approximately €7.3 million (2018: €7.6 million). In 2018, there was included the financial liabilities related to the last derivative settlements of the year amounting to €2.1 million. In 2019, there were no financial liabilities related to this.

16. 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 balance sheets at 31 December 2019 and 2018 are as follows:

	2019	2018
Cash flow hedges non-current assets (Note 9)		
SWAP contracts for zinc	15,504	43,123
	15,504	43,123
Cash flow hedges current assets (Note 9):		
Foreign currency SWAP	108	16
SWAP contracts for zinc	24,568	20,592
	24,676	20,608
Total assets	40,180	63,731
Cash flow hedges non-current liabilities (Note 15):		
Interest rate SWAP	3,174	1,794
	3,174	1,794
Cash flow hedges current liabilities (Note 15):		
Foreign currency SWAP	–	193
	–	193
Total liabilities	3,174	1,987

- Zinc derivative contracts

Details of the tonnes hedged and of the maturity of the related contracts at 31 December 2019 and 2018 are as follows:

	Tonnes			
	31 December 2019		31 December 2018	
	2020	2021 and subsequent years	2019	2020 and subsequent years
Hedge (in tonnes)				
Swap contract for zinc	92,400	57,300	92,400	138,600
	92,400	57,300	92,400	138,600

Derivatives are designated to hedge highly probable forecast transactions (sales) and the full effect of the hedge is recognised in equity, net of the tax effect, considering its assessment as highly effective hedging instruments. The portion transferred to profit/(loss) each year is recognised under "Revenue" in the income statement at each settlement date.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

16. Financial derivatives continued

- Interest rate swaps (floating to fixed)

The Company arranged an interest rate swap during 2017. The notional amounts of the IRSs outstanding at 31 December 2019 and 31 December 2018 totalled €316,000 thousand (Note 4.1), which were classified as highly effective hedging instruments.

At 31 December 2019 and 2018, the fixed interest rate is 0.3580% and the main benchmark floating rate was Euribor. This derivative matures in 2022.

- Foreign currency cash flow hedges

At 31 December 2019, currency purchase contracts (swaps or forwards) amounted to:

- US dollar sales: USD 14,926 thousand.
- US dollar purchases: USD 1,185 thousand.

At 31 December 2018, currency purchase contracts (swaps or forwards) amounted to:

- US dollar sales: USD 8,635 thousand.
- US dollar purchases: USD 5,645 thousand.
- SEK sales: SEK 45,890 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 2019 and 2018 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 2019 will be transferred to the income statement over the next 12 months.

17. Long-term provisions

Details of long-term provisions on the liability side of the accompanying consolidated balance sheets and of movements in 2019 and 2018 are as follows:

	Provisions for litigation, pensions and similar obligations	Other provisions for contingencies and charges	Total long-term provisions
Balance at 1 January 2018	2,195	2,713	4,908
Profit and loss impact	2,194	(430)	1,764
Transfers	–	(250)	(250)
Balance at 31 December 2018	4,389	2,033	6,422
Profit and loss impact	2,196	141	2,337
Balance at 31 December 2019	6,585	2,174	8,759

The Group company Befesa Valera, S.A.S. recognised a provision of approximately €1.9 million at 31 December 2019 and 2018 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 (Note 8).

As at 31 December 2019, the Group recognised a provision of €4 million (2018: €2.4 million) related to the compensation plans described in Note 23.

In addition, the Group recognised other provisions under "Other provisions for contingencies and charges" to meet liabilities, whether legal or implicit, probable or certain, arising from contingencies, on-going 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.

18. Deferred taxes

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 2019 and 2018, there was no material offset of deferred tax assets and liabilities.

The Group recognises deferred tax assets, tax loss carryforwards and unused tax credits and tax relief to the extent that their future realisation or utilization is sufficiently assured.

Details of deferred tax assets and deferred tax liabilities in the accompanying consolidated balance sheets for 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets arising from:		
Tax loss carryforwards and tax credits and tax relief	59,699	45,733
Revaluation of derivative financial instruments	762	509
Other deferred tax assets	10,452	11,157
Total deferred tax assets	70,913	57,399
Deferred tax liabilities arising from:		
Asset revaluation	31,080	31,627
Revaluation of derivative financial instruments	10,752	15,704
Deferred tax liability arising from the tax deductibility of goodwill	24,743	16,840
Other deferred tax liabilities	1,478	1,820
Total deferred tax liabilities	68,053	65,991

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

18. Deferred taxes continued

Amounts corresponding to deferred tax assets are as follows:

	2019	2018
Deferred tax assets		
Deferred tax assets recoverable in more than 12 months	63,535	46,999
Deferred tax assets recoverable within 12 months	7,378	10,400
Total deferred tax assets	70,913	57,399

Movements in deferred tax assets and liabilities in 2019 and 2018 relate to:

2019

	Balance at 31/12/18	Recognised in		Balance at 31/12/19
		Income statement	Equity	
Deferred tax assets				
Tax loss carryforwards and deductions	45,733	14,209	(243)	59,699
Derivatives	509	–	253	762
Other	11,157	(714)	9	10,452
Total deferred tax assets	57,399	13,495	19	70,913
Deferred tax liabilities				
Revaluations	31,627	(547)	–	31,080
Derivatives	15,704	1,821	(6,773)	10,752
Goodwill	16,840	7,903	–	24,743
Other (temporary differences)	1,820	(340)	(2)	1,478
Total deferred tax liabilities	65,991	8,837	(6,775)	68,053

2018

	Balance at 31/12/17	Recognised in		Balance at 31/12/18
		Income statement	Equity	
Deferred tax assets				
Tax loss carryforwards and deductions	65,769	(18,786)	(1,250)	45,733
Derivatives	23,749	(4,933)	(18,307)	509
Other	5,457	5,828	(128)	11,157
Total deferred tax assets	94,975	(17,891)	(19,685)	57,399
Deferred tax liabilities				
Revaluations	33,103	(1,476)	–	31,627
Derivatives	254	–	15,450	15,704
Goodwill	19,646	(2,806)	–	16,840
Other (temporary differences)	2,593	(768)	(5)	1,820
Total deferred tax liabilities	55,596	(5,050)	15,445	65,991

The main amounts and changes in deferred tax assets and liabilities in 2019 and 2018, in addition to those arising from the revaluation of derivatives disclosed in Note 18, were as follows:

2019

- Movements recognised in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 16).
- The investment made to increase the capacity of the plant in Turkey has generated deductions on investment amounting to €12 million, which has been recognised under deferred tax assets.
- The tax depreciation of the goodwill by Befesa Zinc has generated an increase in deferred tax liabilities amounting to €8 million.

2018

- Movements recognised in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 16).
- The reduction in tax loss carryforwards and deductions is mainly due to the utilisation of them in the fiscal Group of companies subject to Vizcaya tax regulation amounting to €11.0 million and in Korea by €2.6 million.

19. Public administrations

Details of tax receivables and tax payables on the asset and liability sides, respectively, of the accompanying consolidated balance sheets at 31 December 2019 and 2018 are as follows:

	2019		2018	
	Receivable (Note 12)	Payable (Note 15)	Receivable (Note 12)	Payable (Note 15)
VAT	7,242	2,146	6,327	2,460
Withholdings and interim payments	15	927	–	653
Corporate income tax	2,079	12,110	836	9,957
Social security	30	1,730	21	1,686
Other	1,405	120	2,047	311
Total	10,771	17,033	9,231	15,067

"Accounts payable to public authorities" on the liability side of the accompanying consolidated balance sheet 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.

The Group's Parent Company, Befesa, S.A., is subject to Luxembourg Law (Note 1).

Befesa Medio Ambiente, S.L. heads the fiscal Group of companies subject to Vizcaya 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. and Befesa Zinc Sur, 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, and the German companies Befesa Salzschlacke GmbH and Befesa Aluminium Germany GmbH file consolidated tax returns under the tax legislation applicable to them in Germany.

The other Group companies file individual income tax returns in accordance with the tax legislation applicable to them.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

19. Public administrations continued

Group companies subject to Biscay tax legislation, including those which form part of the tax group, generally have the years that have not become statute-barred, 2015 onwards, open for review by the tax authorities for income tax and the last four years for the other main taxes and tax obligations applicable to them, in accordance with current legislation.

On 16 January 2020, Group company 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 regional taxation authorities of the commencement of inspection proceedings for corporate income tax for 2015, 2016, 2017 and 2018. As the inspection proceedings have not been completed, there are no conclusions as to the outcome or potential contingencies that could arise therefrom. The directors do not consider that there is a risk of tax contingencies arising as a result of the inspection.

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 3.17).

The reconciliation of accounting profit/(loss) for the year to income tax expense for the year is as follows:

	2019	2018
Profit/(loss) before tax from continuing operations	103,883	130,142
Profit/(loss) before tax from discontinued operations	–	(2,980)
Total accounting profit/(loss) before tax	103,883	127,162
Tax charge at the tax rate in force in each territory	(29,240)	(34,871)
Tax credits generated/used in the year and not capitalised	(924)	(3,276)
Non-deductible expenses and non-computable income	4,656	1,703
Tax deductions generated in the year	13,015	321
Others	(3,494)	3,854
Income tax expense	(15,987)	(32,268)
– From continuing operations	(15,987)	(33,043)
– From discontinuing operations	–	775

The unused tax credit recognised by the Group amount to €31.5 million at 31 December 2019 (2018: €18.6 million) corresponding mainly to credits on double tax deductions, export activities, contributions to Company promotion undertakings and investment incentives. The tax credits not recognised on deductions amounted to €27.7 million at 31 December 2019 (€28.1 million in 2018).

Tax credits on tax loss carryforwards available for offset recognised in the Group at 31 December 2019 amounted to €28.2 million (31 December 2018: €27.1 million). Unrecognised tax credits on tax loss carryforwards amounted to €73.6 million at 31 December 2019 (31 December 2018: €70.7 million).

The majority of tax credit of the Group has no temporal limit for compensation.

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.

20. Guarantee commitments to third parties and contingencies

At 31 December 2019 and 2018, a number of Group companies had provided guarantees for an overall amount of approximately €30.6 million (31 December 2018: €34.1 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. Group management commissioned several advisors to assess the environmental risk and potential economic effect of the corrective measures, and invested in measures required to reopen the plant. As a consequence, the plant reopened in May 2017. The Group has an insurance policy that will mitigate the relevant expenses incurred and at 31 December 2019 recognised €7.6 million (31 December 2018: €5.6 million) under "Other receivables" (Note 12) as the best estimate of the minimum expected outcome on the ongoing litigation, conservatively calculated.

21. Income and expenses

Disaggregation of revenue from contracts with customers

In relation to revenue recognition, the Group considers that under IFRS 15 there is only one kind of contract with customers, an assumption supported by the fact that the main sales of the Company's products do not have more than one performance obligation: delivery of steel and 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 the passing of control to the customer.

Based on this, the Group discloses revenue by reporting segment and geographical area (Note 5).

21.1 Raw materials and consumables

Details of procurements in the consolidated income statements for 2019 and 2018 are as follows:

	2019	2018
Cost of raw materials and other supplies used	271,871	320,539
Changes in goods held for resale, raw materials and other inventories	(2,777)	(1,387)
Total	269,094	319,152

21.2 Other operating income

Details of other operating income in the consolidated income statements for 2019 and 2018 are as follows:

	2019	2018
In-house work on non-current assets (Note 3.6)	2,532	1,154
Income from income-related grants	2,196	1,807
Services and other operating income	3,827	2,166
Total	8,555	5,127

**Notes to the consolidated financial statements
as at 31 December 2019 (Thousands of euros) continued**

21. Income and expenses continued

21.3 Personnel expenses

Details of personnel expenses in the consolidated income statements for 2019 and 2018 are as follows:

	2019	2018
Wages and salaries	61,465	61,954
Employer's social security contributions	12,336	11,905
Other welfare costs	1,820	2,059
Total	75,621	75,918

Of the Group's average headcount in 2019, 110 had temporary employment contracts (2018: 103 employees).

In 2019, the average number of employees at proportionately consolidated companies amounted to 47 (2018: 47 employees).

The number of employees at the 2019 and 2018 year-end, by gender, was as follows:

	2019		2018	
	Male	Female	Male	Female
Management	32	6	32	4
Experts	106	36	106	33
Professionals	162	57	151	51
Operators and assistants	698	50	697	54
Total	998	149	986	142

21.4 Other operating expenses

	2019	2018
Research and development expenditure	366	455
External services	159,452	139,020
Taxes other than income tax	2,404	2,299
Losses on, impairment of and changes in allowances	56	54
Other current operating expenses	6,651	8,348
Total	168,929	150,176

21.5 Amortisation/depreciation, impairment and provisions

	2019	2018
Amortisation of intangible assets (Note 7)	2,762	3,436
Depreciation of property, plant and equipment (Note 8)	27,346	26,569
Amortisation of right-of-use assets (Note 10)	3,997	–
Impairment of fixed assets (Notes 7 and 8)	–	975
Other	1,479	(1,989)
Total	35,584	28,991

22. Finance costs

The breakdown of this balance in the 2019 and 2018 consolidated income statements is as follows:

	2019	2018
Interest expense	15,723	17,078
Other finance costs	3,768	3,356
Total (Note 14)	19,491	20,434

Interest expense includes swap settlement expenses amounting to €1,147 thousand (€1,147 thousand in 2018).

23. Remuneration of the Board of Directors

Directors' remuneration and other benefits

In 2019, the members of the Parent's Board of Directors (including Executive Director members of the Board of Directors) earned approximately €3,708 thousand for salaries and attendance fees for discharging their duties in Group companies (2018: €3,033 thousand).

Also, as at 31 December 2019 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 2019 and 2018, there were no other transactions with senior executives outside the normal course of business.

In January 2018, the Parent Company approved two different compensation plans for certain members of Group management:

- A compensation plan linked to the evolution of the share price consisting of 79,018 shares that will be exercisable after three years of signing the agreement (November 2017). The agreed remuneration is conditioned to the continuation of the beneficiaries as senior management of the Group.
- A compensation plan linked to the evolution of certain key indicators determined in the agreement (cumulative EBIT/EBITDA, cumulative cash flow, return on inputs of strategic projects and EHS & Governance as strategic initiative). 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.

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

24. Balances and transactions with related parties

All significant balances at period end between the consolidated companies and the effect of the transactions between them were eliminated on consolidation.

Details of balances and transactions with shareholders and Group and related companies at 31 December 2019 and 2018 are as follows:

2019

	Accounts receivable and other current financial assets (Note 12)	Long-term loans	Accounts payable	Sales and other income	Purchases and other expenses
Recytech, S.A.	238	–	835	1,610	10,037
Befesa Zinc (Thailand) Ltd.	513	–	–	–	–
Other	–	59	–	–	–
Total	751	59	835	1,610	10,037

2018

	Accounts receivable and other current financial assets (Note 12)	Long-term loans	Accounts payable	Sales and other income	Purchases and other expenses
Recytech, S.A.	282	–	1,432	1,630	11,750
Befesa Zinc (Thailand) Ltd.	642	–	–	–	–
Other	–	47	–	–	–
Total	924	47	1,432	1,630	11,750

The balances and transactions of Group companies relate to sale and purchase transactions and other commercial operations 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.

25. Information on the environment

The Parent and the 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. In 2019, no significant environmental investments were made.

In 2019 and 2018, the Group did not incur any significant expenses relating to environmental activities.

26. Auditors' fees

Fees for services rendered by the audit firm (KPMG in 2019 and PricewaterhouseCoopers Auditores S.L. in 2018) for the audit of the Group's financial statements for the years ended 31 December 2019 and 2018, irrespective of the date of invoice, are as follows:

	Thousands of Euros	
	2019	2018
Audit services	389	583
Other assurance services	–	15
	389	598

Other auditors have invoiced the Group net fees for professional services during the years ended 31 December 2019 and 2018, as follows:

	Thousands of Euros	
	2019	2018
Audit services	97	19
Tax advisory services	89	141
	186	160

27. Earnings per share

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

	2019	2018
From continuing operations attributable to the ordinary equity holders of the Company	2.43	2.71
From discontinued operations	–	(0.06)
Total basic earnings/(losses) per share attributable to the ordinary equity holders of the Company	2.43	2.65

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

As at 31 December 2019 and 2018, there are no differences between basic and diluted earnings/(losses) per share.

c) Reconciliation of earnings used in calculating earnings per share

	Thousands of euros	
	2019	2018
Profit/(loss) for the year from continuing operations	87,896	97,098
Less non-controlling interests from continuing operations	(5,183)	(4,704)
Profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company	82,713	92,394
	82,713	92,394
	–	–
Profit/(loss) for the year from discontinued operations	–	(2,205)
Profit/(loss) from discontinued operations attributable to the ordinary equity holders of the Company	–	(2,205)
Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	82,713	90,189

Notes to the consolidated financial statements as at 31 December 2019 (Thousands of euros) continued

27. Earnings per share continued

d) Weighted average number of shares used as the denominator

	Number in thousand	
	2019	2018
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (Note 13)	34,067	34,067

As at 31 December 2019 there are no financial instruments or other contracts that might have a significant dilutive effect on the calculation of earnings per share.

28. Subsequent events

On 17 February 2020, Befesa repriced its TLB reducing its interest rate by 50 bps to Euribor + 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 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 (Note 14). The fix interest rate is 0.236% and the notional amount totalled €316,000 thousand.

On 11 March 2020, the World Health Organisation declared the coronavirus COVID-19 outbreak a pandemic, due to its fast spread around the world, after impacting more than 150 countries. Most governments are taking constraints measures to contain the spread, which include: isolation, confinement, quarantine and restrictions to free movement of people, closure of public and private facilities, except for health and essential goods, border closures and substantial reduction of air, sea, and land traffic.

This situation is affecting significantly the global economy, due to disruption or slowdown of supply chains and a significant increase in economic uncertainty, as shown by an increase of volatility in the price of assets, exchange rates and a decrease in long-term interest rates.

The consequences of the COVID-19 crisis are considered a non-adjusting subsequent event for the 2019 financial statements, although they will be reflected on the 2020 financial information.

At the date of these consolidated financial statements, the main effect is the temporarily closure of Befesa's construction site in Changzhou where the Company is building its first EAF steel dust recycling plant in China, which was restarted on 10 March 2020. The Company's management is expecting significant events for the future, whose impact cannot be reliably estimated at this time.

The Group started 2020 with strong liquidity, a long-term efficient covenant-lite capital structure and a solid zinc hedge book. With €126 million cash on hand at year-end 2019 and a €75 million entirely undrawn revolving credit facility (RCF) Befesa shows strong liquidity. Befesa's long-term covenant-lite capital structure matures in July 2026 only and has been successfully repriced in February 2020 to an efficient Euribor +200 bps for leverage at or above x2.25. In addition, Befesa sold 150 thousand tonnes of zinc forward between January 2019 and up to and including October 2021 at approximately €2,250 per tonne in 2020 and at around €2,200 per tonne in 2021 representing, against a zinc spot price of €1,800 per tonne, a value of approximately €64 million.

The Company's management will evaluate during 2020 the impact of the matters previously described and those that could be identified in the future on the financial position of the Company as at 31 December 2020.

**28. Subsequent events continued
Subsidiaries, joint operations and associates
2019**

Entity	Country	Activity	% Interest	Auditor	Capital	Reserves	Translation differences	Results	Interim dividend	
										Thousands of euros (31/12/2019)
Sociedades dependientes										
Befesa Management Services GmbH	Germany	Holding	100%	KPMG	25	1,025		306		
Befesa Medio Ambiente, S.L.	Spain	Holding	100%	KPMG	150,003	362,517		98,777		
MRH Residuos Metálicos S.L.U.	Spain	Holding	100%	(1)	15,600	3,858		42,434	(34,626)	
– Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	3,119		4,056	(3,746)	
– Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	303				
– Befesa Aluminium, S.L.U.	Spain	Recovery of metals	100%	KPMG	4,767	66,833		8,170		
Befesa Aluminio Comercializadora, S.L.	Spain	Marketing company	100%	(1)	90	21				
Befesa Salt Slags, Ltd.	UK	Recovery of metals	100%	CURO	27,108	(24,793)	(2,009)	(375)		
Befesa Zinc, S.A.U.	Spain	Holding	100%	KPMG	25,010	55,655		83,415	(75,000)	
– Befesa Zinc Comercial, S.A. (Sociedad Unipersonal)	Spain	Sale of recycled waste	100%	KPMG	60	9,837		281		
– Befesa Zinc Comercial, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	4,260	23,539		37,138	(33,000)	
– Befesa Zinc Sur, S.L. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	(1)	605	244		(3)		
– Befesa Zinc Óxido, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	1,102	5,910		(92)		
– Befesa Steel R&D, S.L. (Sociedad Unipersonal)	Spain	Development of projects and technology innovation	100%	(1)	3	2,028		238		
– Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	2,442		1,316		
Befesa Zinc Gravelines S.A.S.	France	Waelz oxide treatment	100%	PwC	8,000	3,505		1,028		
– Befesa ScanDust AB	Sweden	Recovery of metals	100%	KPMG	5,309	2,663	(423)	(3,227)		

Notes to the consolidated financial statements
as at 31 December 2019 (Thousands of euros) continued

Thousands of euros (31/12/2019)									
Entity	Country	Activity	% Interest	Auditor	Capital	Reserves	Translation differences	Results	Interim dividend
– Befesa Silvermet Turkey, S.L.	Spain	Holding	53.70%	(1)	9,175	1,127		(25)	–
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	2,672	12,467	(5,466)	11,074	–
Befesa Silvermet DisTicaret, A.S.	Turkey	Recovery of metals	100%	(1)	1,198	1,358	(977)	135	–
– Befesa Zinc Germany GmbH	Germany	Holding	100%	KPMG	25	1,754	–	42,712	(38,084)
– Befesa Steel Services GmbH	Germany	Sales and logistics	100%	KPMG	2,045	67,862	–	(43)	–
Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	KPMG	5,113	20,331	–	(206)	–
Befesa Zinc Korea Ltd.	South Korea	Recovery of metals	100%	KPMG	17,015	48,527	4,167	4,883	–
Befesa Pohang Co., Ltd.	South Korea	Recovery of metals	100%	(1)	1,770	7,019	37	3	–
Befesa Zinc Freiberg GmbH & Co. KG	Germany	Recovery of metals	100%	KPMG	1,000	25,165	–	(72)	–
Befesa Zinc Environmental Protection Technology (Jiangsu) Co., Ltd	China	Recovery of metals	100%	PAF	14,309	–	(162)	132	–
Befesa (China) Investment Co., Ltd	China	Holding	100%	PAF	5,452	(143)	–	(197)	–
Befesa Zinc Environmental Protection Technology (Henan) Co., Ltd	China	Recovery of metals	100%	PAF	4,584	–	(50)	(98)	–
Joint operations									
– Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	1,854	–	13,376	–

⁽¹⁾ Companies not subject to statutory audit.

28. Subsequent events continued Subsidiaries, joint operations and associates 2018

Entity	Country	Activity	% Interest	Auditor	Share capital	Thousands of euros (31/12/2018)		
						Reserves	Translation differences	Interim dividend
Subsidiaries								
Befesa Holding S.à.r.l.	Luxembourg	Holding	100%	(1)	13	425,470	-	45,392 (45,369)
Befesa Management Services GmbH	Germany	Holding	100%	PwC	25	770	-	255 -
Befesa Medio Ambiente, S.L.	Spain	Holding	100%	PwC	150,003	319,817	-	147,199 (49,870)
MRH Residuos Metálicos S.L.U.	Spain	Holding	100%	(1)	15,600	14,110	-	71,748 (70,000)
- Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	PwC	25	2,367	-	10,497 (5,492)
- Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	PwC	25	303	-	- -
- Subgroup Zinc Befesa Zinc, S.A.U.	Spain	Holding	100%	PwC	25,010	48,039	-	57,969 (40,000)
Befesa Zinc Comercial, S.A.U.	Spain	Sale of recycled waste	100%	PwC	60	9,935	-	(97) -
Befesa Zinc Aser, S.A.U.	Spain	Recovery of metals	100%	PwC	4,260	30,957	-	35,718 (31,000)
Befesa Zinc Sur, S.L.U.	Spain	Recovery of metals	100%	(1)	605	248	-	(4) -
Befesa Zinc Óxido, S.A.U.	Spain	Recovery of metals	100%	PwC	1,102	5,423	-	487 -
Befesa Steel R&D, S.L.U.	Spain	Development of projects and technology innovation	100%	(1)	3	1,999	-	29 -
Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	(2,281)	-	4,723 -
Befesa Zinc Gravelines, S.A.S. France	France	Waelz oxide treatment	100%	PwC	8,000	2,323	-	1,182 -
Befesa ScanDust AB	Sweden	Recovery of metals	100%	PwC	5,309	9,099	(390)	(11,158) -
Befesa Silvermet Turkey, S.L.	Spain	Holding	53.70%	(1)	9,175	(819)	-	10,096 (8,150)
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	2,672	2,627	(3,858)	9,839 -
Befesa Silvermet DisTicaret, A.S.	Turkey	Recovery of metals	100%	PwC	1,198	390	(807)	968 -

Notes to the consolidated financial statements
as at 31 December 2019 (Thousands of euros) continued

Entity	Thousands of euros (31/12/2018)									
	Country	Activity	% Interest	Auditor	Share capital	Reserves	Translation differences	Results	Interim dividend	
Befesa Zinc Germany GmbH	Germany	Holding	100%	PwC	25	2,844	-	34,826	(30,000)	
Befesa Steel Services GmbH	Germany	Sales and logistics	100%	PwC	2,045	67,476	-	386	-	
Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	PwC	5,113	22,446	-	77	-	
Befesa Zinc Korea Co., Ltd.	South Korea	Recovery of metals	100%	PwC	17,015	51,377	5,441	13,832	-	
Befesa Zinc Pohang Co., Ltd.	South Korea	Recovery of metals	100%	(1)	866	3,462	71	2	-	
Befesa Zinc Freiberg GmbH	Germany	Recovery of metals	100%	PwC	1,000	29,665	-	(154)	-	
- Befesa Aluminio, S.L.U.	Spain	Recovery of metals	100%	PwC	4,767	59,693	-	6,987	-	
Befesa Aluminio Comercializadora, S.L.U.	Spain	Marketing company	100%	(1)	90	21	-	-	-	
Befesa Salt Slags, Ltd.	United Kingdom	Recovery of metals	100%	PwC	27,108	(23,275)	(2,013)	(1,518)	-	
Joint operations										
- Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	1,336	-	19,018	-	

⁽¹⁾ Companies not subject to statutory audit

Responsibility statement

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

- the 2019 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, 25 March 2020



Javier Molina Montes



Wolf Uwe Lehmann

Independent auditor's report



KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
E-mail: info@kpmg.lu
Internet: www.kpmg.lu

To the Shareholders of
Befesa S.A.
46, Boulevard Grande-Duchesse Charlotte
L-1330 Luxembourg
Grand Duchy of Luxembourg

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 balance sheet as at 31 December 2019, and the consolidated income statement, the 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 2019, 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 (the "Law of 23 July 2016") and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (the "CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of the "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "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.

Recoverability of goodwill and other intangible assets with an indefinite useful life

a. Why the matter was considered to be one of the most significant in our audit of the consolidated financial statements of the current period

The consolidated balance sheet of the Group includes goodwill amounting to EUR 335,564 thousand and other intangible assets (licenses) amounting to EUR 81,000 thousand as at 31 December 2019.

Group's accounting principles and policies regarding Goodwill and other intangible assets are disclosed in Note 3.

There is uncertainty in estimating the recoverable amount of cash generating units (CGU) to which the goodwill and licenses are allocated, which principally arises from the inputs used in both forecasting and discounting future cash flows. Management applies judgement to make assumptions to estimate the discount rates, the rates of growth of revenue and future margins.

In view of the financial significance of the balance, the inherent uncertainties and the level of judgement required in evaluating the Group's assumption included within the estimation of the recoverable amount of CGU to which the goodwill and licenses are allocated, the recoverability of goodwill and other intangible assets with an indefinite useful life matter was of particular significance to our audit.

b. How the matter was addressed in our audit

Our audit procedures concerning the recoverability of goodwill and other intangible assets with an indefinite useful life included, but were not limited to, the following:

- Testing the design and implementation of the key controls embedded in the Group's impairment assessment process.
- With the assistance of our audit team members specialised in valuations, we inspected the appropriateness of the Group's valuation methodology in determining the recoverable amount of CGU to which the goodwill and licenses are allocated and of the estimation of discount rates, rates of growth of revenue and future margins by using our own valuation specialists.
- Comparing the projections of consolidated free cash flows with the business plan and forecasts approved by management, and when possible benchmarking them against general and sector-specific market expectations.
- Back testing past cash flow projections for the year 2019 with the actual cash flows for the year.
- Performing a sensitivity analysis around the key estimates of the Group's recoverability analysis.
- Assessing the adequacy of key assumptions disclosure in the Group's consolidated financial statements.

Independent auditor's report continued

**Recoverability of deferred tax assets****a. Why the matter was considered to be one of the most significant in our audit of the consolidated financial statements of the current period**

The consolidated balance sheet of the Group includes deferred tax assets amounting to EUR 70,913 thousand as at 31 December 2019. This amount includes EUR 59,699 thousand relating to capitalised tax losses and other tax credits.

Deferred tax assets may be recognised based on a number of factors, including whether the Group will have sufficient tax profits in future periods against which capitalised tax losses and other tax credits can be utilised.

The recognition of deferred tax assets relies on the exercise of significant judgement by the Board of Directors in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated and future reversals of existing taxable temporary differences.

We identified the recognition of deferred tax assets as a key audit matter because of its significance to the consolidated financial statements and because of the significant judgement of the Board of Directors and estimation required in the forecasting future taxable profits which could be subject to error or potential management bias.

b. How the matter was addressed in our audit

Our audit procedures concerning the recoverability of deferred tax assets included, but were not limited to, the following:

- Testing the design and implementation of the key controls on recognition and valuation of deferred tax assets.
- Inspecting management's assessment of the recoverability of the deferred tax assets by testing the assumptions supporting projected forecasts. The assumptions supporting this analysis were consistent with the goodwill and intangible assets impairment assessment described above, including the review of differences between historical estimates and actual results.
- Challenging the reasonability of the deferred tax assets which are expected to be recovered annually, by reference to the applicable tax legislation.
- Assessing whether the Group's disclosures in the consolidated financial statements of the application of judgement in estimating recognised and unrecognised deferred tax asset balances appropriately reflect the Group's deferred tax position with reference to the requirements of the prevailing accounting standards.



Other matter relating to comparative information

The consolidated financial statement of the Group as at and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statement on 20 March 2019.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated annual report including the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of the "Réviseur d'Entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

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

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.

Independent auditor's report continued

**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 "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.

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 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as “Réviseur d’Entreprises agréé” by the General Meeting of the Shareholders on 19 June 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is one year.

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 consolidated 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 No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Luxembourg, 25 March 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé



Stephan Lego-Deiber



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Balance sheet from 1 January 2019 to 31 December 2019

(Expressed in euro)

	Note(s)	2019	2018
Assets			
A. Subscribed capital unpaid		-	-
I. Subscribed capital not called		-	-
II. Subscribed capital called but unpaid		-	-
B. Formation expenses		-	-
C. Fixed assets		768,667,511.59	774,521,878.18
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	2.3/3	768,667,511.59	774,521,878.18
1. Shares in affiliated undertakings		242,667,511.59	248,521,878.18
2. Loans to affiliated undertakings		526,000,000.00	526,000,000.00
3. Participating interests		-	-
4. Loans to undertakings with which the undertaking is linked by virtue of participating interests		-	-
5. Investments held as fixed assets		-	-
6. Other loans		-	-
D. Current assets		40,371,890.40	34,421,702.87
I. Stocks		-	-
1. Raw materials and consumables		-	-
2. Work in progress		-	-
3. Finished goods and goods for resale		-	-
4. Payments on account		-	-

Balance sheet from 1 January 2019 to 31 December 2019 (euro) continued

	Note(s)	2019	2018
II. Debtors	2.4/4	40,322,892.08	34,404,391.82
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		40,194,024.65	34,392,222.53
a) becoming due and payable within one year		40,194,024.65	33,459,772.15
b) becoming due and payable after more than one year		-	932,450.38
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		128,867.43	12,169.29
a) becoming due and payable within one year		128,867.43	12,169.29
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		48,998.32	17,311.05
E. Prepayments	2.5/5	6,789,962.32	5,920,537.39
Total (Assets)		815,829,364.31	814,864,118.44

Balance sheet from 1 January 2019 to 31 December 2019 (Expressed in euro) continued

	Note(s)	2019	2018
Capital, reserves and liabilities			
A Capital and reserves	6	276,338,653.57	275,799,100.14
I. Subscribed capital		94,575,646.35	94,575,646.35
II. Share premium account		263,875,806.27	263,875,806.27
III. Revaluation reserve		-	-
IV. Reserves		8,918,029.22	6,409,319.27
1. Legal reserve		8,918,029.22	6,409,319.27
2. Reserve for own shares		-	-
3. Reserves provided for by the articles of association		-	-
4. Other reserves, including the fair value reserve		-	-
a) other available reserves		-	-
b) other non available reserves		-	-
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		532,461,494.89	532,982,821.45
a) becoming due and payable within one year		6,461,494.89	6,982,821.45
b) becoming due and payable after more than one year		526,000,000.00	526,000,000.00
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		28,156.00	28,083.62
a) becoming due and payable within one year		28,156.00	28,083.62
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)	2019	2018
6. Amounts owed to affiliated undertakings		-	-
a) becoming due and payable within one year		-	-
b) becoming due and payable after more than one year		-	-
	Note(s)	2019	2018
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		147,163.53	45,733.34
a) Tax authorities		117,036.81	-
b) Social security authorities		-	-
c) Other creditors		30,126.72	45,733.34
i) becoming due and payable within one year		30,126.72	45,733.34
ii) becoming due and payable after more than one year		-	-
D. Deferred income	2.8/9	6,764,396.32	5,908,537.39
Total (Capital, reserves and liabilities)		815,829,364.31	814,864,118.44

Profit and loss account from 1 January 2019 to 31 December 2019

(Expressed in euro)

	Note(s)	2019	2018
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	10	1,011,936.00	6,209,230.70
5. Raw materials and consumables and other external expenses		-451,011.36	-5,152,288.72
a) Raw materials and consumables		-	-
b) Other external expenses	11	-451,011.36	-5,152,288.72
6. Staff costs	12	-	-
a) Wages and salaries		-	-
b) Social security costs		-	-
i) relating to pensions		-	-
ii) other social security costs		-	-
c) Other staff costs		-	-
7. Value adjustments	2.9	-	-132.48
a) in respect of formation expenses and of tangible and intangible fixed assets		-	-132.48
b) in respect of current assets		-	-
8. Other operating expenses	13	-500,238.26	-649,016.21
9. Income from participating interests	14	45,670,779.55	49,868,694.95
a) derived from affiliated undertakings		45,670,779.55	49,868,694.95
b) other income from participating interests		-	-
10. Income from other investments and loans forming part of the fixed assets	15	12,949,097.21	14,541,708.33
a) derived from affiliated undertakings		12,949,097.21	14,541,708.33
b) other income not included under a)		-	-
11. Other interest receivable and similar income	16	2,425,182.95	2,648,372.22
a) derived from affiliated undertakings		2,425,182.95	2,648,372.22
b) other interest and similar income		-	-

	Note(s)	2019	2018
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	17	-15,456,429.06	-17,281,994.78
a) concerning affiliated undertakings		-	-
b) other interest and similar expenses		-15,456,429.06	-17,281,994.78
15. Tax on profit or loss	18	-	-
16. Profit or loss after taxation		45,649,317.03	50,184,574.01
17. Other taxes not shown under items 1 to 16	18	-141,713.00	-10,375.00
18. Profit or loss for the financial year		45,507,604.03	50,174,199.01

Notes to the annual accounts

For the year beginning 1 January 2019 and ending 31 December 2019
(Expressed in euro)

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 is established at 46, Boulevard Grande-Duchesse Charlotte, L-1330 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 2019 and ends on 31 December 2019.

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.

The Company also prepares consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU). The consolidated financial statements and the management report are publicly 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 ("EUR" / "€") and the balance sheet and the profit and loss account are expressed in this currency.

Other assets and other liabilities (except specific cases) denominated in currencies other than EUR are translated at the exchange rates prevailing at the date of the balance sheet, unless this would lead to an unrealised exchange gain.

As a result, realised exchange gains and losses and unrealised exchange losses are recorded in the profit and loss account. Unrealised exchange gains are not recorded.

Specific cases:

Current assets and liabilities denominated in currencies other than EUR (having an economic link and similar characteristics) are recorded at the exchange rates prevailing at the date of the balance sheet.

2.3 Financial assets

Shares in affiliated undertakings and participating interests are valued at purchase price including the expenses incidental thereto.

Loans to affiliated undertakings, participating interests and other loans 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.

2.4 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.

2.5 Prepayments

This asset item includes expenditure incurred but relating to a subsequent financial year.

2.6 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".

2.7 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. Summary of significant accounting policies continued

2.8 Deferred income

This liability item includes income received but relating to a subsequent financial year.

2.9 Value adjustments

Value adjustments are deducted directly from the related asset.

2.10 Income from dividend

Income from dividends is recognized when the shareholder's right to receive payment is established.

Notes to the annual accounts as at 31 December 2019 (Expressed in euro) continued

3. 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	248,521,878.18	224,435,083.98	-230,289,450.57	0.00	242,667,511.59
Loans to affiliated undertakings	526,000,000.00	0.00	0.00	0.00	526,000,000.00
Total	774,521,878.18	224,435,083.98	-230,289,450.57	0.00	768,667,511.59

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	248,521,878.18	224,435,083.98	-230,289,450.57	0.00	242,667,511.59
Loans to affiliated undertakings	526,000,000.00	0.00	0.00	0.00	526,000,000.00
Total	774,521,878.18	224,435,083.98	-230,289,450.57	0.00	768,667,511.59

On 15 July 2019, Befesa Holding S.à r.l. (a company of the group that Befesa S.A. owned at 100%) was dissolved and all assets and liabilities were transferred to Befesa S.A..

The additions and disposals are related to the dissolution of Befesa Holding S.à r.l..

- Additions: €25,000.00 in Befesa Management Services, GmbH, and €224,410,083.98 in Befesa Medio Ambiente S.L.
- Disposals: €230,289,450.57 in Befesa Holding S.à r.l.

In the opinion of the Board of Directors, no durable depreciation in value has occurred on shares in affiliated undertakings as at 31 December 2019, accordingly no value adjustment was recorded.

Undertakings in which the Company holds at least 20% in their share capital or in which it is a general partner are as follows:

Name	Registered Office	% holding	As at 31/12/2018		
			Net book value (EUR)	Net equity (EUR)	Net result (EUR)
Befesa Management Services GmbH	Germany	100%	25,000.00	824,681.99	225,497.96
Befesa Medio Ambiente, S.L.	Spain	100%	242,642,511.59	353,406,000.00	100,520,000.00

Loans to affiliated undertakings

Counterparty	Currency	Amount	Interest rate	Maturity date
Loan to Befesa Medio Ambiente S.L.	EUR	526,000,000.00	2.50%	07.12.2022

The Facilities agreement granted to the Company on 7 December 2017 (Note 8) and the loan granted to Befesa Medio Ambiente, S.L. 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 TLB.

As at 31 December 2019, the nominal amount of this loan is €526,000,000.00 (2018: €526,000,000.00) and accrued interest amount to €6,392,361.11 (2018: €6,907,402.78) (Note 4).

In the opinion of the Board of Directors, no durable depreciation in value has occurred on loans to affiliated undertakings as at 31 December 2019, accordingly no value adjustment was recorded.

4. Debtors

Debtors by category	Within one year	More than one year	As at 31/12/2019	As at 31/12/2018
Amounts owed by affiliated undertakings	40,194,024.65	0.00	40,194,024.65	34,392,222.53
Other debtors	128,867.43	0.00	128,867.43	12,169.29
Total	40,322,892.08	0.00	40,322,892.08	34,404,391.82

4.1 Debtors – Becoming due and payable within one year

As at 31 December 2019, the amounts owed by affiliated undertakings becoming due and payable within one year are mainly composed of €33,500,000.00 for the dividend receivable from Befesa Medio Ambiente S.L. (2018: €23,500,000.00 for the dividend receivable from Befesa Holding S.à r.l. and €1,500,000.00 for the dividend receivable from Befesa Medio Ambiente S.L.). The balance also includes accrued interest: €6,392,361.11 (2018: €6,907,402.78) on the loan granted to Befesa Medio Ambiente, S.L. (Note 3), €69,133.78 (2018: €75,418.67) on the interest rate swap ("IRS") granted to this same subsidiary. This IRS has the same principal economic terms than the IRS granted to the Company (Note 8).

The Facilities agreement granted to the Company on 7 December 2017 (Note 8) and the loan granted to Befesa Medio Ambiente, S.L. have the same principal economic terms.

Accrued interest receivable from affiliated undertakings and participating interests

Due within one year Counterparty	As at 31/12/2019 Amount EUR	As at 31/12/2018 Amount EUR
Accrued Interest – Interest Rate Swap Befesa Medio Ambiente S.L.	69,133.78	75,418.67
Accrued Interest Loan Befesa Medio Ambiente S.L.	6,392,361.11	6,907,402.78
Total	6,461,494.89	6,982,821.45

Other receivables from affiliated undertakings and participating interests

Due within one year	As at 31/12/2019	As at 31/12/2018
Receivable from Befesa Medio Ambiente S.L.	232,529.76	1,476,950.70
Total	232,529.76	1,476,950.70

4.2 Debtors – Becoming due and payable after more than one year

Loans and cash advances receivable from affiliated undertakings and participating interests

Due after more than one year Counterparty	As at 31/12/2019 Amount EUR	As at 31/12/2018 Amount EUR
Loan to Befesa Holding S.à r.l.	0.00	932,450.38
Total	0.00	932,450.38

In the opinion of the Board of Directors, the recovery of debtors is not compromised as at 31 December 2019, accordingly no value adjustment was recorded.

Notes to the annual accounts as at 31 December 2019 (Expressed in euro) continued

5. Prepayments

Prepayments	As at 31/12/2019	As at 31/12/2018
Formalization costs	6,764,396.32	5,908,537.39
Other prepaid expenses	25,566.00	12,000.00
Total	6,789,962.32	5,920,537.39

Formalisation costs of €9,642,045.57 were paid in relation to the Facilities Agreement granted to the Company (Note 8). These transactions costs have been recognised and are amortised all along the length of the facility. As at 31 December 2019, the accumulated prorated amortisation amounts to €1,278,190.79 (2018: €1,501,380.00).

6. Capital and reserves

Movements in capital and reserves	Balance as at 31/12/2018	Allocation of preceding result	Result for current year	Balance as at 31/12/2019
Subscribed capital	94,575,646.35	0.00	0.00	94,575,646.35
Share premium	263,875,806.27	0.00	0.00	263,875,806.27
Legal reserve	6,409,319.27	2,508,709.95	0.00	8,918,029.22
Profit or loss brought forward	-139,235,870.76	2,697,438.46	0.00	-136,538,432.30
Profit or loss for the financial year	50,174,199.01	-50,174,199.01	45,507,604.03	45,507,604.03
Dividend	0.00	44,968,050.60	0.00	0.00
Total	275,799,100.14	0.00	45,507,604.03	276,338,653.57

The allocation of preceding year result correspond to the decision taken by the Annual General Meeting of the shareholders of the Company held on 19 June 2019. The shareholders approved the distribution of a dividend in an amount of €1.32 gross per share resulting in an aggregate dividend distribution of €44,968,050.60 gross.

As at 31 December 2019, the subscribed capital is fully paid up and represented by 34,066,705 ordinary shares without nominal value, representing a total amount of €94,575,646.35.

The authorised capital of the Company is set at €111,047,595.14, divided into 39,999,998 shares.

Legal reserve

In accordance with Luxembourg relevant law, the 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 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 statutory profits must be allocated again toward the reserve. The legal reserve is not available for distribution to the shareholders.

7. Provisions

Provisions	As at 31/12/2019	As at 31/12/2018
Provisions for taxation	0.00	2,342.50
Other provisions	89,500.00	97,500.00
Total	89,500.00	99,842.50

Other provisions

As at 31 December 2019 and 2018, the other provisions consist mainly of provision for other operating expenses not yet invoiced.

8. Creditors

Creditors by category	Within one year	More than one year	More than five years	As at 31/12/2019	As at 31/12/2018
Amounts owed to credit institutions	6,461,494.89	526,000,000.00	0.00	532,461,494.89	532,982,821.45
Trade creditors	28,156.00	0.00	0.00	28,156.00	28,083.62
Other creditors	147,163.53	0.00	0.00	147,163.53	45,733.34
Total	6,636,814.42	526,000,000.00	0.00	532,636,814.42	533,056,638.41

Amounts owed to credit institutions

On 19 October 2017, the Company entered into a Facilities Agreement of €636,000,000.00. An amount of €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 ("IRS") agreement, also maturing on 7 December 2022. This IRS covers notional amount of €316,000,000.00, and the fixed rate is 0.358%, and the benchmark floating rate is Euribor.

On 9 July 2019, the Group successfully completed the refinancing of the €636 million Facilities Agreement. The new Facilities Agreement comprises:

- Term Loan B (TLB) Facility Commitment in an amount of €526 million, which is a bullet with a maturity date of 7 years.
- Revolving Credit Facility (RCF) in an amount of €75 million with a maturity of 6 years.
- A Guarantee Facility Commitment in an amount of €35 million with a maturity of 6 years.

Interest for the nine months in the case of the TLB facility is Euribor plus a margin of 2.50% and 2.25% in the case of RCF, these margins can be adjusted downwards up to 1.75% in the case of the TLB and up to 1.25% in the case of RCS depending on the ratio of net financial debt/EBITDA.

As at 31 December 2019, the amounts becoming due and payable within one year are composed of €6,392,361.11 (2018: €6,907,402.78) accrued interest on the facility, and of €69,133.78 (2018: €75,418.67) accrued interest on the IRS.

9. Deferred income

Deferred income	As at 31/12/2019	As at 31/12/2018
Deferred Income – Formalisation costs	6,764,396.32	5,908,537.39
Total	6,764,396.32	5,908,537.39

The Facilities Agreement granted to the Company (Note 8) and the loan granted to Befesa Medio Ambiente, S.L. (Note 3) have the same principal economic terms. The formalisation costs of €9,642,045.57 on the facility (Note 5) have been accounted for equally on the loan granted to Befesa Medio Ambiente, S.L.. As at 31 December 2019, the accumulated prorated amortisation of the arrangement fees amounts to €1,278,190.79 (2018: €1,501,380.00).

10. Other operating income

The other operating income consists of the costs the Company recharged to its subsidiary Befesa Medio Ambiente, S.L.

Notes to the annual accounts as at 31 December 2019 (Expressed in euro) continued

11. Raw materials and consumables and other external expenses

	As at 31/12/2019	As at 31/12/2018
Other external expenses		
Accounting, auditing and domiciliation fees	45,232.90	93,673.72
Banking and similar services	997.47	2,024.00
Legal fees	136,454.41	791,135.00
Other commissions and professional fees	257,460.60	4,229,462.00
Miscellaneous	10,865.98	35,994.00
Total	451,011.36	5,152,288.72

As at 31 December 2018, the Legal fees and other commissions and professional fees are mainly composed of cost related to the IPO held on 3 November 2017.

The professional services provided by KPMG Network firms (2018: PWC Network firms) to Befesa, S.A. and its affiliated undertakings are as follows:

	As at 31/12/2019	As at 31/12/2018
Audit services	389.00	583.00
Total	389.00	583.00

12. Staff costs

The average number of employees for the year 2019 was nil. (2018: 0).

13. Other operating expenses

The other operating expenses consists mainly of Directors' fees.

14. Income from participating interests

The income from participating interests consists of dividend received: €34,702,625.35 from Befesa Medio Ambiente S.L. (2018: €4,500,000.00) and €16,707,230.55 from Befesa Holding S.à.r.l. (2018: €45,368,694.95) offset by a realised loss of €5,739,076.35 on its dissolution.

15. Income from other investments and loans forming part of the fixed assets

As at 31 December 2019, the interest income of the loan of €526,000,000.00 to Befesa Medio Ambiente, S.L. amounts to €12,949,097.21 (2018: €14,541,708.33) (Note 3).

16. 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.

	As at 31/12/2019	As at 31/12/2018
Amortisation costs	1,278,190.73	1,501,380.00
Cost of IRS	1,146,992.22	1,146,992.22
Total	2,425,182.95	2,648,372.22

17. Interest payable and similar expenses

As at 31 December 2019, the €15,456,429.06 are mainly related to the interest cost of Facilities Agreement of €636,000,000.00 (Note 8), cost of the Interest Rate Swap ("IRS") agreement (Note 8) and prorated amortisation costs related to this Facilities Agreement (Note 5).

	As at 31/12/2019	As at 31/12/2018
Interest cost	12,949,097.21	14,541,708.33
Cost of IRS	1,146,992.22	1,146,992.22
Amortisation costs	1,278,190.73	1,501,380.00
Other expenses	82,148.90	91,914.23
Total	15,456,429.06	17,281,994.78

18. Taxation

The Company is subject to the general tax regulation applicable in Luxembourg.

19. Off balance sheet commitments and transactions

On 19 October 2017, the Company entered into a Facilities Agreement of €636,000,000.00 (Note 8). In this context, the Company pledged the shares of Befesa Medio Ambiente, S.L..

On 7 December 2017, the Company entered into an Interest Rate Swap agreement ("IRS") in relation with the Facilities Agreement (Note 8).

20. 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.

21. 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 (2018: nil).

22. Subsequent events

On 17 February 2020, Befesa repriced its TLB reducing its interest rate by 50 bps to Euribor + 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 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 amount totalled €316,000 thousand.

On 11 March 2020, the World Health Organisation declared the coronavirus COVID-19 outbreak a pandemic, due to its fast spread around the world, after impacting more than 150 countries. Most governments are taking constraints measures to contain the spread, which include: isolation, confinement, quarantine and restrictions to free movement of people, closure of public and private facilities, except for health and essential goods, border closures and substantial reduction of air, sea, and land traffic.

This situation is affecting significantly the global economy, due to disruption or slowdown of supply chains and a significant increase in economic uncertainty, as shown by an increase of volatility in the price of assets, exchange rates and a decrease in long-term interest rates.

The consequences of the COVID-19 crisis are considered a non-adjusting subsequent event for the 2019 annual accounts, although they will be reflected on the 2020 financial information.

The Company started 2020 with strong liquidity, a long-term efficient covenant-lite capital structure and a solid zinc hedge book. With €49 thousand cash on hand at year-end 2019 and a €75 million entirely undrawn revolving credit facility (RCF) Befesa shows strong liquidity. Befesa's long-term covenant-lite capital structure matures in July 2026 only and has been successfully repriced in February 2020 to an efficient Euribor +200 bps for leverage at or above x2.25.


The Company's management will evaluate during 2020 the impact of the matters previously described and those that could be identified in the future on the financial position of the Company as at 31 December 2020.

Responsibility statement

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

- the 2019 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, 25 March 2020



Javier Molina Montes



Wolf Uwe Lehmann

Independent auditor's report



KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

Tel.: +352 22 51 51 1
Fax: +352 22 51 71
E-mail: info@kpmg.lu
Internet: www.kpmg.lu

To the Shareholders of
Befesa S.A.
46, Boulevard Grande-Duchesse Charlotte
L-1330 Luxembourg
Grand Duchy of Luxembourg

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 2019, 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 2019 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 are further described in the « Responsibilities of the "Réviseur d'Entreprises agréé" for the audit of the annual accounts » section of our report. We are also independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional 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.



Recoverability of financial assets

a. Why the matter was considered to be one of the most significant in our audit of the annual accounts of the current period

The balance sheet of the Company includes shares in affiliated undertakings amounting to EUR 243 million (related to the investments in Befesa Medio Ambiente S.L. and Befesa Management Services GmbH) and loans to affiliated undertakings (Befesa Medio Ambiente S.L.) amounting to EUR 526 million as at 31 December 2019. Both items together represent 94% of the total assets of the Company as at 31 December 2019.

The Company's accounting principles and policies regarding shares in affiliated undertakings and loans to affiliated undertakings are disclosed in Note 2.3.

The Board of Directors' estimation of the recoverability of the investment in Befesa Medio Ambiente S.L. and Befesa Management Services GmbH included the comparison of the carrying value of the shares in affiliated undertakings with the market capitalisation of Befesa S.A. as impairment indicator.

The Board of Directors' estimation of the recoverability of the loan granted to Befesa Medio Ambiente S.L. included projections of consolidated free cash flows of Befesa Medio Ambiente S.L. and its subsidiaries. The most significant assumptions used in the determination of the projections are the rates of growth of revenue and the forecasted future margins.

The matter was considered to be one of the most significant in our audit as the assessment of the valuation of financial assets requires significant judgement applied by the Board of Directors in assessing the recovery value of the financial assets and the durable nature of the value adjustments. Furthermore the financial assets are considered of most significance due to the significance of the amount.

b. How the matter was addressed in our audit

Our audit procedures concerning the recoverability of the financial assets included, but were not limited to, the following:

- Comparison of the carrying value of the investment in Befesa Medio Ambiente S.L. and Befesa Management Services GmbH with the market capitalisation of Befesa S.A. as impairment indicator as at 31 December 2019.
- Analysis of the capability of Befesa Medio Ambiente S.L. to repay the debt owed to the Company, based on the cash position and projections of consolidated free cash flows of Befesa Medio Ambiente S.L. and its subsidiaries.

Regarding the projections of the consolidated free cash flows, we:

- assessed the design and implementation of the key controls around the determination and monitoring of the projections of consolidated free cash flows;
- compared the projections of consolidated free cash flows with the business plan and forecasts approved by the Board of Directors;



- back tested past projections of consolidated free cash flows for the year 2019 with the actual cash flows for the year;
- challenged the rates of growth of revenues and forecasted future margins against available comparable information, including historical results and actual selling prices for 2019 and the first months of 2020.

We finally assessed the adequacy of the disclosures related to financial assets in the notes of the annual accounts.

Other matter relating to comparative information

The annual accounts of the Company as at and for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those annual accounts on 20 March 2019.

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.

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.

Independent auditor's report continued

**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.

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 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period 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 General Meeting of the Shareholders on 19 June 2019 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is one year.

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 No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Luxembourg, 25 March 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Stephan Lego-Deiber

BEFFESA

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Glossary

For a full understanding of this Annual Report and Befesa's activities, please see below a glossary of certain technical terms used herein.

Aluminium alloy	A mixture of two or more elements in which aluminium is the predominant metal
Aluminium concentrates	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, that can be recycled
Aluminium scrap	Material from various goods that have reached completion of their useful lives, that mainly contains aluminium and can be recycled
Basic oxygen furnace (BOF)	A type of metallurgical furnace which uses iron ore as its base raw material to produce steel
Coke	An input material used in the steel residue recycling processes
Crude steel dust	Hazardous waste resulting from the production of crude steel by mini-mills
Electric arc furnace (EAF)	A furnace used by mini-mills to melt scrap steel using electric arc technology
Galvanised steel	Steel with a protective coating containing zinc that 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-mills	Steel production facilities for the production of steel by melting the recycled scrap steel in Electric Arc Furnaces (EAF), as opposed to directly from iron ore (which is the primary iron resource used in traditional Basic Oxygen Furnace (BOF) steel factories)
Rotary furnace	A tube-shaped furnace that rotates around a central axis while materials are being treated
Salt slags	A hazardous waste generated by the production of secondary aluminium

Scrap steel	Recycled steel that serves as an input material for steel manufacturers using mini-mill facilities
Spent pot linings (SPL)	Spent pot linings of aluminium electrolysis cells are hazardous waste materials generated in the production process of primary aluminium
Stainless-steel residue	A hazardous residue resulting from the stainless-steel production from scrap stainless steel
Steel residue	Crude 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 and return 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, 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 the kiln containing a rotating furnace, which primarily vaporizes the zinc and lead components contained in the crude steel dust and produces 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 Waelz oxide (WOX) into zinc metal

Financial calendar

Thursday, 30 April 2020	Q1 2020 Statement & Analyst Call
Thursday, 18 June 2020	Annual General Meeting in Luxembourg
Friday, 31 July 2020	H1 2020 Interim Report & Analyst Call
Thursday, 29 October 2020	Q3 2020 Statement & Analyst Call

Notes:

Befesa's financial reports and statements are published at 7:30 am CET

Befesa cannot rule out changes of dates and recommends checking them at the "Investor Relations" section of the website www.befesa.com

IR contact

Rafael Pérez

Director of Investor Relations & Strategy

Phone: +49 (0) 2102 1001 0

email: irbefesa@befesa.com

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You can find this and other publications online in the "Investor Relations" section of Befesa's website www.befesa.com

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www.invicomm.com +44(0)207 205 2586

BEFESA

Befesa S. A.,
46 Boulevard Grande-Duchesse Charlotte
L 1330 Luxembourg, Grand Duchy of Luxembourg
www.befesa.com