BEFESA

2018

Annual Report

LONG-TERM GROWTH THROUGH
SUSTAINABLE SERVICES

2018 Highlights

FINANCIAL HIGHLIGHTS

Volumes at new record levels *in both core segments*

▲ 9%

INCREASE IN EAF[1]
STEEL DUST THROUGHPUT

2017	661.0 kt
2018	717.7 kt (+57 kt)

▲ 1%

INCREASE IN SALT SLAGS
& SPL[2] VOLUME

2017	509.9 kt
2018	517.0 kt (+7 kt)

Record results *and leverage further improved*

▲ €53m

INCREASE IN COMPARABLE
REVENUE IN 2018

2017	€667.4m[3]
2018	€720.1m (+8%)

▲ €4m

INCREASE IN ADJUSTED
EBITDA IN 2018

2017	€172.4m
2018	€176.0m (+2%)
2018 MARGIN	24.4%

▲ €3m

INCREASE IN ADJUSTED
EBIT IN 2018

2017	€143.9m
2018	€147.0m (+2%)
2018 MARGIN	20.4%

▲ €41m

INCREASE IN
NET PROFIT IN 2018

2017	€49.3m
2018	€90.2m (+83%)

OPERATIONAL HIGHLIGHTS

17
RECYCLING
PLANTS

1,128
EMPLOYEES

7
COUNTRIES
OPERATIONAL

[1] EAF= Electric Arc Furnace

[2] SPL= Spent Pot Linings

[3] Reported revenue in 2017 amounted to €724.8 million; comparable revenue of €667.4 million is after the amendment of IFRS 15, adopted from 1 January 2018

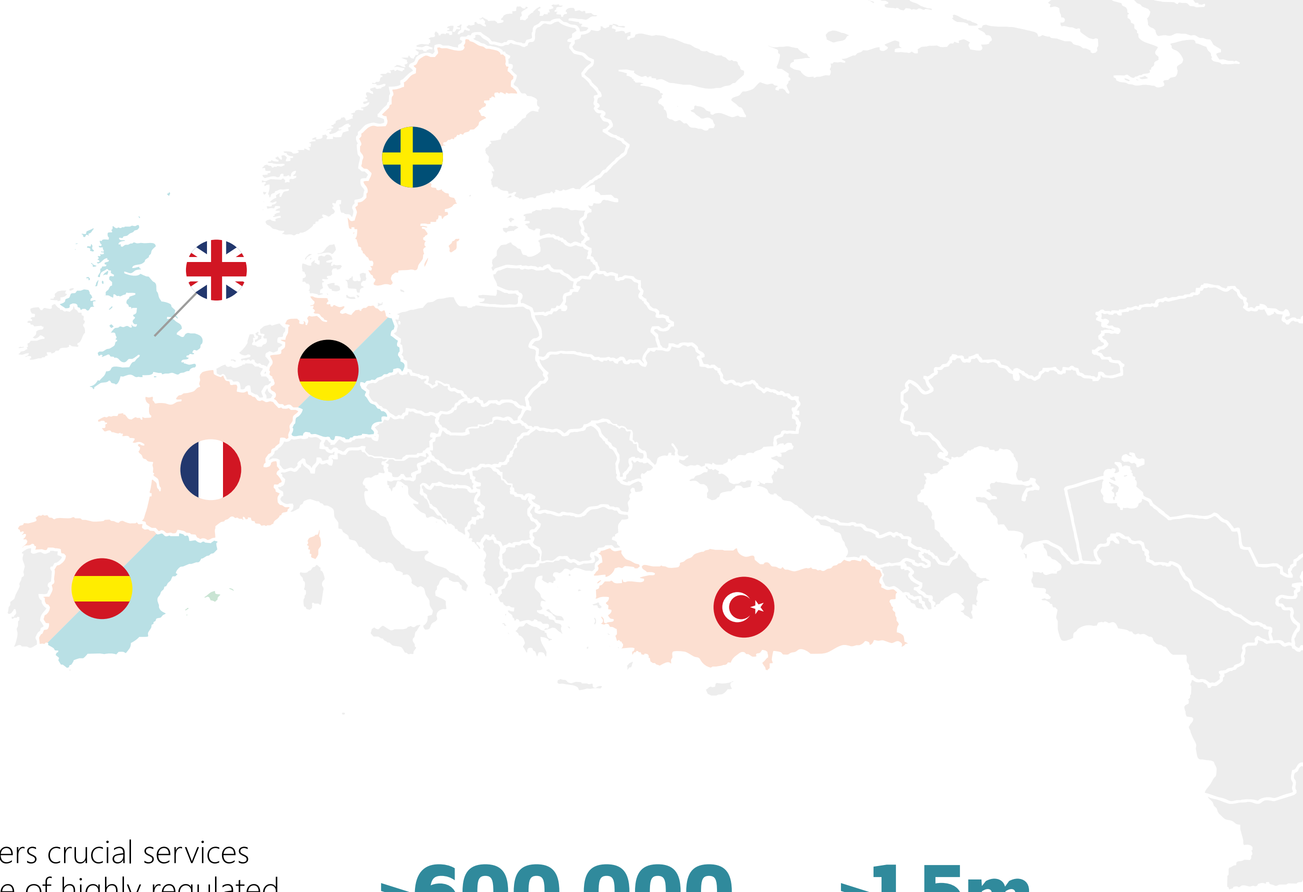
A YEAR OF SIGNIFICANT GROWTH

During 2018, Befesa has delivered significant financial and strategic progress in a challenging environment, setting up the Company to continue its successful growth roadmap.

Contents

Befesa at a glance

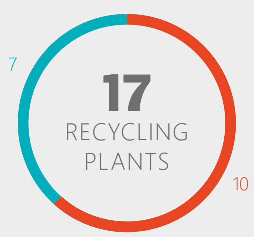
Market leader *providing* ***regulated critical environmental recycling services*** *to the steel and aluminium industries in its key European and Asian markets.*



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

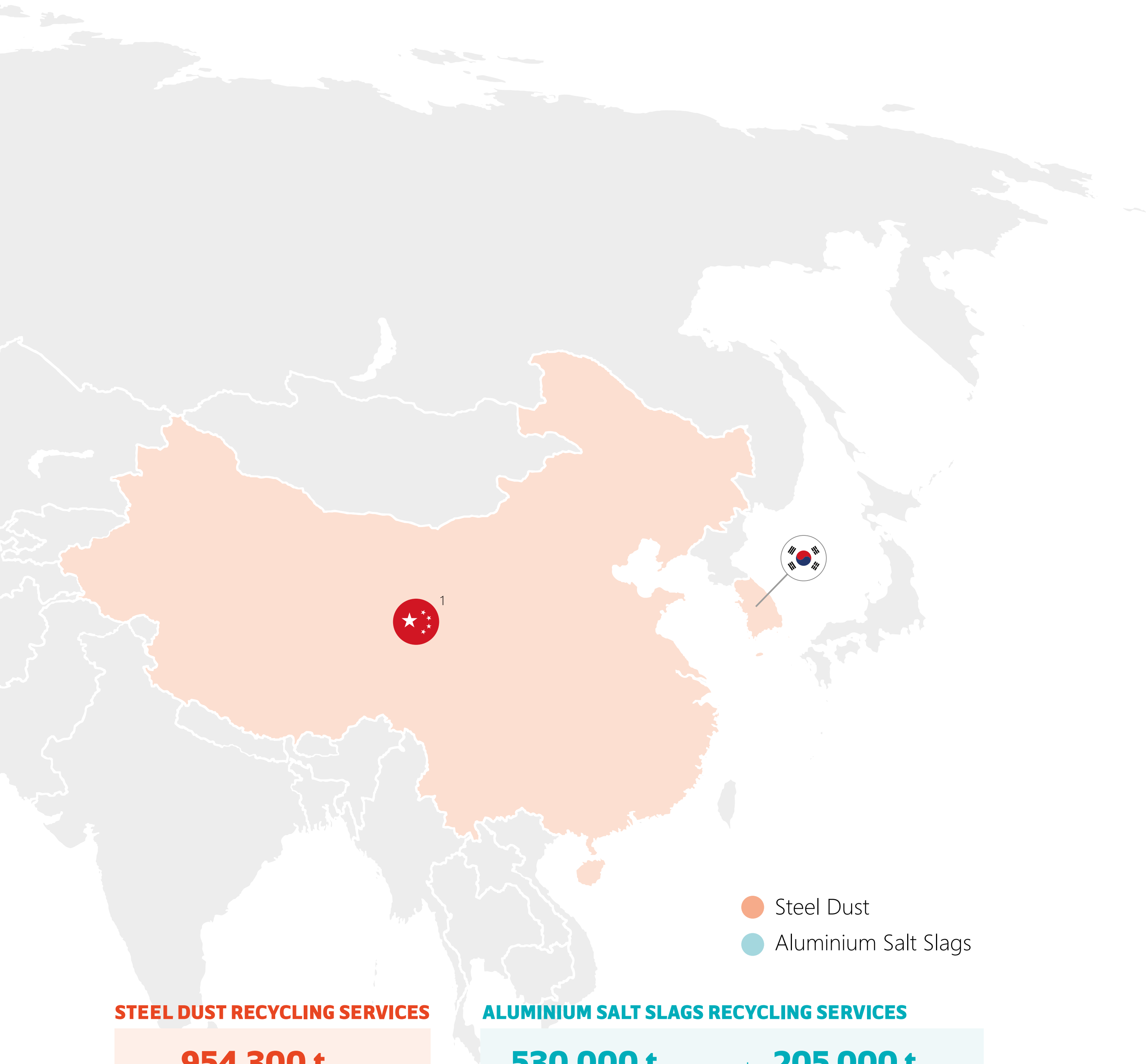
>600,000
TONNES OF RECOVERED NEW MATERIALS

>1.5m
TONNES RECYCLED



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.



STEEL DUST RECYCLING SERVICES

954,300 t
Total installed capacity to recycle EAF steel dust (crude and stainless)

ALUMINIUM SALT SLAGS RECYCLING SERVICES

530,000 t
Total installed capacity to recycle salt slags and SPL

205,000 t
Total installed capacity to produce secondary aluminium alloys

[1]Befesa is currently developing its first EAF steel dust recycling plant in China


BEFESA
BEFESA

TO BEFESA'S SHAREHOLDERS

Letter from the CEO

JAVIER MOLINA *CEO*

DEAR SHAREHOLDERS,
DEAR LADIES AND GENTLEMEN,

The year 2018 has been a very good one for Befesa – our first full year on the Frankfurt Stock Exchange. We have delivered financial and strategic progress in line with our guidance in a challenging environment, with zinc prices decreasing 25% over the course of the year. From an operational, financial and strategic point of view, the Company is in a strong position.

Operationally, we are achieving record volume levels of hazardous waste recycling throughput. Both of our core services – steel dust, and salt slags and SPL recycling services – are in high demand, running at record 92% and 98% capacity utilisation rates.

From a financial point of view, we delivered on our guidance and achieved €720 million of revenue, €176 million of EBITDA, €147 million of EBIT and €90 million of net profit, all at record levels. Befesa's net profit of €90 million grew 83% year-on-year, driven – next to the operating earnings increase – by the improved capital structure with around 60% less financial expenses. Our Earnings Per Share (EPS) is at €2.65 and Befesa aims to distribute 50% of its net profit as a dividend equal to €1.32 per share, 3.5% dividend yield based on the closing share price of 2018.

With Befesa's strong cash flow generation, we ended the year at €151 million cash in bank and reduced leverage from x2.4 at year-end 2017 to a new low leverage of x2.1. This positions Befesa very well in continuing to fund our organic growth roadmap.

Our strategy remains unchanged and we continue to execute our well-defined growth roadmap, which is built around three pillars: hedging, top growth projects in existing markets, and growth in new markets (e.g. China).

Referring to hedging, we extended our book in 2018 up to and including July 2021, covering close to 70% of our current zinc equivalent output levels. This provides us with a higher visibility on earnings and cash flow in a manageable bandwidth.

In 2018, we made good progress on our growth projects in existing markets, setting us up for major milestones in 2019. In the Aluminium Salt Slags recycling services, we accomplished the majority of the furnace upgrades at our Spanish plants, with Bilbao fully completed and Barcelona completing the second phase during Q3 2019.

Turning to the Steel Dust recycling services, we ran our Turkish operations at full plant utilisation in 2018. By the end of January 2019, we started the plant upgrade from 65,000 tonnes to 110,000 tonnes, and expect to ramp-up in Q3 2019. At our South Korean operations, we successfully grew to above 80% plant utilisation and are investing in a Waelz oxide (WOX) washing plant, enabling us to offer washed WOX from the end of 2019.

Finally, on growth in new markets, China – the largest steel market in the world – is maturing towards more EAF steel production. In September 2018, we signed an agreement with the Jiangsu Changzhou Economic Development Zone to develop steel dust recycling services in China. Befesa's first recycling plant in development is designed to recycle 110,000 tonnes of EAF steel dust per year. The ramp-up of the operations is expected to be carried out during the second half of 2020.

Similar to growth trends in China, favourable macro trends are expected to continue to support the need for Befesa's services in the medium term. On the one hand, environmental regulation is increasing around the world, driven by a growing concern about environmental protection and sustainability. On the other hand, there is a higher generation of industrial waste in general, EAF, steel dust, aluminium salt slags and SPL in particular, driven by more steel and aluminium scrap being recycled in the world.

Befesa's recycling services provide sustainable hazardous waste management solutions.

Today, Befesa manages and recycles more than 1,500 thousand tonnes of hazardous waste residues each year, avoiding landfill. Furthermore, we extract and produce more than 600,000 tonnes of new materials that we reintroduce into the market, reducing the consumption of natural resources. Sustainability is core to our business and we are issuing Befesa's first sustainability report since we became a listed company.

Just ten months after the IPO, in September 2018 Befesa entered the SDAX. At the end of 2018, Triton remained Befesa's main shareholder, with an ownership of 41% of the total shares. Subsequently, in January 2019, Triton sold an additional 9% stake, leaving its ownership at around 32%, resulting in a free float of 68%. In 2018, we met many investors in person across the main financial markets, in order to understand their views and to share Befesa's story. In 2019, investor relations remain a key priority for Befesa.

At this point, I would like to express my warmest thanks to our more than 1,100 employees for their positive attitude, their overall commitment and the role they play in realising our goal of continuously creating value for our customers, shareholders and the environment. The overall success of Befesa is owed to our staff, who work enthusiastically to achieve our targets and to make the world a little bit better. Thanks to their energy and passion, we can look into the future with confidence, and only together can we master our future challenges and expansion.

In summary, Befesa delivered in 2018 and we positioned ourselves very well to deliver again to our shareholders in 2019. Even though globally, various uncertainties – especially political – remain, we expect to grow earnings, continue to fund our growth initiatives and maintain our dividend distribution approach, while keeping leverage at approximately current levels.

Yours sincerely,

JAVIER MOLINA

CEO

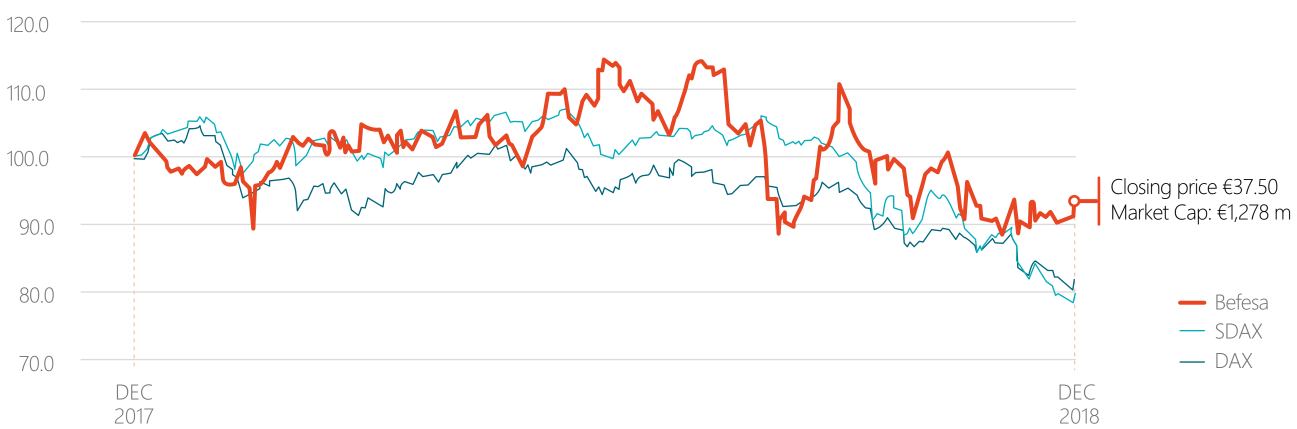
Befesa in the capital markets

BEFESA SHARE
GENERAL DATA

TICKER SYMBOL	BFSA
ISIN	LU1704650164
GERMAN SECURITIES CODE (WKN)	A2H5Z1
STOCK EXCHANGE	Frankfurt Stock Exchange
MARKET SEGMENT	Prime Standard
INDEX	SDAX
NUMBER OF SHARES	34,066,705
MARKET CAPITALISATION (CLOSING PRICE 2018)	€1,277,501,438
CLOSING SHARE PRICE 2018	€37.50
HIGH SHARE PRICE	€46.10
LOW SHARE PRICE	€35.50
FREE FLOAT*	59.4%

*Note: Subsequent to year-end 2018, the free float increased from 59% to 68% after the sale of 3 million shares by Triton on 10 January 2019

SHARE PERFORMANCE



Over the course of the fiscal year 2018, Befesa's share price decreased by 6.8% from €40.25 as of 29 December 2017 to €37.50 as of 28 December 2018. During the same period, the SDAX declined by 20% and the DAX by 18%.

€1,278m
MARKET CAPITALISATION

Befesa's daily average volume traded in XETRA amounted to approximately 26,000 shares.

Total market capitalisation amounted to €1,278 million as of 28 December 2018.

In September 2018 (after 10 months as a listed company), the Befesa share gained further visibility with its inclusion in the SDAX. Based on the free float market capitalisation, Befesa debuted in the middle of the index at rank #37 of 70, and improved a further ranking #25 of 70 as of 31 December 2018.

SHAREHOLDER STRUCTURE

Free float has increased over the course of the fiscal year 2018. On 21 March 2018, funds advised by (former owner) Triton placed 3 million shares of Befesa with institutional investors.

As a result, the free float as of 31 December 2018 amounted to 59.4%, representing 20,235,623 shares out of a total of 34,066,705 outstanding shares. The remaining 40.6% remained with Triton. The lock-up period for the management team ended on 3 November 2018.

Befesa's free float share is divided among a large number of international investors.

Voting right notifications from fund management firms, other publicly available data sources and Befesa's own research indicate that British and Spanish investors account for the largest share of institutional investors, followed by investors from Germany and the US.

The ten largest institutional investors hold 58.5% of the free float.

Subsequent to year-end, please note that Triton placed an additional 3.0 million shares on 10 January 2019. This placement increased the free float to 68.1%.

PROPOSED DIVIDEND

Based on the dividend policy of distributing 40% to 50% of the net reported profit, the Board of Directors of Befesa will propose at the Annual General Meeting (AGM) on 19 June 2019 to distribute 50% of the net reported profit for fiscal year 2018. Net reported profit amounted to €90.2 million. The corresponding proposed dividend payment amounts to €45.1 million or €1.32 per share – an increase of 80.8% compared to the prior year. Based on the 2018 closing price, this would result in a dividend yield of 3.5%.

The dividend will be decided at the AGM on 19 June 2019.

Befesa in the capital markets continued

ANALYSTS' COVERAGE

Since the Initial Public Offering (IPO), seven equity analysts publish regular reports and recommendations on Befesa shares.

RESEARCH COVERAGE

Broker	Analyst
Citigroup	Charles Mortimer
Commerzbank	Ingo-Martin Schachel
JP Morgan	Sylvia Barker
Berenberg	Benjamin Pfannes-Varrow
Goldman Sachs	Eugene King
Santander	Jaime Escribano
Stifel	Michael E. Hoffman

ANALYSTS' RECOMMENDATIONS

MOODY'S AND S&P'S CREDIT RATINGS

On 26 November 2018, Moody's Investors Service ("Moody's") upgraded Befesa's rating (corporate family rating: CFR) to Ba2, by one notch, with a stable outlook.

On 14 December 2018, Standard and Poor's Global Rating ("S&P") raised Befesa's rating (long-term corporate credit rating) to BB, also by one notch, with a stable outlook.

CREDIT RATINGS FOR BEFESA S.A.

	Year-end 2018	Year-end 2017
Moody's	**Ba2 (outlook stable)**	Ba3 (outlook positive)
S&P	**BB (outlook stable)**	BB- (outlook stable)

INVESTOR RELATIONS ACTIVITIES

Befesa 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 as well as investor news with all the relevant information about Befesa.

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

Befesa continued the intensive and direct dialogue with existing shareholders, potential investors and analysts, also post-IPO. Ten investor conferences, 11 roadshows and in total more than 200 investor meetings in the relevant financial markets in Europe and the US show the high level of interest from the capital markets in the Befesa share.

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

In December 2018, Befesa was recognised as one of the top three at the European Small and Mid-Cap Awards in the "Star of 2018" category, the annual awards granted by the Federation of European Securities Exchanges. The awards aim to promote best practices and to highlight the best European small and mid-sized companies that have gained access to the capital markets via an IPO. According to the independent jury, Befesa showed exceptional performance and corporate citizenship.

Befesa was recognised as one of the top three at the European Small and Mid-Cap Awards in the "Star of 2018" category, *the annual awards granted by the Federation of European Securities Exchanges.*

MANAGEMENT REPORT

About the Company

GENERAL INFORMATION

Befesa S.A. is a public limited company (société anonyme) incorporated in Luxembourg and governed by Luxembourg law. The registered office is 46, Boulevard Grande-Duchesse Charlotte L 1330, Luxembourg, Grand Duchy of Luxembourg. Befesa S.A. is the parent company of the Befesa Group. Befesa is a leading international provider of regulated critical environmental recycling services of hazardous waste in the steel and aluminium industries, focusing its core efforts on the recycling of crude steel dust, salt slags and Spent Pot Linings (SPL). Befesa's financial year starts on 1 January and ends on 31 December.

BEFESA'S MISSION

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

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

ORGANISATION OF BEFESA

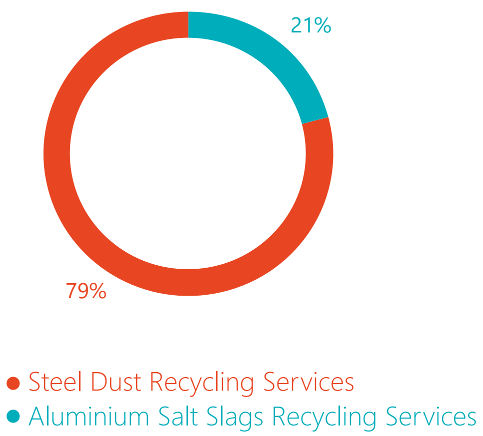
Befesa organises its activities into two business segments: Steel Dust Recycling Services and Aluminium Salt Slags Recycling Services, the latter being divided into two subsegments: Salt Slags and Secondary Aluminium.

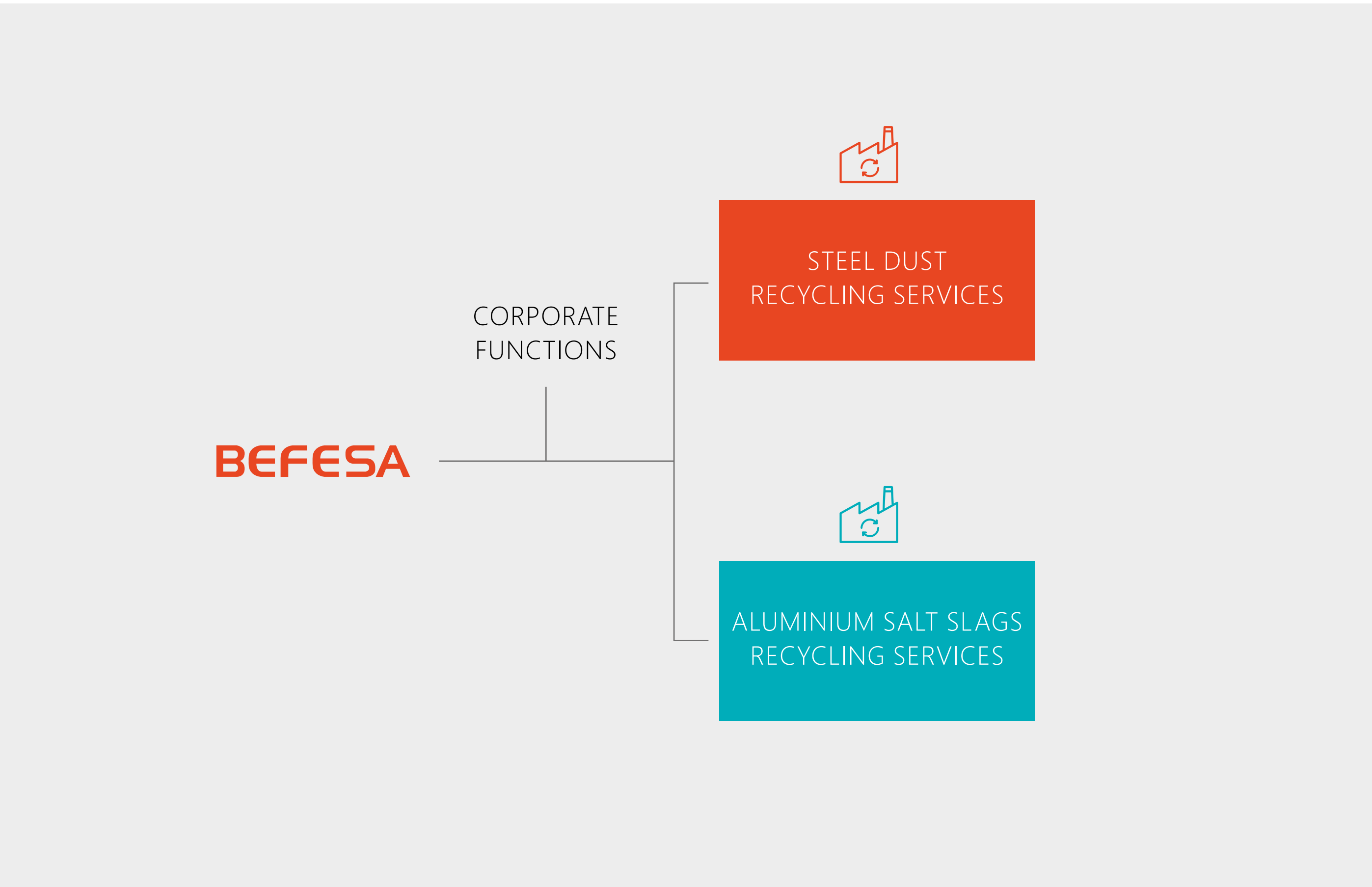
Befesa has a corporate structure with selected functions to coordinate and support both business segments, while promoting a common management philosophy.

In 2018, 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 SEGMENT

(%, as of total EBITDA 2018)





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 Befesa's customers to manage their environmental and regulatory obligations to recycle the hazardous waste generated by customers' 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 Electric Arc Furnaces (EAF). The majority of revenues generated in the Steel Dust Recycling Services segment come from service fees charged for the collection and especially the treatment of crude steel dust and by selling the Waelz oxide (WOX) produced from the recycling of crude steel dust to zinc smelters.

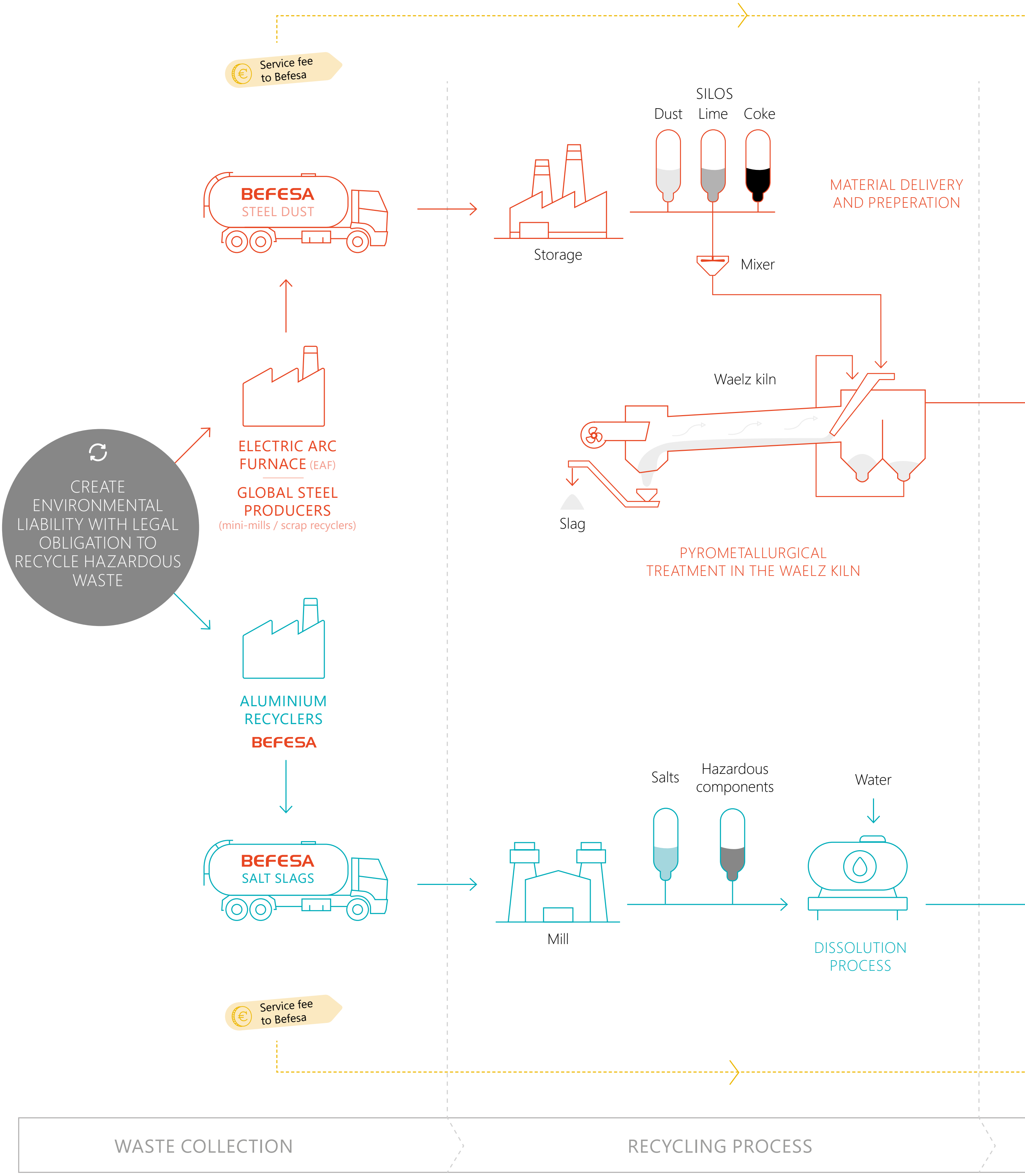
Additionally, a small portion of revenue is generated by tolling fees. These fees consist of a service fee charged for collecting and treating stainless steel residues and a fee for returning the metals – mainly nickel, chromium and molybdenum recovered in the recycling process – as well as from selling such recovered metals on the market.

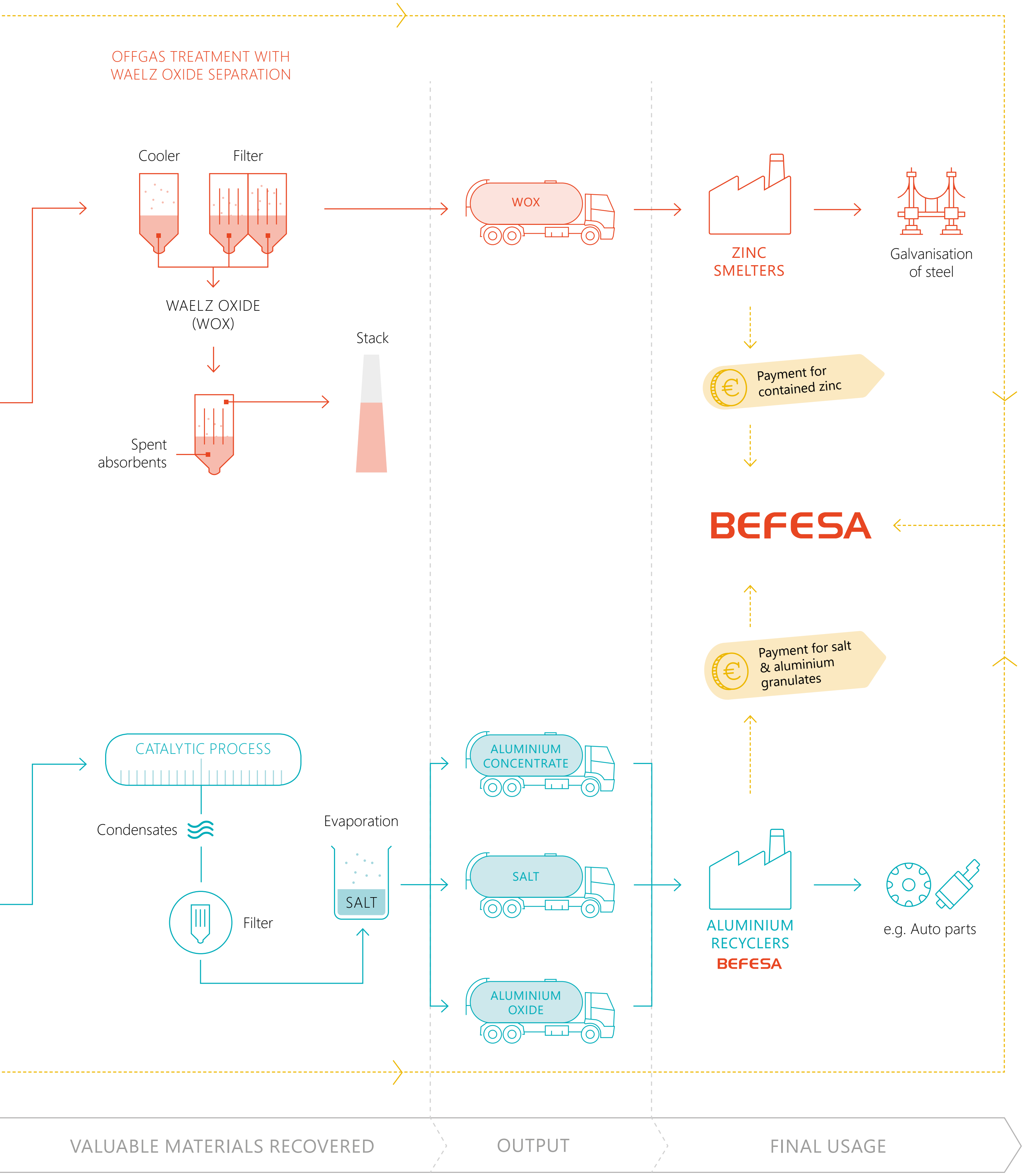
In the **Salt Slags** operations of Befesa's Aluminium Salt Slags Recycling Services segment, Befesa recycles salt slags that are collected from customers for a service fee. Further salt slags are generated during the production of secondary aluminium at Befesa plants. Additionally, Befesa recycles Spent Pot Linings (SPL) generated by primary aluminium producers. During the recycling process, 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 salt obtained from recycling salt slags and SPL. A large amount of the recovered aluminium concentrates are sold and used within the Group to produce aluminium alloys.

In the **Secondary Aluminium** operations of Befesa'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, among others, aluminium foundries, scrap dealers and collectors, as well as from 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 explained

Critical services for steel producers and for the aluminium industry




OFFGAS TREATMENT WITH
WAELZ OXIDE SEPARATION
Cooler
Filter
WAELZ OXIDE
(WOX)
Stack
Spent
absorbents
WOX
ZINC
SMELTERS
Galvanisation
of steel
Payment for
contained zinc
BEFESA
Payment for salt
& aluminium
granulates
CATALYTIC PROCESS
Condensates
Filter
Evaporation
SALT
ALUMINIUM
CONCENTRATE
SALT
ALUMINIUM
OXIDE
ALUMINIUM
RECYCLERS
BEFESA
e.g. Auto parts
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 AND 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 regulation 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.

CIRCULAR ECONOMY

Befesa contributes by reintroducing valuable

... 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.

materials into the production process.

OUTPUTS

Shareholder value

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

PAGE 9

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.

PAGE 52

Customer satisfaction

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

PAGE 54

Employee satisfaction

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

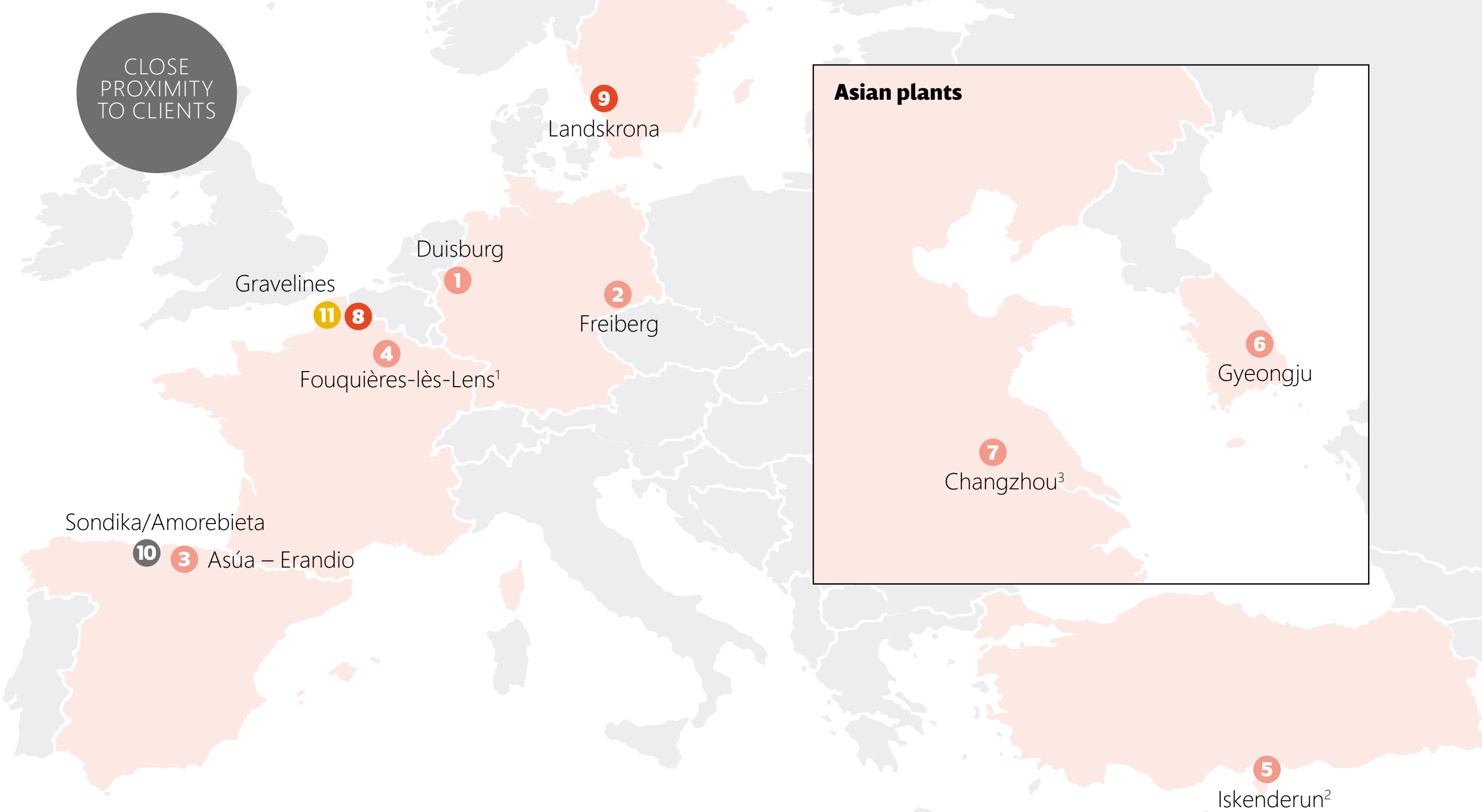
PAGE 40

… and mission

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

Markets and sites

Steel Dust recycling plants



STEEL DUST PLANTS

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

INSTALLED CAPACITY BY PLANT

1	Duisburg	Germany	87 kt
2	Freiberg	Germany	194 kt
3	Asúa – Erandio	Spain	160 kt
4	Fouquières-lès-Lens[1]	France	55 kt
5	Iskenderun[2]	Turkey	65 kt
6	Gyeongju	South Korea	220 kt
7	Changzhou[3]	China	Project under development
8	Gravelines	France	110 kt
9	Landskrona	Sweden	64 kt
10	Sondika/Amorebieta	Spain	16 kt
11	Gravelines	France	100 kt

954 kt
ANNUAL INSTALLED CAPACITY TO RECYCLE STEEL DUST (CRUDE AND STAINLESS)

[1] 50/50 joint venture with Recylex; 55 kt installed capacity corresponds to Befesa
[2] Currently expanding the installed capacity from 65 kt to 110 kt
[3] Project under development

Aluminium Salt Slags recycling plants

CLOSE PROXIMITY TO CLIENTS

ALUMINIUM SALT SLAGS PLANTS

- Salt slags & SPL recycling services
- Secondary aluminium production

INSTALLED CAPACITY BY PLANT

1	Lünen	Germany	170 kt
2	Hannover	Germany	130 kt
3	Valladolid	Spain	150 kt
4	Whitchurch	UK	80 kt
5	Bernburg	Germany	75 kt
6	Erandio	Spain	64 kt
7	Les Franqueses del Vallès	Spain	66 kt

530 kt
ANNUAL INSTALLED CAPACITY TO RECYCLE SALT SLAGS AND SPL

205 kt
ANNUAL INSTALLED CAPACITY TO PRODUCE SECONDARY ALUMINIUM ALLOYS

Market environment

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.

Thus, Befesa's business is influenced by several long-term megatrends 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 overall population is expected to grow at a compound annual growth rate (CAGR) of 1.0% from 2018 to 2030 (source: United Nations, Worldometers). Moreover, the environmentally conscious middle class is expected to grow from approximately 47% of the total population in 2018 to approximately 62% by 2030 (CAGR of 3.6%), This 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 (source: World Data Lab, *Financial Times*).

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

INCREASING STEEL & ALUMINIUM DEMAND

- Growing global steel demand
- Growing global secondary aluminium production

Overall, steel production in non-OECD countries has increased significantly over the last decade, while it has been relatively stable in OECD countries. Global crude steel production reached more than 1.8 billion tonnes in 2018, up by 4.6% year-on-year. The Asia region produced 1.3 billion tonnes of crude steel in 2018, a 5.6% increase compared with 2017. In China, crude steel production reached 928 million tonnes in 2018 (or 51.3% share of global steel output versus 50.3% in 2017), up by 6.6% year-on-year, despite China's phasing out of unregulated induction furnaces. India's crude steel production for 2018 was 106.5 million tonnes, 4.9% more than in 2017, replacing Japan as the world's second-largest crude steel-producing country. South Korea produced 72.5 million tonnes of crude steel in 2018, a 2% increase compared with 2017.

Global demand for crude steel is expected to continue growing at a minimum of 1.4% during 2019, which, compared with the production figures, would result in the global steel output produced in 2018 not being sufficient to satisfy the increased demand expected for 2019, thus driving growth in global steel production in 2019 (source: World Steel Association, S&P Global Platts).

Expected growth in global steel demand will be mainly driven by India, while Chinese demand is expected to be stable overall during 2019.

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

The EU produced 168 million tonnes of crude steel in 2018, slightly down by 0.3% compared with 2017. After a strong steel demand growth in Q2 2018, driven by high overall levels of steel consumption and stock building across the steel distribution chain, steel consumption in EU leveled out during H2 2018, mainly as a result of the trade tensions with the US. During 2019, EU steel market fundamentals are expected to remain supportive to a continued but moderate increase in steel consumption (source: Eurofer's economic and steel market outlook), driven by domestic demand, rather than exports, of the main end-markets for steel, especially within the construction industry, followed by engineering, transport and utilities. In 2019, crude steel production in the EU is expected to moderately increase in line with the expected steady growth of steel demand in the region, leading to an expected slight increase in the generation of EAF steel dust, and thus the demand for Befesa's recycling services.

On the other hand, the trend in secondary aluminium production – which is driven primarily by the manufacturing of vehicles – slightly declined in Western Europe due to the reduced demand of the automotive industry, mainly driven by the regulatory changes and diesel policy uncertainty together with the reduced demand from China. However, demand and production of secondary aluminium in Western Europe is expected to grow in the mid-term on the back of 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 current 180 kg of aluminium per passenger vehicle to about 250 kg by 2025 (Carou and Davim, 2018).

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

FAVOURABLE INDUSTRY TRENDS

- Increased galvanisation of steel, leading to an increased global zinc demand and higher zinc content in scrap material.
- A higher usage of aluminium in vehicles, together with a positive trend in the European automotive market, resulting in higher aluminium demand and scrap availability.

As seen in previous years, the increased galvanisation of steel to protect against corrosion is expected to lead to a higher zinc demand and higher zinc content in scrap material. This will lead to a higher zinc content in the steel dust collected, which will enable Befesa to utilise its plants more efficiently in the medium term.

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.

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 in implementation. This level of regulation and its enforcement

Market environment continued

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. OECD 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 for these favourable environmental regulation developments are Turkey, South Korea and China. In Turkey, the hazardous waste environmental regulation 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 building its first EAF steel dust recycling plant, expected to start operations in H2 2020.

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.

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 in the supply and demand dynamics of certain commodities.

During Q1 2018, market prices of zinc continued at the high price level seen during Q4 2017. However, this positive trend was followed by a decreasing development during the remaining part of 2018, closing at US$2,511 per tonne of zinc as of 31 December 2018, US$867 per tonne or 26% below the initial price of US$3,377 per tonne of zinc as of 2 January 2018. Applying the US dollar/euro exchange rates for the respective dates, zinc market prices closed at €2,191 per tonne as of 31 December 2018, €608 per tonne or 22% below the initial price of €2,799 per tonne of zinc as of 2 January 2018.

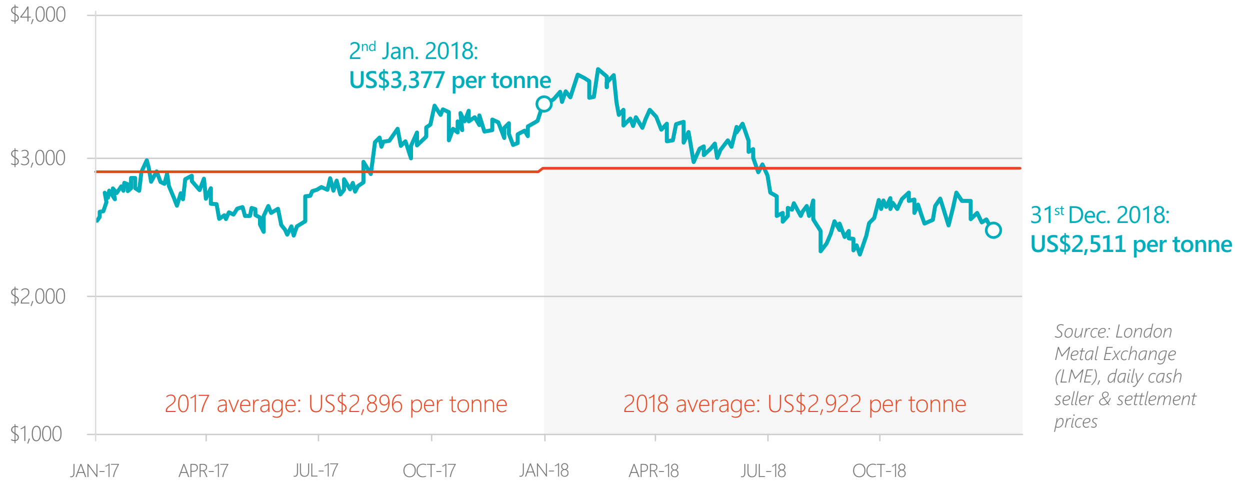
The average daily price per tonne quoted on the London Metal Exchange (LME cash seller prices) for 2018 was US$2,922 per tonne of zinc (slightly above compared to the average of US$2,896 during 2017). Applying the US dollar/euro exchange rates for the respective periods, the average daily price in 2018 was €2,468 per tonne of zinc (€104 per tonne or 4% lower compared to average of €2,572 during 2017).

In line with Befesa's active hedging policy, the Company reduces the volatility in its results, arising from changes in the zinc price. For further information on the hedging strategy please refer to the next section ("Strategy", pages 28 to 31 of this Annual Report).

Similar to the development witnessed in zinc market prices, the market prices of aluminium alloys also started 2018 with an increasing trend, surpassing the €1,800 per tonne price level during the first half of the year. However, this positive trend was followed by a decreasing development during the second six months, closing at €1,560 per tonne of aluminium alloy as of 28 December 2018, €235 per tonne or 13% below the initial price of €1,795 per tonne of aluminium alloy as of 2 January 2018.

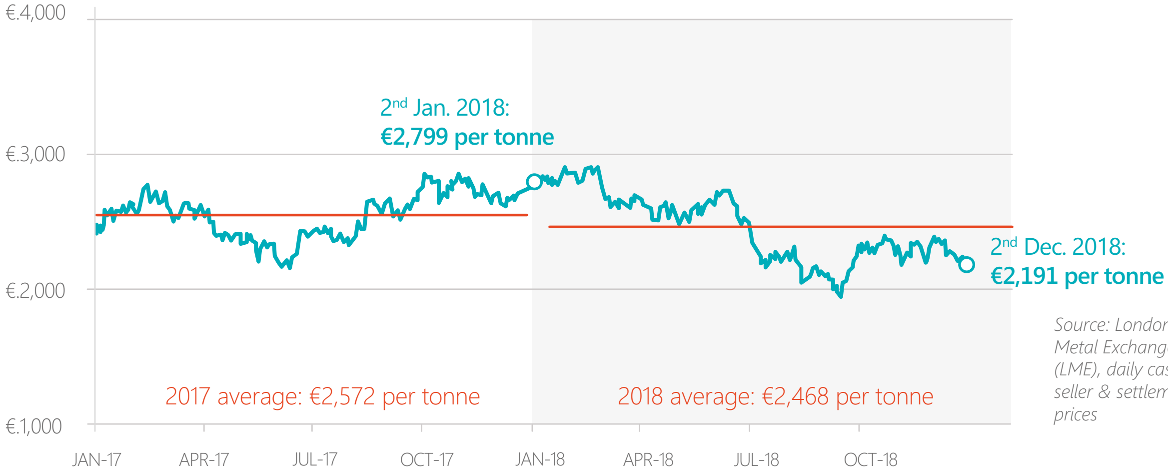
The average daily price per tonne of aluminium alloy referenced by the Free Metal Bulletin (average independent quotation based on prices provided by the major secondary aluminium players in the European market) was €1,715 per tonne during 2018 (€52 per tonne or 3% lower compared to the average of €1,766 in 2017).

LME zinc prices (US$ per tonne)



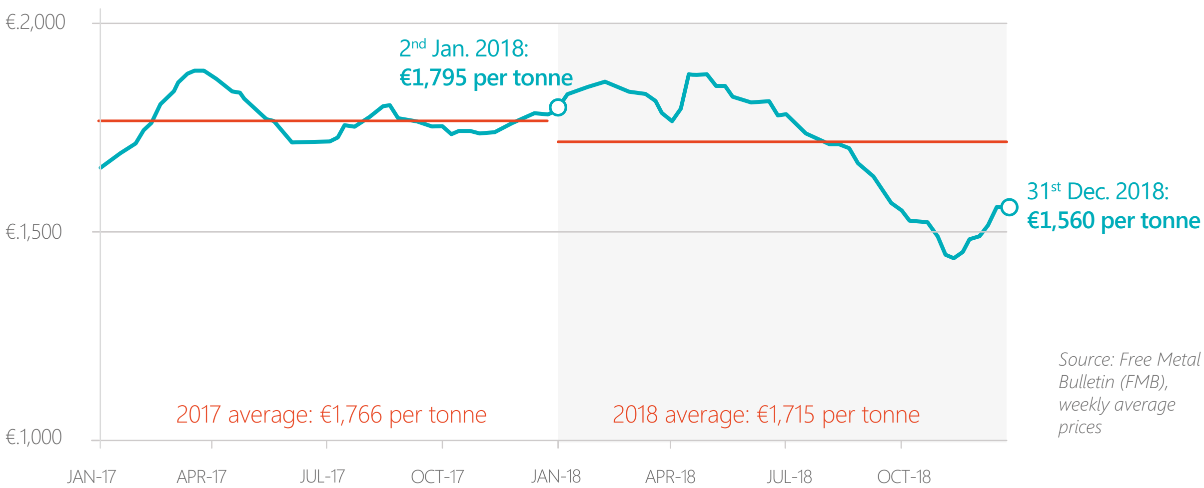
Source: London Metal Exchange (LME), daily cash seller & settlement prices

LME zinc prices (€ per tonne)



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

Aluminium alloy market prices (€ per tonne)



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

Strategy

The ambition of Befesa is to become the global leader in the core businesses that it operates: steel dust and aluminium salt slags recycling services.

Befesa has a strategy that focuses on two main objectives:

1 Maintaining the leadership position in the markets where it currently operates, and

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 the zinc price volatility and increase the visibility of its earnings and cash flow going forward.

During 2018, Befesa successfully extended its zinc hedges until July 2021, at a volume of 92,400 tonnes per year or 7,700 tonnes per month. 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	€2,325	92,400
2020	€2,260	92,400
H1 2021	€2,230	46,200

The current hedging in place provides Befesa with improved pricing visibility through 2019, 2020 and the first half of 2021. Befesa 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 is committed to hedge 60% to 75% of the expected volume of zinc contained in the Waelz oxide (WOX) 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.

ORGANIC GROWTH

Befesa continues to execute organic growth, which will enable the Company to maintain its leadership position in Europe as well as to expand operations in Turkey and South Korea.

In the Steel Dust Recycling Services business, Befesa is investing in two organic growth projects in Turkey and South Korea during 2019. First, Befesa will increase the capacity of its Turkish plant from 65,000 tonnes per year at present to 110,000 tonnes per year, building on the increased demand for steel dust recycling services. Second, Befesa is building a washing plant in South Korea in order to offer washed WOX to its customers, similar to its European operations. The construction phase of both projects started in 2018, with operations expected to commence during the second half of 2019.

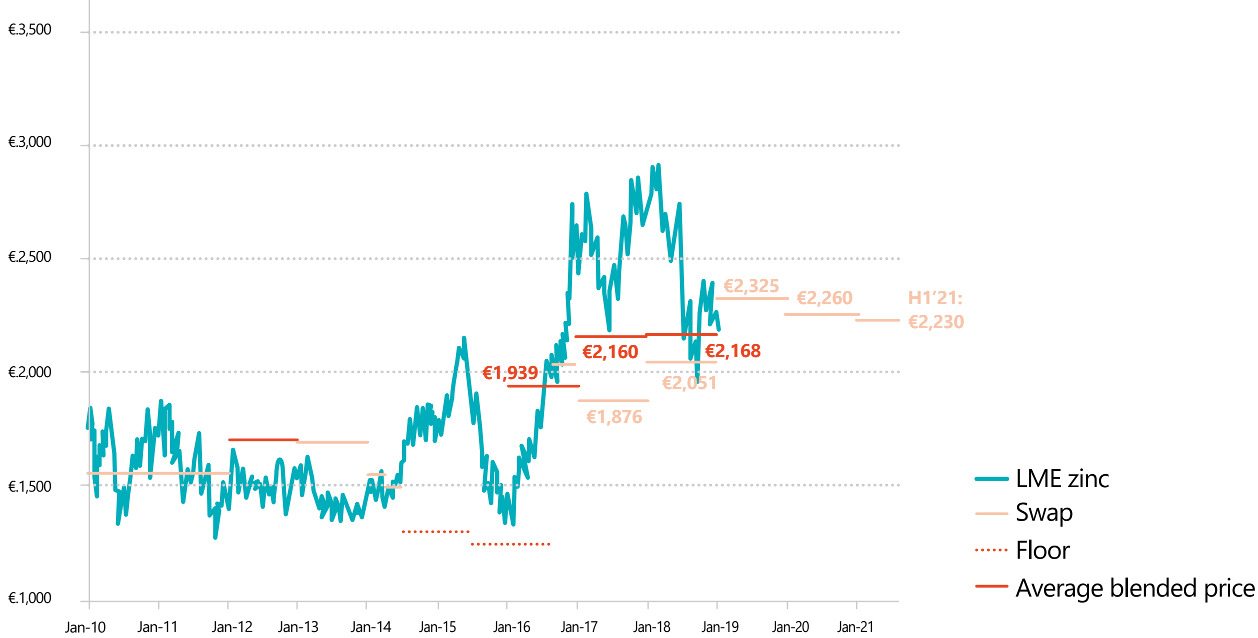
In the Secondary Aluminium subsegment, Befesa is developing two operational excellence projects. Both projects apply the best-in-class furnace technology, proven at Befesa's Bernburg plant to its other secondary aluminium production plants in Spain (close to Bilbao and Barcelona). These projects will result in efficiencies and free up the capacity to meet additional demand for external salt slags services. The project in Bilbao was successfully completed during 2018; phase one of the project at Barcelona was completed in H2 2018 and phase two is scheduled for 2019.

In the Salt Slags subsegment, Befesa is working on expanding the capacity of its existing salt slags recycling plant in Hanover (Germany) by 40,000 tonnes during 2019 and 2020. The improved capacity will help to meet the increase in existing and new customer demand.

The construction phase of this project is expected to start in 2019, with operations envisaged to commence in 2020.

Strategy continued

Market zinc prices vs. zinc hedges (€ per tonne)



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

GREENFIELDS 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 steel dust and aluminium salt slags recycling 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. This regulatory framework trends 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 as well as 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. In fact, Befesa announced in September 2018 the entry into China, the world's largest steel production market, and signed an agreement with the Jiangsu Changzhou Economic Development Zone to develop its steel dust recycling services business in China.

China is the largest steel producer in the world, with more than 900 million tonnes of crude steel produced each year, which represents 50% of global production.

Befesa is finalising the acquisition of a land-use right in the Chinese city of Changzhou where Befesa will build its first EAF steel dust recycling plant in the country.

With this step, Befesa started its entry into the Chinese market. The plant in development is designed to recycle 110,000 tonnes of EAF steel dust per year and will represent Befesa's seventh crude steel dust recycling site globally, along with the existing sites in Europe, Turkey and South Korea. The ramp-up of the operations is expected to be carried out during the second half of 2020.

China is the largest steel producer in the world, with more than 900 million tonnes of crude steel 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.

▲ 200m

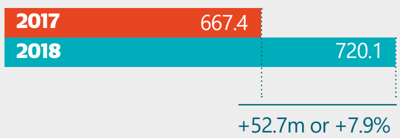
TONNES OF EAF STEEL EXPECTED TO BE PRODUCED IN CHINA BY 2030

Result 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.

For more detailed information on the consolidated financial statements, please refer to pages 82 to 162 of this Annual Report.

Consolidated revenue[1]
(€ million)

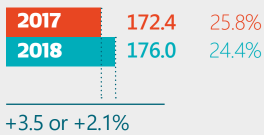


[1] In 2017, reported revenue amounted to €724.8 million; non-operating revenue from amendment of IFRS 15 amounted to €57.4 million

On a comparable basis, consolidated revenue increased by 7.9% to €720.1 million in 2018. This increase is mainly driven by the year-on-year increased volumes to new record levels in Steel Dust Recycling Services. Crude steel dust throughput is up 8.6%; and in the Salt Slags subsegment, salt slags and SPL volumes are up 1.4%, partially offset by reduced volumes in the Secondary Aluminium subsegment (due to the scheduled downtimes in Bilbao and Barcelona during Q3 2018 to upgrade the plants with more efficient furnaces).

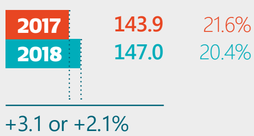
On a reported basis, consolidated revenue stayed flat at €720 million. The difference between reported and comparable figures in 2017 is explained by an amendment of IFRS 15 – see pages 92 and 93 of this Annual Report – affecting the revenue recognition of non-operating sales in the Secondary Aluminium subsegment (€0.8 million in 2018 versus €57.4 million in 2017).

Adjusted EBITDA & margin
(€ million, % margin of revenue[1])



[1] In 2017, adjusted EBITDA margin amounted to 25.8% of comparable revenue; 23.8% of reported revenue

Adjusted EBIT & margin
(€ million, % margin of revenue[1])



[1] In 2017, adjusted EBIT margin amounted to 21.6% of comparable revenue; 19.9% of reported revenue

▼ €30.3m
DECREASE IN FINANCIAL EXPENSES YEAR-ON-YEAR

€90.2m
CONSOLIDATED NET PROFIT IN 2018

▲ €40.9m
INCREASE IN NET PROFIT YEAR-ON-YEAR (+83%)

This year-on-year positive trend on comparable revenue drove the earnings increase versus the previous year. In 2018, adjusted EBITDA grew by 2.1% to €176.0 million. Similarly, adjusted EBIT increased by 2.1% to €147.0 million. The positive effect of volume growth was partially offset by stainless-steel operations down €4 million year-on-year due to the downtime in Q1 of the Swedish plant. Total adjusted EBITDA and adjusted EBIT would have grown +4% and +5%, respectively, excluding the extraordinary one-time effect of Stainless. Additionally, the aluminium alloy average prices were down 2.9% year-on-year impacting earnings.

On a comparable basis, the adjusted EBITDA margin of revenue declined from 25.8% in 2017 to 24.4% in 2018, and the adjusted EBIT margin of revenue decreased from 21.6% in 2017 to 20.4% in 2018.

However, on a reported basis, both the adjusted EBITDA and adjusted EBIT margins of revenue increased from 23.8% and 19.9% to 24.4% and 20.4%, respectively.

For a reconciliation of EBITDA, adjusted EBITDA and adjusted EBIT to the IFRS operating result (EBIT), please refer to the consolidated financial statements section, pages 100 and 101 of this Annual Report.

FINANCIAL RESULT & NET PROFIT

In 2018, the consolidated financial result improved from €-48.2 million to €-16.8 million. This represents an improvement of 65.1% or €31.4 million. The main factors driving this development were a €30.3 million decrease in financial expenses based on the new capital structure, partially offset by a €2.3 million reduction in financial income due to the divestiture of entities of the Industrial Environmental Solutions (IES) pre-IPO.

The **financial result** in 2018 reflects the capital structure in place since 7 December 2017, which reduces the financial expenses by more than 60%. For detailed information on Befesa's capital structure, please refer to page 143 of this Annual Report.

Consolidated **net profit** attributable to the shareholders totalled €90.2 million in 2018 compared with €49.3 million in 2017, representing a strong increase of more than 80% or €40.9 million. The net profit of €49.3 million of 2017 was affected by both the old capital structure with its higher interest cost, and €21.5 million of non-recurring items (pre-tax effect). Befesa aims to distribute 50% of its net reported profit as a dividend in 2019, which would translate to €1.32 dividend per share. At the 2018 closing price of €37.50 per share, this represents a dividend yield of 3.5%.

Financial position & liquidity

COMPARED TO YEAR-END 2017, **NET DEBT** DECLINED BY €29.6 MILLION TO €376.8 MILLION AS OF 31 DECEMBER 2018, MAINLY DRIVEN BY THE CASH POSITION IMPROVEMENT.

During 2018, Befesa continued to **further improve its leverage**. Over the last five years, the leverage was reduced from more than x5 in H2 2013, down to x3.5 at the end of 2016, down to x2.4 at year-end 2017, and further improved to the current new low leverage of x2.1 EBITDA as of 31 December 2018. The achieved leverage of x2.1 triggers a further reduction of 25 bps to Euribor +225 bps from the start of Q2 2019 onwards, compared to Euribor +275 bps at the end of 2017.

Befesa continues to be compliant with all debt covenants.

As a result, the **credit ratings assigned to Befesa have improved to Ba2, outlook stable (Moody's)** and **BB, outlook stable (S&P)**, notching up from Ba3 and BB-, respectively.

Operating cash flow stands in 2018 at a new high of €103.8 million, which is the cash flow pre-capex

NET DEBT *(€ million)*	**31 December 2018**	**31 December 2017**
Non-current financial indebtedness	520.2	519.2
+ Current financial indebtedness [1]	7.3	5.1
Financial indebtedness	**527.5**	**524.2**
- Cash and cash equivalents	(150.6)	(117.6)
- Other current financial assets [2]	(0.1)	(0.3)
Net debt	**376.8**	**406.4**
Adjusted EBITDA	176.0	172.4
Leverage ratio	**x2.1**	**x2.4**

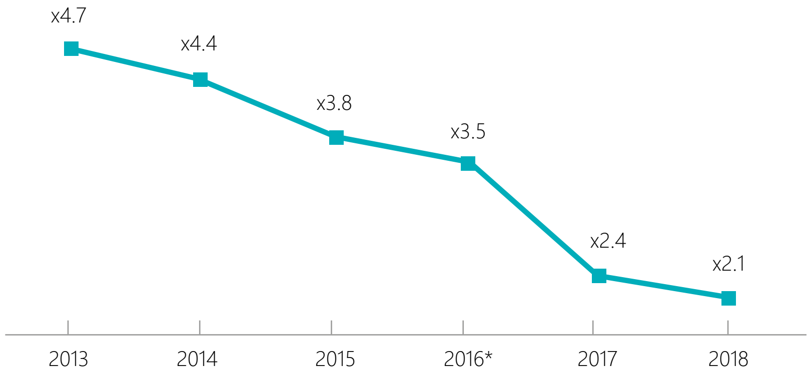
[1] €7.3 million at year-end 2018 mainly includes biannual interests of term loan B paid on 9 January 2019

[2] Other current financial assets adjusted by hedging valuation

and pre-dividend. Operating cash flow during 2018 was affected by the working capital trend and other payments (€-33.7 million at year-end 2018), mainly due to the following: €15 million less factoring and confirming year-on-year; €9 million fewer accounts payable because Befesa's zinc hedges moved "in the money" (at year-end 2017, Befesa accrued €9 million hedge settlement more, compared to year-end 2018); €6 million further impact in accounts payable due to one-time costs related to the IPO/dual track process that were accrued at year-end 2017 and paid out in 2018. These three items explain €30 million of the €34 million working capital movement, and are not expected to be repeated in 2019.

During 2018, **cash on hand** increased by €33.1 million, closing with a new high cash position at year-end 2018 of €150.6 million (2017: €117.6 million). Despite higher taxes paid (2018: €25.2 million; 2017: €20.8 million), higher capital expenditures and other investing activities (2018: €40.5 million; 2017: €24.6 million) and the dividend distribution (2018: €29.4 million; 2017: €3.1 million), the cash position of Befesa at year-end 2018 significantly improved in comparison to year-end 2017. This was primarily driven by a more than 60% reduction in interest expenses derived from the capital structure in place since 7 December 2017.

LEVERAGE RATIO EVOLUTION
(Net debt / adjusted EBITDA)



* Assumes proforma net debt adjusted for IES divesture proceeds

Segment information

Befesa organises its activities into two business segments: Steel Dust Recycling Services and Aluminium Salt Slags Recycling Services, the latter being divided into two subsegments: Salt Slags and Secondary Aluminium.

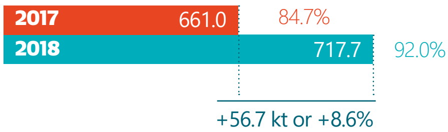
STEEL DUST RECYCLING SERVICES

Crude steel dust volumes processed in 2018 amounted to 717,740 tonnes, representing a new record throughput and a significant increase of 8.6% (more than 56,600 tonnes) compared with 2017. This was primarily because of an increase in volumes of crude steel dust recycled in the plant in South Korea and fully utilised operations in Turkey, as well as in the plants in Europe.

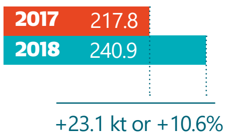
With these volumes, crude steel dust recycling plants have been running at a strongly improved average load factor of 92.0% in 2018 (2017: 84.7%). As a result, the volume of Waelz oxide (WOX) sold increased from 217,761 tonnes in 2017 to 240,907 tonnes in 2018, representing an increase of 10.6% – a new record level of WOX volumes sold.

The revenue in Steel Dust Recycling Services increased by 14.7% to

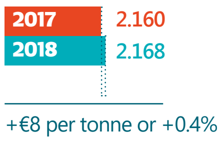
EAF steel dust throughput & load factor
(Thousand tonnes, % of annual capacity)



Waelz oxide (WOX) sold
(Thousand tonnes)



Blended zinc average price
(Euro / tonne)

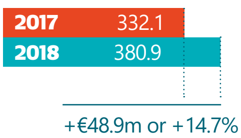


€380.9 million in 2018, primarily due to the increase in WOX volumes sold by more than 23,000 tonnes or +10.6% compared with 2017.

To a lesser extent, the revenue increase was also a result of lower treatment charges year-on-year.

Despite the lower zinc market prices (on average, 2018: €2,468 per tonne; 2017: €2,572 per tonne), the effective zinc prices (blended rate between hedged volume and non-hedged volume) increased slightly year-on-year (on average, 2018: €2,168 per tonne, compared with 2017: €2,160 per tonne), explained by more hedged volumes (2018: 92,400 tonnes; 2018: 73,200 tonnes)

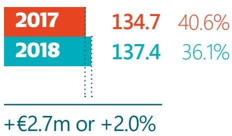
Revenue – Steel Dust Recycling Services segment
(€ million)



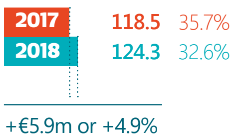
at an average higher hedged price (2018: €2,051 per tonne; 2017: €1,876 per tonne).

Adjusted EBITDA in Steel Dust Recycling Services increased by 2.0% to €137.4 million in 2018 (2017: €134.7 million). **Adjusted EBITDA margins** declined from 40.6% to 36.1%. Similarly, **adjusted EBIT** increased by 4.9% to €124.3 million in 2018 (2017: €118.5 million), and **adjusted EBIT margins** decreased from 35.7% to 32.6%. The improvement of earnings in the Steel Dust Services segment was primarily due to the positive volume leverage and more favourable treatment charges, partially offset by the stainless-steel operations which were down €4 million year-on-year due to the downtime during the Q1 2018 to upgrade the Swedish plant to the latest technical requirements. In addition, volume mix affected results: above 70% of the year-on-year growth in crude steel dust volume came from the operations in South Korea where Befesa currently still sells WOX unwashed (investment in WOX washing plant in process), and partially imports crude steel dust from South East Asia, incurring higher transportation costs.

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



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



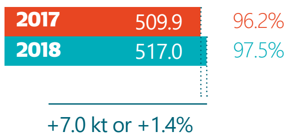
ALUMINIUM SALT SLAGS RECYCLING SERVICES

Salt Slags subsegment

Salt slags and SPL recycled volumes in 2018 amounted to 516,956 tonnes, an increase of 1.4% (more than 7,000 tonnes) compared to 2017. This volume performance represents a new record level for Befesa. The volume increase was primarily due to an increase in volumes of salt slags and SPL recycled at the plant located in Spain, thanks to the improvements in efficiency obtained from the debottlenecking programme carried out during the previous year.

Salt slags & SPL volumes & load factor

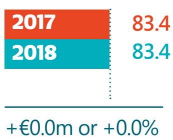
(Thousand tonnes recycled, % of annual capacity)



Befesa's salt slags recycling plants have run at near full capacity on average (utilisation rates of 97.5% in 2018; 96.2% in 2017).

Revenue – Salt Slags subsegment

(€ million)



The revenue in the Salt Slags subsegment stayed flat at €83.4 million. The commented volume increase of 1.4% year-on-year was partially offset by the 2.9% decline in aluminium market average prices compared to the previous year (2018: €1,715 per tonne; 2017: €1,766 per tonne).

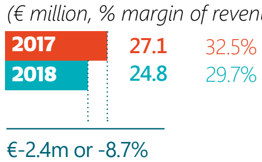
Adjusted EBITDA in the Salt Slags subsegment decreased by 8.7% to €24.8 million in 2018 (2017: €27.1 million). **Adjusted EBITDA margins** declined from 32.5% to 29.7%.

Similarly, **adjusted EBIT** in 2018 decreased by 13.3% to €17.1 million (2017: €19.7 million), and **adjusted EBIT margins** declined from 23.6% to 20.5%.

The decline of earnings in the Salt Slags subsegment was primarily a result of the 2.9% metal price decrease from €1,766 per tonne to €1,715 per tonne.

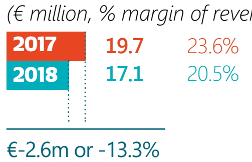
Adjusted EBITDA – Salt Slags subsegment

(€ million, % margin of revenue)



Adjusted EBIT – Salt Slags subsegment

(€ million, % margin of revenue)

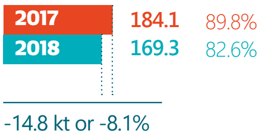


Secondary Aluminium subsegment

Aluminium alloy production volumes in 2018 amounted to 169,282 tonnes, a decrease of 8.1% or 14,832 tonnes, primarily due to the scheduled downtimes in Bilbao and Barcelona plants to upgrade the furnaces to apply the best-in-class furnace technology proven at Befesa's Bernburg plant. With these

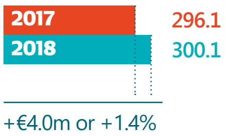
Secondary aluminium alloys volumes & load factor

(Thousand tonnes prod., % of annual capacity)



Revenue – second aluminium subsegment[1]

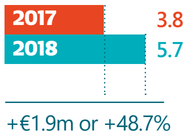
(€ million)



[1] In 2017, reported revenue amounted to €353.5 million; non-operating revenue from amendment of IFRS 15 amounted to €57.4 million

Adjusted EBIT – second aluminium subsegment

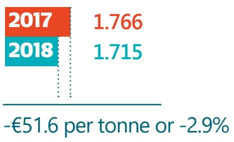
(€ million, % margin of revenue)



[1] In 2017, adjusted EBIT margin amounted to 1.3% of comparable revenue; 1.1% of reported revenue

Aluminium alloy average market price[1]

(Euro / tonne)



[1] Aluminium Scrap and Foundry Ingots Aluminium pressure diecasting ingot DIN226/A380 European Metal Bulletin Free Market Duty paid delivered works

volumes, the secondary aluminium production plants have been running at an average load factor of 82% compared to 90% during 2017.

Befesa's Spanish secondary aluminium plants are upgrading their furnaces. At our plant in Bilbao this project was completed in Q4 2018. At the plant in Barcelona phase one was completed in H2 2018 and phase two is expected to conclude during Q3 2019.

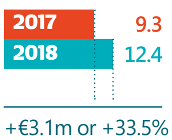
On a comparable basis, the revenue slightly increased in the secondary aluminium subsegment by €4.0 million to €300.1 million in 2018. The commented decline in secondary aluminium volumes, and the reduction in the aluminium alloy market prices by €50 per tonne on average (2018: €1,715 per tonne; 2017: €1,766 per tonne) was offset by higher revenues from technology and equipment services provided to the aluminium, lead and zinc industries.

On a reported basis, the revenue decreased by 15.1% to €300.1 million in 2018, principally due to the aforementioned amendment of IFRS 15 (see pages 92 and 93 of this Annual Report), affecting the revenue recognition in the secondary aluminium subsegment of non-operating sales (€0.8 million in 2018 compared to €57.4 million in 2017). These non-operating sales have limited margin contribution.

Adjusted EBITDA in the secondary aluminium subsegment increased by 33.5% to €12.4 million in 2018 (2017: €9.3 million). **Adjusted EBITDA margins** improved from 3.1% to 4.1%.

Adjusted EBITDA – second aluminium subsegment[1]

(€ million, % margin of revenue)



[1] In 2017, adjusted EBITDA margin amounted to 3.1% of comparable revenue; 2.6% of reported revenue

Similarly, **adjusted EBIT** increased by 48.7% to €5.7 million in 2018 (2017: €3.8 million), and **adjusted EBIT margins** improved from 1.3% to 1.9%.

The increase in earnings was mainly because of aluminium metal margins recovering year-on-year, partially offset by a reduced volume in the secondary aluminium subsegment due to the aforementioned scheduled downtimes in the Spanish plants.

Employees

Befesa's employees have always played a key role in the achievement of Befesa's goals. Thanks to the high qualification of Befesa's employees, Befesa continues to be a leading global recycling services company.

AS OF 31 DECEMBER 2018, BEFESA EMPLOYED 1,128 PEOPLE WORLDWIDE

Befesa continues to have above 85% of employees with open-ended contracts.

Befesa concentrates its services in two business units, which are supported by a corporate team.

Approximately 75% of all staff focus their day-to-day work on O&M (Operations and Maintenance), a figure that demonstrates the productive nature of the Company. The stability of Befesa's staff remains one of our priorities. Befesa continues to have above 85% of employees with open-ended contracts.

Befesa encourages and promotes diversity in its workforce. The age chart gives a clear picture of how the generational handover follows a natural rhythm. Befesa's human capital is experienced – on average, seniority is 13 years and the average employee is 44 years of age (as of 31 December 2018).

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 2018, 49 staff members participated in traineeships or internships at Befesa (2017: 38 interns).

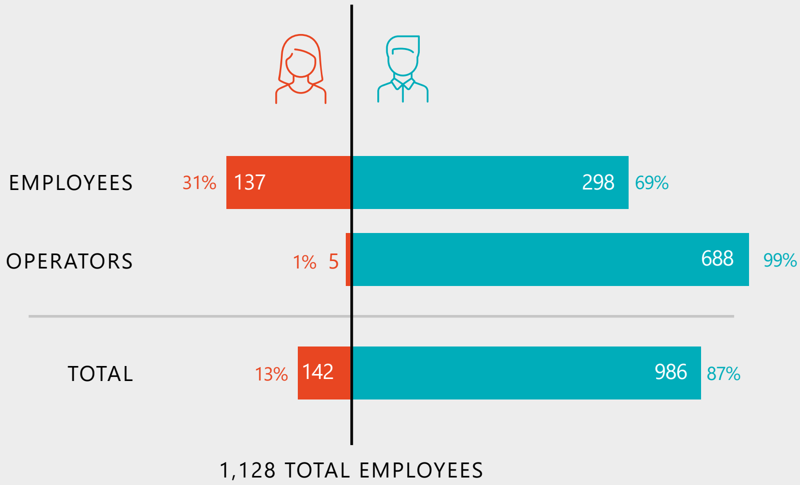
Although facing a competitive labour market, Befesa managed to maintain a stable and low turnover rate in 2018 – a result primarily due to voluntary resignations of 1.76% globally (1.62% in Europe).

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

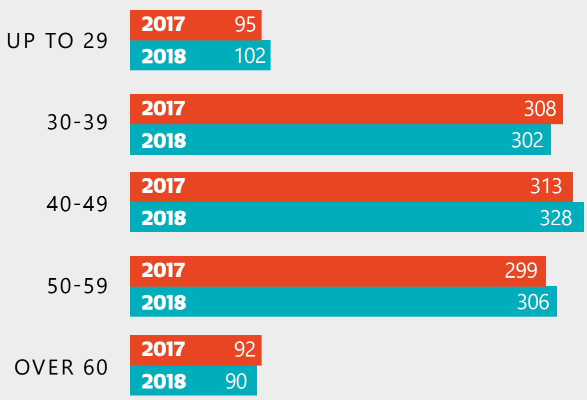
Aligned with Befesa's health and safety initiative, Befesa continues to provide safety training to its employees – 52% of the training hours were spent on this field.

For further information on employees, please refer to page 153 of this Annual Report.

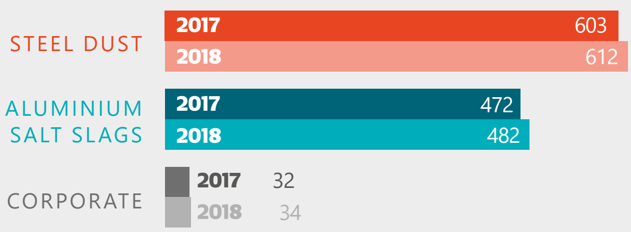
NUMBER OF EMPLOYEES BY CATEGORY, AND GENDER



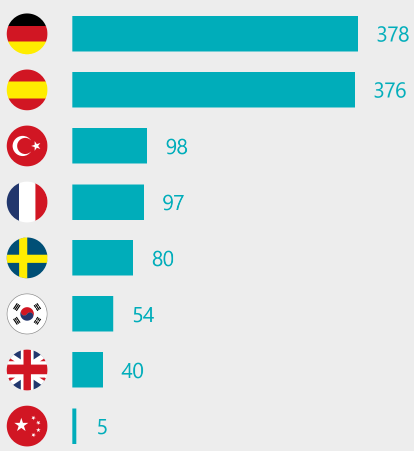
NUMBER OF EMPLOYEES BY AGE GROUP



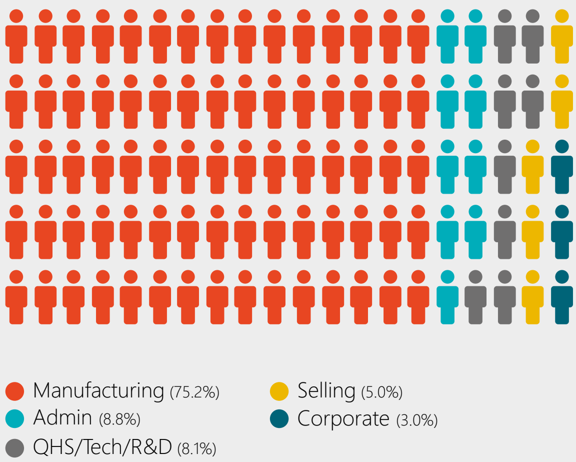
NUMBER OF EMPLOYEES BY BUSINESS UNIT



NUMBER OF EMPLOYEES BY COUNTRY



PERCENTAGE OF EMPLOYEES BY FUNCTION



Environmental, health & safety

Safety, health, the environment and quality are integral parts of the way Befesa does business.

BEFESA IS COMMITTED TO CONTINUOUS IMPROVEMENT OF ITS SAFETY, HEALTH, ENVIRONMENTAL AND QUALITY 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, employees, the community, customers and shareholders.

The goal is to establish Befesa as a Company that is leading 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 this area of the Company.

On 29 May 2018, more than 50 top managers from all worldwide sites in Befesa met at the 4th Safety Summit in Düsseldorf to align on the strategies to implement those policies and continue the journey to excellence in safety, health, environment and quality.

Principles

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

1
MANAGEMENT
From senior to all line management, leads by example, is committed and accountable for safety, health, environment and quality.

2
ACCIDENTS
Our belief is that all accidents can, and must be prevented. For that reason, we aspire to ZERO accidents to our people, either internal or contractors.

3
PRIORITY IS SAFETY
We never put the production or economic benefit before people's safety or health.

4
CONTINUOUS IMPROVEMENT
Accidents and incidents must be notified and investigated as a basis for continuous improvement.

5
TRAINING EMPLOYEES
It is necessary to thoroughly train all employees to work safely.

6
ENGAGEMENT
Involvement and engagement of all people by fostering dialogue and participation is essential.

7
FULL CONTROL
All process conditions can, and must be controlled.

8
SAFETY
Safety is a condition of career and employment.

9
UNSAFE BEHAVIOUR
We have a constructive ZERO tolerance approach to unsafe behaviour.

10
AUDITS AND 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.

While safety is mainly cultural, other more industrial aspects are also important to ensure a safe and healthy operation without accidents and incidents.

"BE SAFE AT BEFESA" PROJECT

In 2014, Befesa conducted a safety benchmark with similar companies and associations, and other industrial sectors. The conclusion was the initial step to launch a corporate multi-year programme to improve health and safety, taking it to the next level of excellence.

In 2015, Befesa launched the "Be Safe" project with the support of an external reference service provider. The goal was to drive improvement in health and safety in the Company.

The project structure was based upon:

- Senior management leadership of the safety programme
- The evaluation of safety culture and Process Safety Management (PSM) on-site
- The development of an improvement and culture reinforcement action plan (Roadmap)

The "Be Safe" project is followed closely in meetings of the Board of Directors.

a) "Be Safe" project cultural & PSM elements

The project is oriented to evaluate and promote improvement on the following safety cultural elements:

"Be Safe" project cultural elements

Strong leadership:

- Visible demonstrated commitment
- Clear, meaningful policies and principles
- Challenging goals and plans
- High standards of performance

Appropriate structure:

- Line management accountability
- Supportive safety staff
- Integrated committee structure
- Performance measurement and progressive motivation

Focused processes and actions:

- Thorough investigations and follow-up
- Effective audits and evaluation
- Effective communication process
- Training and safety management skills

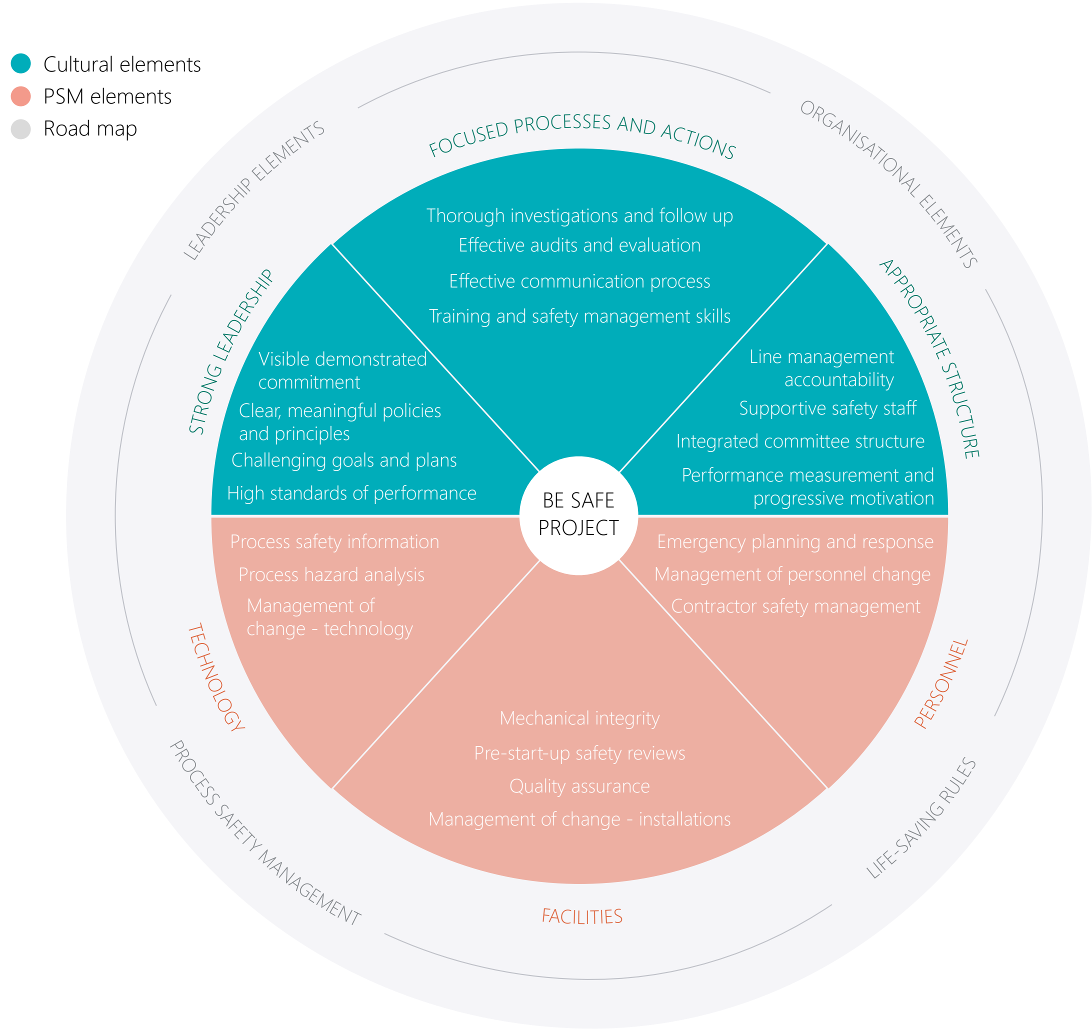
While safety is mainly cultural, other more industrial aspects are also important to ensure a safe and healthy operation without accidents and incidents. The discipline of PSM is intended to ensure safe industrial operations and to prevent major fires, explosions, chemical releases and to prevent environmental incidents.

While Befesa plants are low-hazard operations from the PSM perspective, implementation of these good practices helps the company to reduce risks.

The main PSM elements being addressed are:

Technology:

- Process safety information
- Process hazard analysis
- Management of change – technology



Facilities:

- Mechanical integrity
- Pre-start-up safety reviews
- Quality assurance
- Management of change – installations

Personnel:

- Emergency planning and response
- Management of personnel change
- Contractor safety management

In the timeframe from 2016 to 2018, Befesa's PSM implementation focus has been on contractor safety management.

b) "Be Safe" project cultural evaluation & roadmap

As a result of the evaluation of each plant, action plans were put in place to improve upon and address plant specific items. Additionally, common items across all company-wide plants reinforce the areas that would benefit from it.

The common action plan, internally referred to as the "Be Safe Project Roadmap", consists of 144 actions covering four different workstreams:

- Leadership elements
- Organisational elements
- Process safety management
- Life-saving rules

Following are relevant examples of practices that have been implemented, or reinforced at Befesa's units, and now form part of the Befesa Environmental, Health and Safety (EHS) management.

Environmental, health & safety continued

1,700
BEHAVIORAL SAFETY OBSERVATIONS COMPLETED BY TEAMS DETECTING AND CORRECTING UNSAFE ACTS

Sharing learning lessons

Every incident or near miss is reported and investigated in a team approach, involving, among others, operators, to ensure learnings are obtained and spread across the organisation. In 2018, a total of 434 incidents were reported and investigated, prioritising them based on the potential for causing an accident.

Accidents causing lost time are communicated to Befesa's CEO and senior management in less than 24 hours to ensure full awareness within the organisation and to drive prompt investigation and preventive action plans.

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

In 2018, 140 learning lessons from Lost Time Accidents (LTA), Non-Lost Time Accidents (NLTA) and incidents have been distributed at corporate level, reaching all management and shop floor level. This represents 100% of the LTA, 60% of the NLTA and more than 10% of incidents, which correspond to the higher potential cases and are converted into learning lessons and cascaded to the entire organisation. 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, and enhance safety culture, employee awareness and commitment through line management field presence 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 2018, more than 1,700 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.

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.

Serious injury and fatalities prevention 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 industry where 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's Life-saving Rules to prevent this. Notable inclusions include: lack of proper safety leadership; isolating and locking energy sources; driving motor vehicles; works at height; confined space entry; electrical works; hot works; first break of pipes and equipment (13 rules in total).

During 2018, Befesa published three corporate standards related to Life-saving Rules: Works at Height, ITLCT (Isolation, Tag, Lock, Clear and Test) – or LOTTO – and Fork Lift Truck Safety. Many activities like audits, training and safety contacts have been done in these areas to reduce the risk of accidents with these type of works.

SAFETY & HEALTH PERFORMANCE

Taking as reference 2015 – the year when the "Be Safe" project was launched – over the course of three years, Befesa has reduced its Lost Time Injury rate – measured as number of accidents causing lost time per million hours of work – by more than 43.4%.

The indicators include all personnel working under Befesa premises, both employed personnel and contractors.

The improvement is more accentuated with Befesa's own employees, with a reduction of 7% in 2018 that allowed it to achieve an accumulated reduction of 50% compared to the performance in 2015.

Contractor performance is still the area where more work and improvement is needed. While a reduction of 32% has been sustained since the base year, performance in this area is where Befesa needs to focus its efforts.

REDUCTION OF INJURIES 2017-2018

Not only the number, but also the severity of LTA – measured as the number of days the injured individual was away from work as a result of the injury per thousand hours of work – reduced by 52% on years 2017 and 2018 versus the base year of 2015.

43%

LOST TIME INJURY RATE

Accidents causing lost time per million hours of work

52%

SEVERITY RATE

Number of days lost per thousand hours of work

Note: reduction figures given versus reference year 2015 when "Be Safe" project was initiated

As a reference, no injury during this period represented life-threatening risks, no case required long-term hospitalisation and all injured people recovered fully and resumed their normal duties.

In addition to the previous lagging indicators, various leading indicators are measured to continuously monitor Befesa's health and safety performance. These include: number of incidents reported; number of preventive safety observations per manager; total number of preventive safety observations; index of unsafe acts; and index of housekeeping.

Environmental, health & safety continued

THE 5 LEADERSHIP PERSUASIVE BEHAVIOURS

As part of the 2018 Safety Summit, a group of more than 50 top managers of Befesa worked on, among other issues, developing policies and programmes to progress on the first principle. This means developing leadership-by-example skills across all line management.

A set of five behaviours, expected of all Befesa line managers, were selected:

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. Speak and listen frequently to employees about safety concerns.
4. 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 Befesa's safety culture.

ENVIRONMENTAL MANAGEMENT

Environmental Social and Governance (ESG) and Corporate Social Responsibility (CSR) awareness and action are positive indicators on how well a business performs beyond pure financial or operational results.

Befesa, in line with its strong environmental DNA, has invested a significant amount of time and money in the development of its ESG policies and practices. This concerted effort has been driven by senior management and the Board of Directors of Befesa, who have provided guidance and funds.

a) Key Performance Indicators (KPIs)

Over the last five years, Befesa has developed KPIs that measure ESG performance. 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 at the corporate EHS committee. The analysis includes the necessary actions to improve these parameters and achieve Befesa's goals.

b) Investments

Befesa analyses the needs for 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 funded by the Board of Directors of Befesa, according to approval procedures.

The most relevant environmental investment conducted in 2017/2018 was on thermal oxidising systems, which was driven by the new limits of the Industrial Emission Directive's (IED) in the Steel Dust Recycling Services segment. Other relevant investments undertaken were in new higher efficiency furnaces in some secondary aluminium production plants – not required by environmental legislation but providing a positive environmental influence, among other benefits – and methane abatement actions in some salt slags recycling plants.

c) Air protection

Air emissions generated from metal recycling could impact human health and the environment, and may be subject to regulation and permitting.

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 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 negative effects on the air and ensures compliance with current and forthcoming legislation.

d) Soil protection

Metal production residues processing 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, to ensure the soil is maintained and uncontaminated.

e) Water consumption and effluents

Metal processing 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, which are consolidated at Group level. Trends are analysed and good practices shared to promote individual projects for the reduction of water consumption.

f) 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 recovery level of 100% results in minimal potential risk of contamination or environmental degradation through disposal or landfilling of these slags.

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

g) Greenhouse emissions

Steel production and metal recycling generates significant emissions of direct greenhouse gases (GHGs), primarily of

The recovery level of 100% of salt slags results in minimal potential risk of contamination or environmental impact.

Environmental, health & safety continued

Befesa's primary business is to recycle hazardous materials from the metals industry and extract or recycle the valuable content of those hazardous wastes.

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. Befesa contributes to the overall reduction of GHG emissions by providing the best available technologies to minimize 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 Best Available Technologies (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 management of GHG emissions.

More than 50% of the plants located within the European Union 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 the 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 18.001 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 the OHSAS 18001 / ISO 45000.

During 2018, all certifications were maintained and the 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.

BY REUSING AND RECYCLING HAZARDOUS WASTES, SUCH AS STEEL DUST OR ALUMINIUM RESIDUES, BEFESA CONTRIBUTES TO PROTECT THE ENVIRONMENT.

Sustainability & corporate citizenship

Befesa manages more than 1,500 thousand tonnes of residues annually, with a production of more than 600 thousand tonnes of new materials.

BEFESA REINTRODUCES THESE NEW MATERIALS INTO THE MARKET, REDUCING THE CONSUMPTION OF NATURAL RESOURCES.

SUSTAINABILITY

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.

The Steel Dust Recycling Services segment provides services to recover zinc that is reintroduced into the market for galvanisation and other processes and that can be reused almost endlessly.

Similar processes allow the recovery of nickel, chromium and other metals.

Additionally, the Aluminium Salt Slags Recycling Services segment contributes by recycling and reintroducing close to 100% of the aluminium smelting residues (salt slags) into the production chain. 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. For detailed information on R&D and innovation, please refer to the R&D and innovation section (pages 54 to 56 of this Annual Report).

CIRCULAR ECONOMY

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 part of the cases, is not waste anymore, but a resource that, with 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 the Company believes and strives to give a second and multiple lives to products and materials that have been used.

Befesa contributes to build this circular economy in great manner and with a model that resembles very well what the visionaries and the authorities describe when they speak about this idealistic "circular economy" concept.

At 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. At the Aluminium Salt Slags Recycling Services segment, the residues are slags and Befesa extracts aluminium, salt and aluminium oxides.

Without the function done by Befesa, a much higher amount of energy, carbon dioxide emissions and environmental negative impacts would have to be incurred to produce the same amount of zinc, aluminium or industrial salts; and, what is worse, the second option would be limited since resources are limited on this planet.

As in the Steel Dust Recycling Services segment, through the processes and services provided by Befesa, also in the Aluminium Salt Salgs Recycling Services segment a strong and excellent contribution is made to circular economy for society.

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 the Company's actions on the social system as 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 the Company is present.

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.

Befesa's contribution to the environment

BEFESA

Reduce
The consumption of natural resources

Recover
Recovered zinc, aluminium and salt are reintroduced into the market

Recycle
Reintroduce aluminium smelting residues

R&D and innovation

BEFESA'S R&D STRATEGY IS DESIGNED TO CREATE VALUE BY DEVELOPING SUSTAINABLE IMPROVEMENTS TO EXISTING TECHNOLOGIES, OPTIMISING THE OPERATIONS AND PRODUCT QUALITY, DEVELOPING NEW PROCESSES FOR ACHIEVING HIGHER RECYCLING EFFICIENCY, REDUCING COST AND IMPROVING ENVIRONMENTAL CONDITIONS. ALL OF THIS CONTRIBUTES TO A 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 2018, a total of 14 employees were fully dedicated to research and development 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 research and development activities amounted to €1.8 million – slightly above previous year's level of €1.7 million.

In the Steel Dust Recycling Services segment, expenses on research and development activities amounted to €411 thousand in the year ended 31 December 2018, in line with previous year's spend of €443 thousand.

In the Aluminium Salt Slags Residues Services segment, expenses on research and development activities amounted to €1.4 million in the year ended December 31, 2018, slightly above previous year's level of €1.3 million.

NETWORK OF COLLABORATIONS

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 research and development 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, Edertek Fagor Ederlan, ICM-CSIC (in Spain) and the NTNU (in Norway).

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

€1.8m
TOTAL EXPENSE ON R&D ACTIVITIES

MAIN ACHIEVEMENTS & PROJECTS IN 2018

In the Steel Dust Recycling Services segment, Befesa is:

- In the process of 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.
- Continuously developing significant improvements in Waelz Oxide (WOX) quality for advanced and improved usability in downstream applications,
- Optimising its recycling processes regarding availability, recovery and efficiency.
- Investigating and evaluating new potential recycling processes and residues for the extension of Befesa process value chain.

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

- Constructing a pre-industrial installation (500 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 fireproof rubber pieces in the railway sector using secondary oxides as a fire retardant.
- Studying and checking purification processes to insulate different components of oxide, achieving the production of high purity components: alumina and spinel.

R&D and innovation continued

- Developing oxides specifications to be used as a raw material in the electrolysis of the alumina to produce aluminium.
- Developing oxides specifications to be used in the ceramic industry; 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.
- Cleaning waste-rich hydrogen stream as an alternative to fossil fuels, improving the energetic efficiency of the salt slags recycling process.

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

- The optimisation of the aluminium alloys production process, introducing improvements and technologies to increase the energetic efficiency, such as waste hot stream use, new rotary furnace component design and temperature control.
- The study of the recycling process of melting salts to improve its quality, checking the effect in the aluminium metal recovery.
- The development of a new aluminium alloy composition to improve properties and allow the increase of the High Pressure Die Casting (HPDC) molds end-life in the manufacturing of aluminium motor blocks and disc brakes.

PROJECTS IN THE RESEARCH PIPELINE

In the Steel Dust Recycling Services segment, projects in 2019 are the continuation of projects launched in 2018 and new projects for:

- Investigating potential process improvements for the stainless-steel dust recycling.
- Studying the reduction of waste streams and transfer into by-products.
- Evaluating potentials for the reduction of carbon dioxide emissions.

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

- **Artigal:** Elastic joints with fire-resistant properties by introducing recycled flame retardants from the aluminium industry for use in the railway industry.
- **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.
- **Coral:** Demonstrating the technical economic and environmental viability of secondary aluminium oxide for obtaining fused oxides for its use in the manufacture of abrasives.
- **Alusal:** 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.
- **Hydrogas:** Using secondary rich hydrogen stream from the salt slags valorisation process as an alternative fuel.
- **Radius:** Recycling automotive brake disks by upgrading metallic scraps.

Risk & opportunities

RISK MANAGEMENT IS A VITAL COMPONENT OF THE OVERALL MANAGEMENT AND CONTROL SYSTEM. BEFESA AIMS TO SUCCESSFULLY SAFEGUARD THE COMPANY'S ASSETS.

RISK MANAGEMENT

Befesa operates within a risk management framework to achieve targeted results at an acceptable level of risk. The Board of Directors of Befesa reviews the operational and financial results and forecasts on a regular basis, including opportunities, risks and mitigating actions. Risk management at Befesa incorporates operations, financials, environmental health and safety, compliance, legal considerations and insurance. Befesa's consolidated, selected subsegments and single entities' financials are subject to external independent audits in addition to Befesa's internal financial routines and controls.

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 International Financial Reporting Standards (IFRS). A defined calendar ensures that financial reports and statements are produced in a timely manner. Regular reviews on Group level, as well as on segment level, ensure that potential errors are detected and corrected promptly.

The reviews of the Board 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 the Company of changes as well as on complex accounting matters to avoid misstatements.

Befesa's consolidated and selected subsegments and single entities' financials are subject to external audits. These audits form a key part of the risk management framework as an independent review of Befesa's internal control system, financial controls and reporting. Befesa strives for continuous improvement of its risk management and internal control system. The main risks with a potential material influence are further detailed in the note 4 of the consolidated financial statements section of this Annual Report.

€2,325
HEDGED ZINC PRICE AVERAGE PER TONNE FOR 2019

RISKS & OPPORTUNITIES RELATING TO THE INDUSTRY AND BUSINESS

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

Zinc smelters, which are significant consumers of the Waelz oxide (WOX) 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 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 directly and indirectly dependent on the developments in the automotive and construction industries.

COMMODITY PRICE RISK

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. Befesa's main risk management tool is its zinc hedging programme, which requires hedging one to four years forward and at a volume level of 60% to 75% of zinc payable output tonnage.

During 2018, Befesa further extended its zinc hedges by another six months to fully cover 2020, as well as hedges until and including July 2021, at a volume of 7,700 tonnes per month or 92,400 tonnes per year, which represents 68% of the current annual zinc payable output of Befesa globally. For 2019, Befesa's average hedged zinc forward price is approximately €2,325 per tonne, and for 2020 it is approximately €2,260 per tonne.

RISKS & OPPORTUNITIES RELATING TO THE CAPITAL STRUCTURE

Befesa's capital structure is effective as of 7 December 2017 and has a maturity of five years. Befesa achieved reductions in net debt over adjusted EBITDA ratio, or leverage ratio, from year-end 2016 of x3.5 to year-end 2017 of x2.4, and further down to the low leverage of x2.1 as of year-end 2018. The interest cost and debt service of Befesa's current capital structure is more than 60% lower when compared to the previous structure. A €75 million revolving credit facility is part of the capital structure and was undrawn at year-end 2018 as Befesa has €151 million cash on hand.

Befesa swapped 60% of the €526 million notional term loan B, the underlying variable interest rate of three months Euribor "0" floor to a fixed interest rate 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.

Befesa has established adequate short-, medium- and long-term liquidity processes that form part of the risk management framework. Regular reviews, adequate cash reserves and the above described capital structure, including credit lines, are in place to address the risk related to Befesa's capital structure and liquidity. Befesa complied with its debt covenants in 2018 and, based on the financial planning for 2019, foresees to once more be fully compliant.

INTEREST RATE RISK

Befesa reviews the interest rate risk on a regular basis and took the opportunity to hedge 60% of the capital structure from variable to fix interest rates forward. Based on this, there is no material interest rate risk until the end of 2022.

FOREIGN EXCHANGE RISK

Befesa has adequate review and risk management processes in place regarding foreign exchange rate risk. 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. In 2018, Befesa hedged 92,400 tonnes of zinc payable output, mostly through euro-denominated zinc forwards, which represents the majority of the output of Befesa's largest segment, Steel Dust Recycling Services.

Befesa has adequate review and risk management processes in place.

Subsequent events & outlook

SUBSEQUENT EVENTS

Between the balance sheet date (31 December 2018) and the date of presentation of the accounts (19 March 2019), no event of material importance to an assessment of the asset, financial and earnings position of Befesa occurred.

OUTLOOK

The year 2019 is expected to be another year of earnings growth for Befesa, driven by strong volumes and better hedged zinc prices, as well as the contribution of some of the organic growth projects. This increase in earnings will be partially offset by an expected increase in zinc treatment charges in 2019.

Overall, despite the general volatility in the markets and the uncertainly with regards to the development of the global economy, Befesa expects to achieve record earning levels in 2019.

From the volume point of view, Befesa expects to maintain similar levels as in 2018 for the two business units.

The year 2019 is going to be a very important year for the execution and delivery of growth projects across all the business units of Befesa and across all the main geographies in which Befesa operates. The right execution of these projects will secure additional earnings and volume growth for 2020 and 2021.

In Turkey, the plant is stopped mainly during the first half of the year to carry out the expansion of the plant from 65,000 tonnes to 110,000 tonnes. The plant is expected to be operational again during the second half of the year. The implementation of the new secondary aluminium tilting furnaces in Barcelona and the start of the expansion of the salt slags plant in Hannover will also happen in 2019. Furthermore, the WOX washing plant in South Korea will be completed, with start of operations expected during 4Q 2019.

In China, the construction of the first EAF steel dust recycling plant in the region of Jiangsu is expected to start during the second quarter of 2019. This is a key milestone for the development of Befesa's operations in China, the largest steel producer in the world.

The organic growth plan and the new EAF steel dust recycling plant in China will represent a total expansion capex of around €75 million in 2019. Thanks to the high cash-flow generation of Befesa, the leverage ratio is expected to be approximately flat year-on-year at the current levels.

Befesa expects to maintain its commitment to pay an annual dividend of 40% to 50% of the total net reported profit, even under the heavy investment period of 2019.

2019 is expected to be another year of earnings growth for Befesa.

Corporate governance report

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

1 JAVIER MOLINA MONTES

Has managed Befesa since 2000, when he was appointed Chairman and Chief Executive Officer of Befesa Medio Ambiente. Mr. Molina Montes joined Abengoa in 1994 and later became Chief Executive Officer of Abengoa Servicios Urbanos (Abensur). From 1989 to 1993, he was General Director of Tesca, and prior to that, from 1983 to 1985, was an Account Executive at Banco de Progreso. Mr. Molina Montes holds a Master's degree in Law and Management and Business (ICADE, E3) from Universidad Pontificia Comillas, Madrid, Spain.

2 WOLF UWE 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/EMEAI (2005-2013). Mr. Lehmann holds a double degree in Business and Engineering from the University of Hamburg, Germany (Diplom-Wirtschaftsingenieur).

NON-EXECUTIVE DIRECTORS

3 ROMEO KREINBERG

Has over 40 years of experience in executive management of public and private companies in the chemical industry, including various executive positions held in the course of his employment 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.

4 GEORG GRAF WALDERSEE

Is a German Certified Accountant (Wirtschaftsprüfer). For more than 25 years he was a partner at Arthur Andersen and Ernst & Young (EY) where he served in senior management positions in the EMEIA - and Global - Management Teams of both organisations. Until his retirement 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 helds a degree in business administration from the University of Hamburg.

5 FRAUKE HEISTERMANN

In 1999 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.

6 JOHANNES MARET

Worked as Auditor and Tax Consultant at Arthur Andersen for 20 years before he became partner of the private bank Sal. Oppenheim, Cologne, where he worked until 2002. Today, he advises the Triton funds as a member of the investment committee at Triton Partners, and is a member of various supervisory and advisory boards. Mr. Maret holds a degree (Diplom-Kaufmann) in Business Administration from the University of Cologne.

7 ROLAND OELSCHLÄGER

Is an Investment Advisory Professional at Triton Partners. Prior to that, he worked at the Bank of America in New York, Baltimore, Roanoke and Charlotte, and since 1996 in positions related to investments and corporate banking, with a focus on financial acquisitions and markets of medium-sized enterprises. Mr. Oelschläger holds a degree in Foreign Affairs and German from the University of Virginia, USA.

8 MANUEL 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 (1968-1988). 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.

9 SANTIAGO ZALDUMBIDE

Was Senior Consultant to Glencore-Xstrata plc. from May 2013 to February 2015, later working as Chairman and CEO of Asturiana de Zinc, S.A. and Executive Director of Xstrata plc., a major zinc producer (1998-2013). Mr. Zaldumbide started his professional career at Unión Explosivos Rio Tinto, where he was CEO in several divisions (1970-1984). He worked at Banco de Bilbao (1984-1986), as CEO of Petróleos del Norte, S.A. (1986-1994) and in the same position with Corporación Industrial y Financiera de Banesto, S.A. (1994-1998). He holds a degree in Law from the University of Madrid, a degree in Economics from the University of Deusto and an MBA degree from the University of California, Berkeley.

BOARD SECRETARY

10 BIRKE 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.

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

Befesa S.A. is a société anonyme organised under the laws of Luxembourg. 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 Luxembourg corporate governance regime applicable to companies that are traded in Luxembourg, or to the German corporate governance regime applicable to stock corporations organised in Germany.

Nevertheless, Befesa S.A. has decided to follow, on a voluntary basis and to a certain extent, the German corporate governance rules. However, certain rules will apply to Befesa S.A. only to the extent allowed by *Luxembourg corporate law* and subject to certain reservations stemming from Befesa S.A.'s corporate structure.

BOARD OF DIRECTORS

According to the articles of association of Befesa S.A., the Board of Directors is in charge of the management of Befesa S.A., and focuses on the strategic direction and acts in the common interests of the shareholders. Thus, the principles, rules and elements that govern the functioning of the Board of Directors are as follows:

- The Board of Directors ensures the monitoring of the business activities of the direct and indirect operating companies.
- The Board of Directors is organised in a manner to perform its responsibilities effectively.

All appointments of the members of the Board of Directors of Befesa S.A. are made on individual merit, and they 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 nomination and remuneration committee shall ensure that the elected Board member has the necessary knowledge, experience, abilities and professional background to assume the responsibility. This enables the Board 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.

Rules of the Board of Directors are contained in articles 14 to 19 of the articles of association of Befesa S.A. (the document is available at the investor relations / corporate governance section of Befesa's website, www.befesa.com). In particular, the following should be highlighted:

- The Board of Directors is vested with the broadest powers to perform all acts necessary or useful to accomplish Befesa's objectives.
- 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.

EXECUTIVE DIRECTORS

NO	NAME	POSITION	FIRST APPOINTMENT	RENEWAL	END OF TERM
1	Javier Molina Montes	CEO	18 October 2017	26 April 2018	AGM held in 2022
2	Wolf Uwe Lehmann	CFO	18 October 2017	26 April 2018	AGM held in 2022

NON-EXECUTIVE DIRECTORS

NO	NAME	POSITION	FIRST APPOINTMENT	RENEWAL	END OF TERM
3	Romeo Kreinberg	Chairman of the Board of Directors	18 October 2017	26 April 2018	AGM held in 2022
4	Georg Graf Waldersee	Independent director	18 October 2017	26 April 2018	AGM held in 2022
5	Frauke Heistermann	Independent director	18 October 2017	26 April 2018	AGM held in 2022
6	Johannes Maret	Director	18 October 2017	26 April 2018	AGM held in 2022
7	Roland Oelschläger	Director	18 October 2017	26 April 2018	AGM held in 2022
8	Manuel Soto	Independent director	18 October 2017	26 April 2018	AGM held in 2022
9	Santiago Zaldumbide	Independent director	18 October 2017	26 April 2018	AGM held in 2022

In 2018, the audit committee met on four occasions, whereas the nomination and remuneration, as well as the operations committees met on two occasions. All committees had an attendance record of 100%. The Board of Directors met on 13 occasions with an attendance record of 98%.

The Board of Directors has nine members (eight males and one female).

The above mentioned seven non-executive directors will each receive an annual remuneration of €60,000. The chairman of the Board of Directors will receive additional compensation in the amount of €90,000 for the performance of his office. The two executive directors receive no salary as directors of Befesa S.A. but receive compensation according to their respective service agreement.

The Board of Directors has set up the following committees: audit committee, nomination and remuneration committee, operations committee and market-disclosure committee. All committees meet as often as necessary, but the audit committee, the nomination and remuneration committee, and the operations committee meet at least twice a year. These committees provide its members with assurance to discharge their duties effectively. Befesa S.A. ensures a clear distribution of functions between the Board of Directors and these committees, and between the committees and the senior management. A brief description of its composition and responsibilities are disclosed here:

a. Audit committee

The audit committee consists of Georg Graf Waldersee (chairman), Frauke Heistermann, Roland Oelschläger and Manuel Soto. This committee is responsible for (i) the consideration and evaluation of all material questions concerning the auditing and accounting policies of the Group, (ii) its financial controls and systems, and (iii) matters concerning compliance.

b. Nomination and remuneration committee

The nomination and remuneration committee is responsible for human resources-related matters. These include the implementation of policies, appointments and releases of senior management of Befesa S.A., and proposing to the general meeting of shareholders suitable candidates for recommendation for election as members of the Board of Directors. Romeo Kreinberg (chairman), Georg Graf Waldersee, Johannes Maret, Roland Oelschläger and Santiago Zaldumbide form part of this committee.

c. Operations committee

The operations committee is responsible for the implementation and oversight of operational efficiency measures, operational efficiency monitoring, capital expenditure planning and further operational measures. The committee consists of Romeo Kreinberg (chairman), Frauke Heistermann, Johannes Maret, Manuel Soto and Santiago Zaldumbide.

d. Market-disclosure committee

The market-disclosure committee is formed by Georg Graf Waldersee (chairman) and the CEO and CFO of Befesa; they are in charge of overseeing the disclosure of ad-hoc announcements by Befesa S.A..

During 2018, the Board of Directors, the audit committee, the nomination and remuneration committee, and the operations committees held the following meetings and committees:

BOARD OF DIRECTORS MEETINGS

No.	Date	Attending Board members	Attendance record
1	24/01/2018	9/9	100 %
2	20/02/2018	9/9	100 %
3	13/03/2018	9/9	100 %
4	26/04/2018	9/9	100 %
5	23/05/2018	7/9	78 %
6	21/06/2018	9/9	100 %
7	17/07/2018	9/9	100 %
8	25/07/2018	9/9	100 %
9	29/08/2018	9/9	100 %
10	20/09/2018	9/9	100 %
11	18/10/2018	9/9	100 %
12	21/11/2018	9/9	100 %
13	19/12/2018	9/9	100 %
		TOTAL ATTENDANCE RECORD	98 %

AUDIT COMMITTEE

No.	Date	Attending Board members	Attendance record
1	13/03/2018	4/4	100 %
2	22/05/2018	4/4	100 %
3	28/08/2018	4/4	100 %
4	20/11/2018	4/4	100 %
		TOTAL ATTENDANCE RECORD	100 %

NOMINATION AND REMUNERATION COMMITTEE

No.	Date	Attending Board members	Attendance record
1	13/03/2018	4/4	100 %
2	22/05/2018	4/4	100 %
		TOTAL ATTENDANCE RECORD	100 %

OPERATIONS COMMITTEE

No.	Date	Attending Board members	Attendance record
1	23/01/2018	5/5	100%
2	25/04/2018	5/5	100%
		TOTAL ATTENDANCE RECORD	100 %

SENIOR MANAGEMENT

The day-to-day operations of Befesa are managed by the senior management of the Group. Senior management is currently composed of four members – the CEO, CFO and the vice presidents of the Steel Dust Recycling and Aluminium Salt Slags Recycling business units, Asier Zarraonandia Ayo and Federico Barredo Ardanza, respectively.

The total aggregate compensation (mainly wages and social security) paid to the four members of senior management in the year ended 31 December 2018 amounted to €4.18 million. The total estimated value of all non-cash benefits received by the four members of senior management in the same year was €60,444.

On 17 October 2017, the Board of Directors of Befesa S.A. granted the senior management members with 79,018 stock rights to reward their loyalty to Befesa S.A..

The granted stock rights will vest at the end of 2 November 2020, subject to ongoing employment 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 senior management member account, or

b Cash payout of the value of the Befesa S.A. ordinary shares.

Additionally, the senior management together with 14 other managers of Befesa have been selected to participate in the Befesa long-term performance stock plan, consisting of four plan tranches.

A total of 89,107 performance stocks have been granted for each of the four plan tranches. The performance period of each plan tranche is three years (tranche I 2018-2020, tranche II 2019-2021, tranche III 2020-2022, tranche IV 2021-2023).

For each plan tranche, three performance targets will be determined, giving every performance target an individual weighting. The performance targets will be determined and measured over a three-years period (e.g. tranche I: 1 January 2018 to 31 December 2020).

For each performance target, the determination of values of 80%, 100% and 160% of target achievement is required. 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 nearest integer.

SHAREHOLDERS

The Annual General Meeting shall be held in accordance with Luxembourg law, in the Grand Duchy of Luxembourg at the address of the registered office of Befesa or at such other place in the Grand Duchy of Luxembourg specified in the convening notice of the meeting. An Annual General Meeting shall be held within six months from the end of the preceding financial year. The agenda of the Annual General Meeting, the reports and any other documents required for the meeting are published on the investor relations section of Befesa's website (www.befesa.com).

The Annual General Meeting of Befesa S.A. shall be held on 19 June 2019.

The shareholders of Befesa S.A. exercise their voting rights at the Annual General Meeting. Each share entitles the holder thereof to attend all the shareholders' general meetings, either in person or by proxy, to address the general meeting of the shareholders and to exercise voting rights. Each share entitles the holder to one vote at the shareholders' general meeting.

Befesa S.A. shall ensure equal treatment for all shareholders. There is no minimum shareholding required to be able to attend or vote at a general meeting of the shareholders. In addition, the right of any shareholder to participate in the Annual 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 Annual 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.

The Board of Directors of Befesa S.A. is responsible for presenting the consolidated financial statements and the annual accounts at the Annual General Meeting. The annual financial statements, the allocation of the results, the determination of the dividend, and the discharge of the members of the Board of Directors are, among others, some of the resolutions adopted at the Annual General Meeting.

The articles of association of Befesa S.A. require general meetings (in addition to the Annual General Meeting) to be convened if shareholders representing at least 10% of Befesa S.A.'s share capital so require.

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, among others:

a An increase or decrease of the authorised or issued capital

b A limitation or exclusion of preemptive rights

c Approval of a statutory merger or demerger (scission) or certain other restructurings

d Dissolution of the Company, and

e An amendment to the articles of association

Extraordinary resolutions must generally be adopted at a general meeting of the shareholders by a two-thirds majority of the votes validly cast on such resolution. Abstentions are not considered as "votes".

The Annual General Meeting of Befesa S.A. shall be held on 19 June 2019.

Persons Discharging Managerial Responsibilities (PDMR) within Befesa S.A. are the members of the Board of Directors and the senior management.

MANAGERS' TRANSACTIONS

Persons Discharging Managerial Responsibilities (PDMR), as well as persons closely associated with them, must disclose to Befesa S.A. and the Commission du Surveillance du Secteur Financier (CSSF) every transaction conducted on their own account relating to the shares or debt instrument of Befesa S.A. or the derivatives or other financial instruments linked thereto.

Persons Discharging Managerial Responsibilities within Befesa S.A. are the members of the Board of Directors and the senior management.

In November 2018, certain members of the Board of Directors and the senior management, among others, acquired shares of Befesa S.A. by exchange of Vulcan Co-Invest S.à.r.l. shares (a new MIP vehicle described on page 156 of the IPO prospectus after expiry of one-year IPO lock-up period).

During 2018, nine notifications were received by Befesa S.A. and filed with the CSSF. All notifications are available at the investor relations / IR news / directors' dealings section of Befesa's website (www.befesa.com).

INDEPENDENT AUDITORS

In accordance with the Luxembourg law on commercial companies, Befesa S.A.'s annual and consolidated accounts are certified by an approved statutory auditor (réviseur d'enterprises agréé) appointed by the shareholders at the Annual General Meeting. The Annual General Meeting held on 26 April 2018 approved the appointment of PricewaterhouseCoopers, Société coopérative as approved statutory auditor (réviseur d'enterprises agréé).

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 2018 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, Befesa S.A.'s shares are freely transferable.

c) Major shareholding

The majority shareholder of Befesa S.A. as of 31 December 2018 is Bilbao LuxCo S.A. holding directly 40.6% of the share capital.

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 to one vote. 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, and supporting documents for the shareholdings shall be received by Befesa S.A. by the 14th day before the relevant date at 24:00 hours Luxembourg time.

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

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

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

j) Significant agreements

With exception to the senior facility agreement (IPO refinancing), 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 and employees

The services agreements signed by the senior management with the relevant Group companies establish the right of an exit payment amounting to the total sum of €4.07 million for all four members of senior management in the case of the termination of their services agreements without cause by the relevant Group companies.

Compliance

BEFESA'S COMPLIANCE MANAGEMENT SYSTEM (CMS)

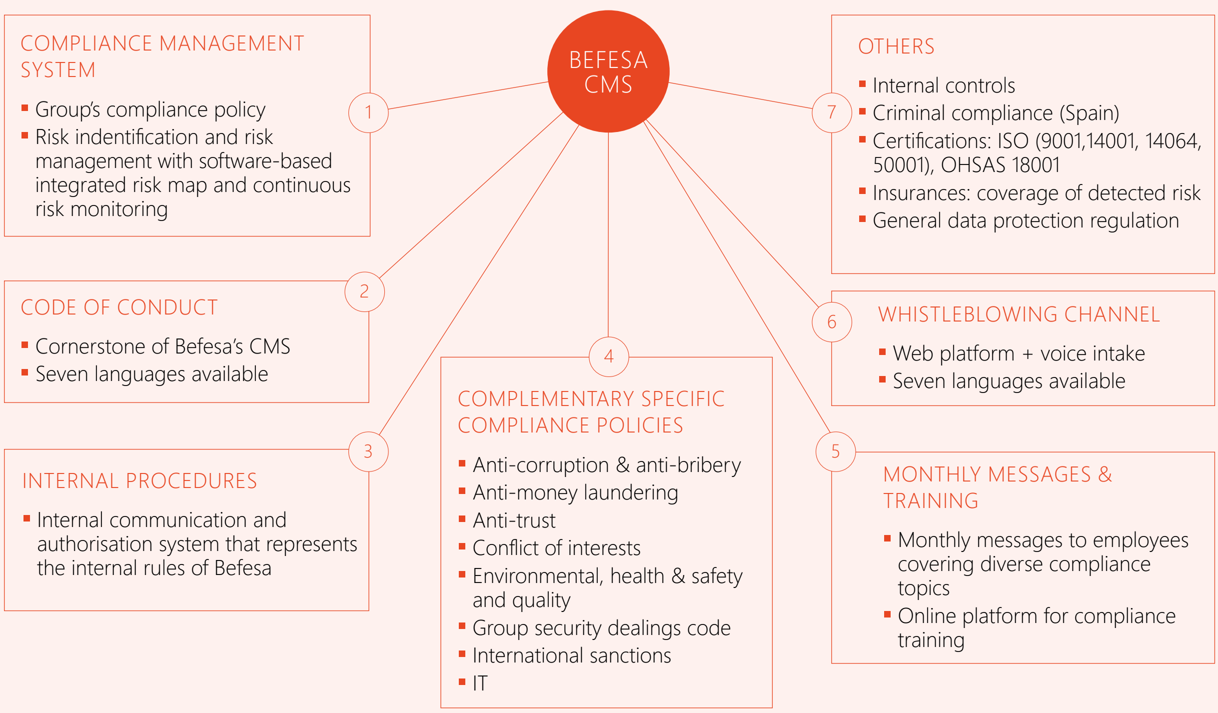
a. Definition & content

Befesa is committed to achieving success and sustainable, profitable growth. Befesa believes that this can only be achieved if everybody is focused on integrity, high moral values and respect for environmental, social and governance practices so that Befesa 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 Befesa's compliance management framework and continuously seeks opportunities to strengthen this framework further.

Befesa's Compliance Management System (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 whistleblowing channel, guide members in ensuring that Befesa complies with all laws, regulations and values.

COMPLIANCE MANAGEMENT SYSTEM



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

b. Befesa's general compliance policy

Befesa considers that compliance risk must be identified, managed and reported by the 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 whistleblowing 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 also supported by monthly compliance committees, as well as 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 Compliance Management System (CMS). It is available to all employees and third parties at 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 the directors, executives, managers and employees of Befesa and defines basic behavioural standards within Befesa itself and in connection with other parties. The document is available in the seven 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 the Company 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 judgment 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 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:

a. 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.

b. 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 designed to detect and prevent suspicious payment methods. All employees of Befesa are obliged to report any suspicious behaviour by clients or trading partners, either to the compliance officer or by using the whistleblowing channel. All employees must comply with all the rules and guidelines regarding the accounting and financial information applicable to cash and other forms of payments in relation to the transactions that have to be made.

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

d. Conflicts of interests

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 Befesa, not based on their potential personal interests. Each employee must avoid any relationship or activity that could affect their independent judgment in the conduct of Befesa's business, or conflicts with, or could reasonably give the appearance of conflicting with, Befesa's interests.

e. Group security dealings code

This code applies to all employees, managers and directors of Befesa and its fully consolidated subsidiaries and joint ventures. The rules included herein 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.

f. 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 European Union, they are obligatory for all its member states. Befesa believes that all its employees must comply with the aforementioned 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 with international sanctions.

INTERNAL PROCEDURES

a. Concept

Internal procedures of Befesa are a suitable internal control system that represents the internal rules of Befesa. 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

b. 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

COMMUNICATION TO EMPLOYEES AND ENGAGEMENT

A compliance system cannot be effective without proper communication to all parties involved, specially the employees. For that reason, Befesa has implemented two tools to guarantee that everybody within the organisation has access to the latest compliance initiatives: Monthly messages and training.

a. Monthly messages
Every month one specific compliance topic is shared with all Befesa employees. These topics are agreed upon with management and are emailed through the organisation in three languages: English, German and Spanish.

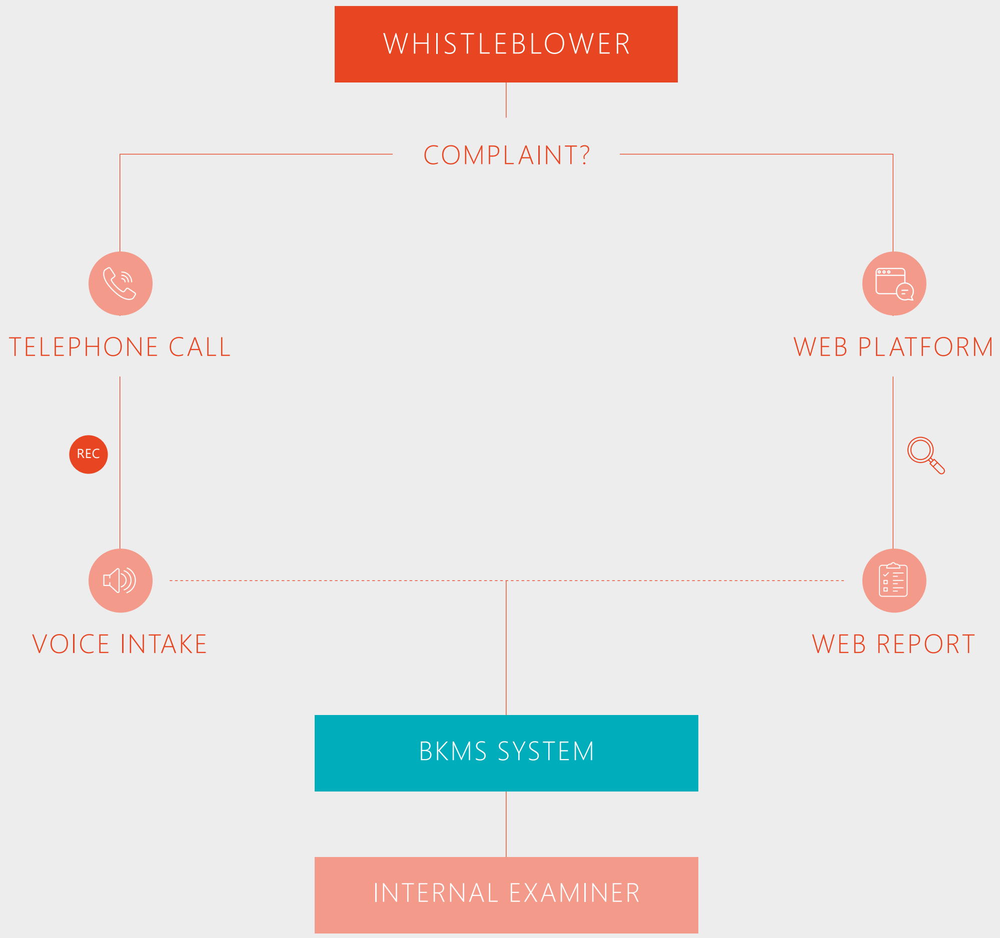
b. Training
The continuous training of Befesa's employees is key for the future and development of the organisation. Compliance is an important part for the Company. Befesa has developed annual training for certain employees. The training courses are updated on an annual basis with the latest compliance-related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

The continuous training of Befesa's employees is key for the future and development of the organisation.

WHISTLEBLOWING CHANNEL

Befesa has a whistleblowing channel in place on its website, which is available to all employees and external third parties, 24/7. Complaints can be made via phone or the web platform. This platform is available in seven languages: English, German, Spanish, French, Swedish, Turkish and Korean.



WWW.BKMS-SYSTEM.NET/BEFESA

European Privacy Seal

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

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.

a. 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 subsidiaries. The audit results are shared with management.

b. Risk analysis & insurance coverage

Befesa has implemented a risk management system that allows management to have, at any time, the control of the risks of the different areas of Befesa. Befesa strongly believes that a proper compliance system must be based on an initial risk map analysis.

Supported by an external advisor, and following the ISO 31000 standard, the main goal has been the identification and assessment of the major risks that 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 takeaways of this initiative are:

- Elaboration of a risk map
- Definition of current controls
- Implement and develop a "risk mindset"
- Implement action plans
- Regular review and analysis in the future

Part of the risk analysis and assessment is to establish a strong insurance coverage policy that can mitigate current and future risks.

c. 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.


BEFESA

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet as at 31 December 2018
(Thousand euros)

Assets	Note(s)	2018	2017
Non-current assets:			
Intangible assets			
Goodwill	6	335,564	335,564
Other intangible assets, net	7	87,104	88,162
		422,668	**423,726**
Property, plant and equipment, net	8		
Property, plant and equipment in use		236,366	229,996
Property, plant and equipment under construction		25,148	18,195
		261,514	**248,191**
Non-current financial assets	9		
Investments in subsidiaries and associates		558	150
Other non-current financial assets		45,960	5,088
		46,518	**5,238**
Deferred tax assets	18	**57,399**	**94,975**
Total non-current assets		**788,099**	**772,130**
Current assets:			
Inventories	10	**46,049**	**45,192**
Trade and other receivables	11	**59,695**	**52,109**
Trade receivables from related companies	11-24	**924**	**795**
Accounts receivable from public authorities	11-19	**9,231**	**10,266**
Other receivables	11	**10,807**	**11,734**
Other current financial assets	12	**20,668**	**300**
Cash and cash equivalents	4	**150,648**	**117,582**
Total current assets		**298,022**	**237,978**
Total assets		**1,086,121**	**1,010,108**

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

Consolidated balance sheet as at 31 December 2018 (Thousand euros)

Equity and liabilities	Note(s)	2018	2017
Equity:			
Parent Company	13		
Share capital		94,576	94,576
Share premium		263,875	288,744
Hedging and revaluation reserves		46,240	(57,013)
Other reserves		(158,918)	(205,836)
Translation differences		(2,759)	(562)
Net profit/(loss) for the period		90,189	49,251
		333,203	**169,160**
Non-controlling interests	13	**9,426**	**10,567**
Total equity		**342,629**	**179,727**
Non-current liabilities:			
Long-term provisions	17	**6,422**	**4,908**
Financial debt	14	**520,169**	**519,154**
Deferred tax liabilities	18	**65,991**	**55,596**
Other non-current liabilities	15	**9,084**	**32,679**
Total non-current liabilities		**601,666**	**612,337**
Current liabilities:			
Financial debt	14	**7,329**	**5,083**
Trade payables to related companies	24	**1,432**	**1,497**
Trade and other payables		**100,191**	**113,358**
Short-term provisions		**231**	**690**
Other payables			
Accounts payable to public administrations	15-19	15,067	14,976
Other current liabilities	15	17,576	82,440
		32,643	**97,416**
Total current liabilities		**141,826**	**218,044**
Total equity and liabilities		**1,086,121**	**1,010,108**

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

Consolidated income statement for the year ended 31 December 2018
(Thousand euros)

	Note(s)	2018	2017
Continuing operations:			
Revenue	5	720,090	724,789
+/– Changes in stocks of finished products and work in progress		(4,006)	14,775
Procurements	21	(335,544)	(388,214)
Other operating income	21	5,127	9,475
Staff costs	21	(75,918)	(72,789)
Other operating expenses	21	(133,784)	(135,059)
Amortisation/depreciation, impairment and provisions	21	(28,991)	(30,535)
Operating profit		**146,974**	**122,442**
Financial income		271	2,589
Financial expenses	22	(20,434)	(50,696)
Net exchange differences		3,330	(136)
Finance income/(loss)		**(16,833)**	**(48,243)**
Profit/(loss) before tax		**130,141**	**74,199**
Corporate income tax	19	(33,043)	(23,017)
Profit/(loss) for the year from continuing operations		**97,098**	**51,182**
Profit/(loss) for the year from discontinued operations	26.1	(2,205)	3,779
Profit/(loss) for the year		**94,893**	**54,961**
Attributable to:			
Parent Company owners		90,189	49,251
Non-controlling interests		4,704	5,710
Earnings(losses) per share from continuing and discontinued operations attributable to owners of the Parent (expressed in euro per share)			
Basic earnings per share			
– From continuing operations	28	2.71	0.87
– From discontinued operations	28	(0.06)	0.15
		2.65	1.02

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

Consolidated statement of comprehensive income for the year ended 31 December 2018
(Thousand euros)

	Note(s)	2018	2017
Consolidated profit/(loss) for the year		**94,893**	**54,961**
Other comprehensive income from continuing operations:			
Items that may subsequently be reclassified to income statement:			
Income and expense recognised directly in equity		**74,948**	**(41,390)**
– Cash-flow hedges	16	112,524	(65,246)
– Translation differences		(3,819)	4,785
– Tax effect	18	(33,757)	19,071
Transfers to the income statement		**24,486**	**36,325**
– Cash-flow hedges	16	35,268	51,893
– Tax effect	18	(10,782)	(15,568)
Other comprehensive income/(loss) for the year net of tax from continuing operations		**99,434**	**(5,065)**
Other comprehensive income/(loss) from discontinued operations:			
Items that may subsequently be reclassified to results:			
– Exchange differences on translation of foreign operations		–	(3,926)
Other comprehensive income/(loss) for the year, net of tax from discontinued operations		**–**	**(3,926)**
Other comprehensive income/(loss) for the year, net of tax		**99,434**	**(8,991)**
Total comprehensive income/(loss) for the year		**194,327**	**45,970**
Attributable to:			
Parent Company owners		191,245	41,239
Non-controlling interests		3,082	4,731
Total comprehensive income/(loss) attributable to the Parent Company's owners resulting from:			
Continuing operations		193,450	37,460
Discontinued operations		(2,205)	3,779

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

Consolidated statement of changes in equity for the year ended 31 December 2018

(Thousand euros)

	Attributable to owners of the Parent								
	Share capital (Note 13)	**Share premium (Note 13)**	**Hedging and revaluation reserves (Note 13)**	**Other shareholder contributions (Note 13)**	**Other reserves (Note 13)**	**Translation differences (Note 13)**	**Net profit (loss) for the year (Note 13)**	**Non-controlling interests (Note 13)**	**Total equity**
Balances at 31 December 2016	**64,093**	**233,087**	**(47,163)**	**200**	**(45,649)**	**(2,400)**	**(52,914)**	**8,931**	**158,185**
Net profit/(loss) for 2017	–	–	–	–	–	–	49,251	–	49,251
Profit for the year attributable to non-controlling interests	–	–	–	–	–	–	–	5,710	5,710
Transfer of hedges to profit or loss (Note 16)	–	–	36,325	–	–	–	–	–	36,325
Changes in valuation of hedges (Note 16)	–	–	(46,175)	–	–	–	–	–	(46,175)
Translation differences	–	–	–	–	–	1,838	–	(979)	859
Total comprehensive income for 2017	–	–	(9,850)	–	–	1,838	49,251	4,731	45,970
Distribution profit/(loss) of 2016	–	–	–	–	(52,914)	–	52,914	–	–
Interim dividend (Note 13)	–	(16,830)	–	–		–	–	–	(16,830)
Capital increase (Note 13)	30,483	72,287	–	–	(102,770)	–	–	–	–
Other changes	–	200	–	(200)	(4,503)	–	–	(2,738)	(7,241)
Changes in the scope of consolidation (Note 2.5)	–	–	–	–	–	–	–	(357)	(357)
Balances at 31 December 2017	**94,576**	**288,744**	**(57,013)**	**–**	**(205,836)**	**(562)**	**49,251**	**10,567**	**179,727**
Net profit/(loss) for 2018	–	–	–	–	–	–	90,189	–	90,189
Profit for the year attributable to non-controlling interests	–	–	–	–	–	–	–	4,704	4,704
Transfer of hedges to profit or loss (Note 16)	–	–	24,486	–	–	–	–	–	24,486
Changes in valuation of hedges (Note 16)	–	–	78,767	–	–	–	–	–	78,767
Translation differences	–	–	–	–	–	(2,197)	–	(1,622)	(3,819)
Total comprehensive income for 2018	–	–	103,253	–	–	(2,197)	90,189	3,082	194,327
Distribution profit/(loss) of 2017	–	–	–	–	49,251	–	(49,251)	–	–
Dividend (Note 13)	–	(24,869)	–	–	–	–	–	–	(24,869)
Other changes	–	–	–	–	(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**

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

Consolidated cash flow statements for the year ended 31 December 2018
(Thousand euros)

	2018	2017
Cash flows from operating activities:		
Continuing operations	130,141	74,199
Discontinued operations	(2,980)	2,051
Profit/(loss) for the year before tax including discontinued operations	**127,161**	**76,250**
Adjustments for:		
Depreciation and amortisation charge (Notes 7 and 8)	29,039	30,535
(Profit)/loss from disposals (Note 26)	–	(2,944)
Changes in provisions	1,764	213
Interest income	(279)	(2,589)
Finance costs	23,374	50,696
Other profit and loss	(1,058)	(1,147)
Exchange differences	(3,330)	136
Changes in working capital:		
Trade receivables and other current assets	(9,113)	6,362
Inventories	(857)	(14,782)
Trade payables	(16,949)	22,244
Other cash flows from operating activities:		
Interest paid	(13,872)	(49,656)
Other payments	(6,819)	(2,977)
Taxes paid	(25,217)	(20,792)
Net cash flows from operating activities	**103,844**	**91,549**
Cash flows from investing activities:		
Investments in Group and associated companies	(439)	(1,868)
Investments in intangible assets	(2,384)	(1,308)
Investments in property, plant and equipment (Note 8)	(37,953)	(24,383)
Collections from disposals of Group and associated companies, net of cash (Note 26)	200	52,366
Collections from sale of property, plant and equipment	181	–
Investments in other current financial assets	(87)	(446)
Interest received	–	241
Net cash flows from investing activities	**(40,482)**	**24,602**
Cash flows from financing activities:		
Cash bank inflows from bank borrowings and other liabilities	–	520,802
Cash bank outflows from bank borrowings and other liabilities	(652)	(576,518)
Dividends paid to shareholders	(29,387)	(3,075)
Net cash flows from financing activities	**(30,039)**	**(58,791)**
Effect of foreign exchange rate changes on cash and cash equivalents	**(257)**	**(1,787)**
Net increase in cash and cash equivalents	**33,066**	**55,573**
Cash and cash equivalents at beginning of year	117,582	62,009
Cash and cash equivalents at year-end from continuing operations	150,648	117,582

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

Notes to the consolidated financial statements as at 31 December 2018
(Thousand 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 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 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 in 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 that it may deem useful in the accomplishment and development of its object.

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

On 18 October 2017, the extraordinary General Shareholders' Meeting of the Company converted the Company's corporate form from a private limited liability company to a public limited company.

On the same date, the extraordinary General Shareholders' Meeting of the Company decided to change the name of the Company from Bilbao Midco, S.à.r.l to Befesa, S.A.

Befesa 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 2018 and 2017 should be understood to accrue in the normal course of the aforementioned activities. The information, if any, 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 Company purpose, 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 a listed company on the stock exchange of Frankfurt (Germany) (Note 13).

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

2.1 Fair presentation

The Company's consolidated financial statements for 2018 were formally prepared:

- In accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS), 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.

- On a historical cost basis, modified by the fair valuation of assets and liabilities (financial assets and liabilities including derivatives) at fair value.

- 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 the Group's consolidated equity and financial position at 31 December 2018 and the 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 2018. However, since the accounting policies and measurement bases used in preparing the 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 International Financial Reporting Standards, as adopted by the European Union.

- The preparation of 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.

In 2016 the Parent Company's Board of Directors took the decision to divest and sell off practically all the companies that comprised the Industrial Waste Management Segment (except for the subsidiary Befesa Argentina, S.A., which was sold during 2017). As a result of this decision, in December 2016, Befesa Gestión de Residuos Industriales, S.L., Befesa Gestión PCB, S.A., Gestión y Valorización Integral del Centro, S.L., Residuos Industriales de la Madera de Córdoba, S.A., Betearte, S.A., Ecología Canaria, S.A. and Befesa Plásticos, S.L. were sold.

Additionally, the assets and liabilities of Solarca, S.L. (and its subsidiaries), Soluciones Ambientales del Norte, S.A. and Befesa Perú, S.A. were classified as "held for sale" at 31 December 2016 and the consolidated income statement for the companies was classified as "Profit/(loss) from discontinued operations" (Note 26). These companies were sold on 29 March 2017. As required under IFRS 5, the operations of the aforementioned companies (to the date of its sale) are classified under profit/(loss) for the year from discontinued operations in the accompanying consolidated income statement.

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

In 2017, the Group decided to sell the company Befesa Argentina, S.A. The results from this company are classified under "profit/(loss) for the year from discontinued operations" in the accompanying consolidated income statement (Note 26).

2.2 Adoption of new standards and interpretations issued.

The Group consolidated financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS), adopted for utilisation in the European Union (IFRS-EU) and approved under European Commission Regulations in force at 31 December 2018, taking into account all accounting principles and standards and compulsory measurement criteria with a significant effect, as well as the alternatives that legislation allows.

As a result of certain International Financial Reporting Standards coming into effect in January 2018, the Company has adapted its consolidated financial statements to those standards.

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements did not need to be restated. As explained below, IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The Group has not identified significant impacts on the financial statements as consequence of the changes in the accounting policies IFRS 9 and IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and reclassifications to the amounts recognised in the financial statements. The new accounting policies are set out in Note 3.5. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. Additionally, the Group has not identified significant impacts on the financial statements.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management assessed which business models apply to the financial assets held by the Group, classifying its financial instruments into the appropriate IFRS 9 categories.

Reclassifications of financial instruments on adoption of IFRS 9
On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount	
	Original (IAS 39)	New (IFRS 9)	Original	New
Non-current financial assets				
Held to maturity investments	Amortised cost	Amortised cost	150	150
Long-term loans	Amortised cost	Amortised cost	4,180	4,180
Derivatives	FVOCI	FVOCI	908	908
Current financial assets				
Trade receivables	Amortised cost	Amortised cost	52,109	52,109
Trade receivables from related companies	Amortised cost	Amortised cost	795	795
Other receivables	Amortised cost	Amortised cost	11,734	11,734
Other current financial assets	Amortised cost	Amortised cost	300	300
Cash and cash equivalents	Amortised cost	Amortised cost	117,582	117,582
Non-current financial liabilities				
Derivatives	FVOCI	FVOCI	24,240	24,240
Current financial liabilities				
Derivatives	FVOCI	FVOCI	57,173	57,173

The adoption of IFRS 9 had no impact on the classification of financial instruments on the date of initial application.

(ii) Derivatives and hedging activities
Financial derivates in place as at 31 December 2017 (Note 16) qualified as cash flow hedges under IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9 and these relationships are therefore treated as continuing hedges.

(iii) Impairment of financial assets
The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade receivables for sales of inventory
- Debt investments carried at amortised cost

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no material impairment has been estimated.

Trade receivables and contract assets
The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets. No significant impact has been estimated.

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

Debt investments

Debt investments at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. No material impact has been estimated by the Group from applying the expected credit risk model.

IFRS 15 "Revenue from Contracts with Customers"

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has adopted the new rules retrospectively without restating the comparatives for the 2017 financial year. No significant impact has been estimated. See Notes 3.11.

The Group has recognised a reclassification related to the first-time application of IFRS 15 that is due to the consideration as an agent in certain non-recurring operations in the aluminium segment, without impact on results and without net equity impact. In those operations, the evaluation under IFRS 15 is that the Group is not a principal, because the Company does not control the goods before the entity transfers the goods to customers, following the indicators detailed in paragraph B37 of the IFRS 15. The Group assumes part of the main risks, but from the point of view of the control of the operation, the evaluation carried out under IFRS 15 is that the supplier of the material controls the operation. The reclassification impact in the revenues of 2017 amounted to €57.4 million.

2.2.1 Mandatory standards, amendments and interpretations for all years starting from 1 January 2018

IFRS 9 "Financial Instruments"

It approaches the classification, valuation and recognition of financial assets and financial liabilities. The complete version of the IFRS 9, published in July 2014, replaces the guide of the IAS 39 on the classification and valuation of financial instruments. The IFRS 9 maintains but simplifies the mixed valuation model and establishes three main categories of valuation for the financial assets: amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ("FVPL"). The base of classification depends on the entity business model and the characteristics of the contractual flows of cash of the financial assets. It is required that the investments in equity instruments are valued at fair value with changes in profit and loss, with the irrevocable election at initial recognition to present in other comprehensive income subsequent changes in the fair value, unless the instrument is held for trading. If the equity instrument is held for trading, the subsequent changes in the fair value are presented in profit and loss. In relation to financial liabilities, there have been no changes from the classification and valuation, except for the recognition of changes in own credit risk in other comprehensive income for liabilities, designated at fair value through profit and loss. Under IFRS 9, there is a new model of impairment losses, the model of expected credit losses, which replaces the model impairment losses incurred in IAS 39 and which will lead to a recognition of losses before it has been done in IAS 39. The IFRS 9 relaxes the requirements for the coverage effectiveness. Under IAS 39, a hedge must be highly effective, both going forward and in the past. IFRS 9 replaces this line by stipulating an economic relationship between the hedged item and the hedging instrument. It also requires the hedged ratio to be the same as the ratio used by the entity to manage risk. Lastly, extensive information is required, including reconciliation of the initial and final amounts of the provision for estimated credit losses, assumptions and data, and a reconciliation of the transition between the categories of initial classification under IAS 39 and the new classification categories under IFRS 9.

IFRS 9 is effective for years starting on or after 1 January 2018. The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information.

IFRS 15 "Ordinary revenues from Contracts with Customers"

In May 2014, the IASB and FASB jointly issued a converging statement on the recognition of revenue from contracts with customers. Under this standard, revenue is recognised when a customer obtains control of an asset or service i.e. when it has both the ability to direct the use and obtain the benefits of the asset or service. IFRS 15 includes new guidance to determine whether revenue should be recognised over time or at a point in time. It requires broad disclosure of both recognised revenues and revenues expected to be recognised in the future in relation to existing contracts. Similarly, quantitative and qualitative information should be provided on the significant judgements made by management in determining revenue recognised and any changes in such judgements.

Subsequently, in April 2016 the IASB published amendments to this standard. Although they do not amend the basic principles, they provide clarification on the most complex aspects.

The Group has adopted the new rules retrospectively without restating the comparatives for the 2017 financial year. No significant impact has been estimated. See Note 3.11.

IFRS 15 (Amendment) Clarifications to IFRS 15 "Revenue from contracts with customers"

The IASB has amended IFRS 15 with the aim of:

- Clarifying the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation).
- Adding new and amended illustrative examples for each of these areas of guidance.
- Including additional practical expedients related to transition to the new revenue standard.

Although these amendments do not alter the underlying premise of IFRS 15, they do clarify some of the more complex aspects of applying this standard.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018.

The potential consequences of these amendments have been evaluated along with the assessment of IFRS 15 adoption.

2.2.2 Standards, amendments and interpretations not yet in force

At the date of signature of this consolidated annual accounts, the IASB and the IFRS Interpretations Committee had published rules, modifications and interpretations that will be detailed below, though the Group has not adopted them beforehand.

IFRS 16 "Leases"

In January 2016, the IASB published this new standard, as a result of a joint project with the FASB, which repeals IAS 17, "Leases".

The IASB and FASB reached the same conclusions on several topics connected with accounting for leases, including the definition of a lease, the requirement, as a general rule, to recognise leases on the balance sheet and the measurement of lease liabilities. Under the new standard, a "right-of-use asset" and a lease liability reflecting future lease payments are recognised, with the exemption for certain short-term leases or leases of low-value assets.

There are still differences between IASB and FASB regarding the recognition and presentation of lease expenses in the income statement and cash flow statement.

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

This IFRS will apply to annual reporting periods beginning on or after 1 January 2019. The Group decided not to early adopt this standard and will adopt the "simplified approach" in the transition, without re-expressing comparative figures.

The Group assessed all the agreements for operating leases in order to quantify the recognition on its balance sheet of the right of use associated with the leased items and the corresponding liability in respect of the instalments payable under the lease payment schedules.

Based on this analysis, management estimates that the accounting effects of application of the new standard (in terms of the assets and financial liabilities to be recognised) on the balance sheet to be recognized on 1 January 2019 amounts to €14 million.

IFRIC 23: Uncertainty over income tax treatments

This interpretation gives additional requirements to those of IAS 12 "Income Tax", specifying how to reflect the impacts of uncertainty over income tax accounting. This interpretation clarifies how the recognition and measurement requirements of IAS 12 "Income Taxes", are applied where there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after 1 January 2019, though earlier application is permitted. It is not expected to have a significant impact on the Group.

2.3 Functional currency

These consolidated financial statements are presented in thousand euro, 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 the US dollar, Korean won, Swedish krona, Turkish lira and British pound.

2.4 Responsibility for the information and estimates made

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 2018, estimates are occasionally made by the senior management of the Parent Company and of the consolidated companies, later ratified by the Directors, in order to qualify certain of the assets, liabilities, income, expenses and obligations reported herein. Those estimates relate to the following:

Impairment losses on goodwill and certain assets (see Notes 3.1, 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 the gross margin are unlikely to arise.

Useful lives of property, plant and equipment, and intangible assets (see Notes 3.2, 3.3, 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 that have been abandoned or sold.

Corporate income tax and deferred taxes (Note 3.15, 18 and 19)
The Group is subject to income taxes in numerous jurisdictions. A significant degree of judgement is required to determine the provision for income tax. There are many transactions and calculations for which the ultimate determination of the tax is uncertain during the ordinary course of business. 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 recognises only 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 on 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 based mainly 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 2018 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 Consolidated Group and consolidation scope

Scope of consolidation
The accompanying consolidated financial statements for the year ended 31 December 2018 were prepared from the individual accounting records at that date of Befesa S.A. (the Parent Company – see Note 1) and of the subsidiaries, associates and joint arrangements listed in the Appendix.

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

Subsidiaries

"Subsidiaries" are entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to or entitled to obtain variable income as a result of its involvement in the investee and has the capacity to use its power over it to influence such income. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Subsidiaries are fully consolidated. Full consolidation requires the inclusion in the Parent's consolidated balance sheet of all the assets, rights and obligations of the subsidiaries and the inclusion in the consolidated income statement of all the income and expenses taken into account in determining the subsidiaries' profit or loss, after making the corresponding adjustments for consistency and eliminations.

All balances, transactions and results among consolidated companies are eliminated at consolidation. Also, the main accounting policies are brought into line with those applied by the Parent by making the appropriate valuation adjustments for consistency.

The acquisition method is used to account for the acquisition of a subsidiary i.e. assets and liabilities and contingent liabilities are measured at fair value on the date of the acquisition (fair value of assets transferred, liabilities incurred with the former owners of the acquiree and the shares in equity issued by the Group). Any excess of the acquisition cost over the fair values of the identifiable net assets acquired is recognised as goodwill. Any shortfall in the acquisition cost with respect to the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is taken to profit or loss on the acquisition date. Acquisition-related costs are expensed in the year in which they are incurred. For each business combination, the Group may opt to recognise any non-controlling interest in the acquiree at fair value or at the proportional part of the non-controlling interest of the amounts recognised in respect of the net identifiable assets of the acquiree. The share of third parties of the equity of their investees is presented within the Group's equity under "Non-controlling interests" in the consolidated balance sheet. The profit for the year is presented under "Profit/(loss) attributable to non-controlling interests" in the consolidated income statement and, where appropriate, in the consolidated statement of comprehensive income or consolidated statement of changes in equity.

If the business combination is achieved in stages, the carrying value on the acquisition date of the acquirer's previously held equity interest in the acquiree is remeasured at fair value at the acquisition date. Any gain or loss arising on this subsequent measurement is recognised in profit or loss for the year.

Any contingent consideration to be transferred by the Group is recognised at fair value on the acquisition date. Subsequent changes in the fair value of the contingent consideration, classified as an asset or a liability, are recognised in accordance with IFRS 9 in profit or loss or in other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is recognised in equity.

Profit/loss generated by entities acquired during a year is consolidated, taking into consideration only such profit/loss for the period between the date of acquisition and the end of that year. Consolidation of the profit/loss generated by entities disposed of during a year is carried out, taking into consideration only those for the period between the beginning of the year concerned and the date of disposal.

Items recognised in the balance sheet and income statement of fully consolidated foreign companies are translated to euros at the year-end exchange rates. This method consists of translating to euros all the assets, rights and obligations at the exchange rates prevailing at the date of the consolidated financial statements, the consolidated income statement items at the average exchange rates for the year, and equity at the historical exchange rates at the date of acquisition (or, in the case of retained earnings, at the average exchange rates for the year in which they were generated). The differences are recognised with a charge or a credit, as appropriate, to "Equity of the Parent – translation differences" in the consolidated balance sheet.

None of the functional currencies of the subsidiaries, associates and joint operations located abroad relate to hyper-inflationary economies as defined by IFRSs (IAS 29). Accordingly, at the 2018 accounting close it was not necessary to adjust the consolidated financial statements of any of the subsidiaries or associates to correct for the effect of inflation.

All balances and transactions between fully consolidated companies are eliminated on consolidation.

The main aggregates of the fully consolidated companies at 31 December 2018 are shown in Appendix I.

Joint arrangements

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

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

A joint operation takes place when the investors have rights over the assets and obligations with respect to the liabilities under an arrangement. Joint operations are accounted for using the proportionate method of consolidation. The Group includes its share of assets, liabilities, revenues, expenses and cash flows of joint operation on a line-by-line basis, together with the items in its own accounts that are similar in nature. The Group recognises its share of the profit or loss deriving from the sale of Group assets to the joint operation in its consolidated financial statements in the proportion corresponding to other members. The Group does not recognise its share of the profits or losses of a joint operation deriving from the purchase by the Group of assets from the joint operation until the assets are sold to an independent third party. However, a loss is recognised immediately on a transaction if it reveals a reduction in the net realisable value of current assets or any impairment loss.

The consolidation of the "joint operations" (Recytech S.A.S [steel segment]), in the consolidated financial statements means increasing assets, liabilities, income and expenses by approximately €15,938 thousand, €2,641 thousand, €25,325 thousand and €15,846 thousand, respectively (31 December 2017: €18,937 thousand, €4,749 thousand, €26,325 thousand and €15,806 thousand, respectively), before consolidation adjustments and eliminations.

Associates

The associates over which the Group is in a position to exercise significant influence, but not control, were accounted for in the consolidated balance sheet using the equity method (unless they were classified as held for sale). For the purpose of preparing the consolidated financial statements, it was considered that the Group is in a position to exercise significant influence over companies in which it has an investment of 20% or more of the share capital, except in specific cases where, although the percentage of ownership is lower, the existence of significant influence can be clearly demonstrated.

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

Under the equity method, the investment is initially recognised at cost and the carrying value is increased or reduced to recognise the investor's interest in the results of the investee following the acquisition date.

The Group's investments in associates include the goodwill identified in the acquisition, net of any accumulated impairment losses.

The Group's share of the losses or profits subsequent to the acquisition of its associates is recognised in the consolidated income statement, and its share of changes subsequent to the acquisition is recognised in other comprehensive income with the corresponding adjustment to the carrying amount of the investments. When the Group's share of the losses of an associate is equal to or exceeds its ownership interest therein, including any other unsecured account receivable, the Group does not recognise any additional losses unless it has incurred legal or constructive obligations or has made payments on behalf of the associate.

At each financial reporting date, the Group determines whether there is any objective evidence that the investment in the associate has become impaired. If impairment is detected, the Group calculates the amount of the impairment loss as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the item share in profit/(loss) in associates in the consolidated income statement.

Gains or losses on upward and downward transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent that they relate to investments of other investors in the associates that are not related to the investor. Unrealised losses are eliminated unless the transaction discloses evidence of an impairment loss on the asset transferred. The accounting policies of the associates have been changed wherever necessary to ensure consistency with the policies applied by the Group.

Dilution losses and gains arising on investments in associates are recognised in the income statement.

Transactions with non-controlling interests

The Group recognises transactions with non-controlling shareholders as transactions with Group's equity owners. In acquisitions of non-controlling interests, the difference between the consideration paid and the related proportion of the carrying amount of the subsidiary's net assets is recognised in equity. Gains or losses on disposals of non-controlling interests are also recognised in full in equity.

When the Group ceases to exercise control or a significant influence, any interest retained in the entity is remeasured at its fair value and the increase in the carrying amount of the investment is recognised in profit or loss. Fair value is the initial carrying amount for the purposes of subsequently measuring the interest retained in the associate, joint venture or financial asset. In addition, any amount previously recognised in other comprehensive income in connection with the related entity is accounted for as if the Group had directly sold all the related assets and liabilities. This could mean that the amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only the proportional part of the amounts previously recognised in other comprehensive income is reclassified to profit or loss.

Changes in the scope of consolidation
Following is a description of the main changes in the scope of consolidation in 2018 and 2017:

2018
Additions to the scope of consolidation
Following the organic growth plan for the Group, a new company was incorporated in South Korea: Befesa Zinc Phohang Co., Ltd.

2017
Exclusion from the scope of consolidation
On 29 March 2017, the sale of the IES segment subsidiaries Befesa Perú, S.A., Soluciones Ambientales del Norte, S.A. and Solarca, S.L. and its subsidiaries was completed.

Additionally, on 30 August 2017, Befesa Argentina, S.A. was sold.

The results from the operations of these companies in 2017, as well as the income from the sales, have been classified as discontinued operations (Note 26).

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

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

2.6.1 Net debt

Net debt is defined as current and non-current financial debt less cash and cash equivalents and less other current financial assets net from 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.

(Thousand euros)

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

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

	2018	2017
Non-current financial debt (Note 14)	520,169	519,154
Current financial debt (Note 14)	7,329	5,083
Cash and cash equivalents (Note 4)	(150,648)	(117,582)
Other current financial assets net from derivative financial instruments (Note 12)	(60)	(300)
Net debt	**376,790**	**406,355**

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-recurrent charges or income.

EBITDA margin is defined as EBITDA divided by revenue. The Company believes that EBITDA, Adjusted 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 and Adjusted EBITDA to the consolidated income statement line items from which it is derived:

	2018	2017
Revenue	720,090	724,789
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(544,125)	(571,812)
Amortisation/depreciation, impairment and provisions (a)	(28,991)	(30,535)
EBIT (Operating profit/[loss]) (b)	**146,974**	**122,442**
EBITDA (Operating profit/[loss] before amortisation/depreciation and provisions) (a+b)	**175,965**	**152,977**
One-time projects	–	18,162
Non-recurrent charges/income	–	1,291
Adjusted EBITDA	**175,965**	**172,430**

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

	2018	2017
Revenue (a)	**720,090**	**724,789**
EBITDA (b)	**175,965**	**152,977**
One-time projects	–	18,162
Non-recurrent charges/income	–	1,291
Adjusted EBITDA (c)	**175,965**	**172,430**
EBITDA margin (%) (b/a)	**24%**	**21%**
Adjusted EBITDA margin (%) (c/a)	**24%**	**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 definite-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 is defined as EBIT and Adjusted EBIT as a percentage of revenue. 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:

	2018	2017
Revenue	720,090	724,789
Income/Expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(544,125)	(571,812)
Amortisation/Depreciation, impairment and provisions	(28,991)	(30,535)
EBIT (Operating profit/(loss))	**146,974**	**122,442**
Extraordinary impairments/provisions	–	2,001
EBITDA adjustments	–	19,453
Adjusted EBIT	**146,974**	**143,896**

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

	2018	2017
Revenue (a)	**720,090**	**724,789**
EBIT (b)	**146,974**	**122,442**
Extraordinary impairments/provisions	–	2,001
EBITDA adjustments	–	19,453
Adjusted EBIT (c)	**146,974**	**143,896**
EBIT margin (%) (b/a)	**20%**	**17%**
Adjusted EBIT margin (%) (c/a)	**20%**	**20%**

2.6.4 Net debt/Adjusted EBITDA (Adjusted leverage ratio)

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

(Thousand euros)

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

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

	2018	2017
Net debt (Note 4)	376,790	406,355
Adjusted EBITDA	175,965	172,430
Net debt/Adjusted EBITDA	**2.1**	**2.4**

2.6.5 Capex

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

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 and equipment.

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

	2018	2017
Cash flows from investing activities:		
Investments in intangible assets	2,384	1,308
Investments in property, plant and equipment (Note 8)	37,953	24,383
Capex expenditure	**40,337**	**25,691**

3. Accounting principles and policies and measurement methods applied

3.1 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 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 cash-generating units (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 the disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

3.2 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 staff costs 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 €980 thousand (31 December 2017: €915 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 (five years).

(Thousand euros)

3. Accounting principles and policies and measurement methods applied (continued)

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).

3.3 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 2018, €1,154 thousand was recognised in this connection (2017: €688 thousand) (Note 21.2). At 31 December 2018, 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 the subsidiary Befesa Aluminio, S.L. in connection with production process improvements and product development (2017: work carried out in the subsidiary Befesa Aluminio, S.L.) (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).

3.4 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 on 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.

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.

3.5 Financial instruments

Financial investments

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through the income statement), and
- Those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in the income statement or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when, and only when, its business model for managing those assets changes.

3. Accounting principles and policies and measurement methods applied (continued)

(ii) Recognition and derecognition

Regular-way purchases and sales of financial assets are recognised on trade date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (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 income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- 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 separate line item in the consolidated income statement.

- 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 rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidated income statement.

- 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.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in the income statement as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables (see Note 2.2 for further details).

(v) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

– *Classification until 31 December 2017, the Group classified its financial assets in the following categories:*
  - Financial assets at fair value through profit or loss
  - Loans and receivables
  - Held-to-maturity investments, and
  - Available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluated this designation at the end of each reporting period.

– *Reclassification*

The Group could choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset was no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables were permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that was unusual and highly unlikely to recur in the near term. In addition, the Group could choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group had the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications were made at fair value as of the reclassification date. Fair value became the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date were subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories were determined at the reclassification date. Further increases in estimates of cash flows adjusted effective interest rates prospectively.

3. Accounting principles and policies and measurement methods applied (continued)

– *Subsequent measurement*

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at FVPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised as follows:

- For financial assets at FVPL – in profit or loss within other gains/(losses).
- For available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security were recognised in profit or loss and other changes in the carrying amount were recognised in other comprehensive income.
- For other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in Note 7(h).

When securities classified as available-for-sale were sold, the accumulated fair value adjustments recognised in other comprehensive income were reclassified to profit or loss as gains and losses from investment securities.

– *Impairment*

At the end of each reporting period the Group assessed whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets are impaired.

– *Assets carried at amortised cost*

For loans and receivables, the amount of the loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that had not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan or held-to-maturity investment had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group could measure impairment on the basis of an instrument's fair value, using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment testing of trade receivables is described in Note 11.

Factoring
The Group derecognises trade receivables for the amount of the receivables sold to banks, provided that the factor assumes in full the bad and past-due debt risk relating to non-recourse factoring agreements. At 31 December 2018 and 2017, the unmatured balances receivable derecognised as a result of the aforementioned non-recourse factoring transactions amounted to €38,646 thousand and €48,606 thousand, respectively. However, the Group does not derecognise collection rights factored when substantially all the risks associated with them are retained.

Cash and cash equivalents
This heading includes cash, current bank accounts and deposits, and if appropriate, deposits and asset repos that meet the following requirements:

- They are convertible into cash.
- On acquisition, they mature in less than three months.
- They are not subject to significant value fluctuation risk.
- They form part of the Company's normal cash management policy.

Bank overdrafts, if they arise, are included in borrowings in current liabilities on the consolidated balance sheet.

Debentures, bonds and bank borrowings
Loans, debentures and similar interest-bearing items are initially recognised at the amount received, net of direct issue costs i.e. equal to the subsequent application of the amortised cost model, using the effective interest rate. Financial costs are recognised on an accrual basis in the consolidated income statement, using the effective interest method and they are aggregated to the carrying amount of the financial instrument to the extent that they are not settled in the year in which they arise. Also, obligations under finance leases are recognised at the present value of the lease payments under "Accounts payable for finance leases" in the consolidated balance sheet (Note 14).

Trade and other payables
Accounts payable are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate.

Derivatives and hedging activities
Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ("aligned time value") are recognised within OCI in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ("aligned forward element") is recognised within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

3. Accounting principles and policies and measurement methods applied (continued)

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss since the hedged item affects profit or loss (e.g. through cost of sales).

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

(ii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other gains/(losses).

Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains/(losses).

3.6 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 or market. Ancillary products, consumables and spare parts are measured at the lower of the price per the last invoice or 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 realisable value.

3.7 Classification between current and non-current

Assets and liabilities are classified as current when they relate to the Group's ordinary operations cycle, usually regarded as one year, and also assets expected to be sold, consumed, realised or settled in the short-term as from year-end, as well as financial assets held for trading, except for financial derivatives maturing in more than one year, and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current assets.

Similarly, current liabilities are liabilities associated with the normal operating cycle, financial liabilities held for trading, except for financial derivatives that will be settled in a period exceeding one year and, in general, all obligations that will mature or be extinguished in the short-term. All other liabilities are classified as non-current liabilities.

3.8 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 equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity, attributable to equity holders of the Company until the shares are cancelled, reissued or sold. Where such shares are subsequently disposed of or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity owners.

3.9 Grants, donations and bequests received

The Group companies recognise grants received as follows:

- Capital grants are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group fulfils all the conditions attached to them; they are recognised as other non-current liabilities and taken to the income statement on a straight-line basis over the useful lives of the assets that they fund.

- Grants related to income are credited to income when they are definitively granted and are recognised as income.

3.10 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 balance sheet date arising from past events that could give rise to a loss for the companies, which is certain as to its nature but uncertain as to its 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 and 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 companies. Contingent assets, if they are significant, are detailed in the notes of the financial statements, but they are not accounted until their contingency has been solved.

3. Accounting principles and policies and measurement methods applied (continued)

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 to their employees to supplement social security retirement pensions. These obligations had been externalised on 31 December 2018 and 2017. 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.

Other provisions

In addition to the above, "Long-term provisions" in the accompanying consolidated balance sheet also includes, where applicable, the estimated amounts required to close certain facilities (Note 3.3), 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 the Group) are not recognised in the consolidated financial statements, but rather are disclosed, as required by IAS 37 (see Note 17).

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 equity or long-term liability. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

3.11 Revenue recognition

a) Sale of goods

Sales are recognised when the control of 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.

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.

3.12 Leases

The Group classifies leases as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are classified in the appropriate non-current asset category based on their nature and function at the lower of the fair value of the leased asset and the aggregate present values of the amounts payable to the lessor plus the price of exercising the purchase option, with a credit to "Accounts payable for finance leases" in the consolidated balance sheet. Each lease payment is distributed between the liability and financial charges. The interest part of the financial charge is charged to the income statement during the term of the lease, in order to obtain a constant regular interest rate on the debt, pending repayment in each period. These assets are depreciated using similar criteria to those applied to the assets of the same nature owned by the Group.

Expenses arising on operating leases are allocated to "Other operating expenses" in the consolidated income statement over the term of the lease on an accrual basis.

3.13 Interest cost

Interest 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 interest costs eligible for capitalisation.

All other interest costs are recognised in the consolidated income statement in the year in which they are incurred.

3.14 Foreign currency

Items included in the financial statements of each of the Group entities are measured using a currency of the primary economic environment in which the entity operates ("functional currency").

Transactions in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the date of the transaction. During the year, the impact of differences between the exchange rate at the date of the transaction and the rate prevailing at the date of settlement are recognised with a charge or credit to income.

Also, foreign currency fixed-income securities and receivables and payables at 31 December of each year are translated into the functional currency at the exchange rates prevailing on the balance sheet date. Any exchange differences arising are recognised with a charge or a credit, as appropriate, to "Net exchange differences" in the consolidated income statement.

3.15 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.

3. Accounting principles and policies and measurement methods applied (continued)

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).

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

3.16 Severance indemnities

Under current labour legislation, the consolidated companies are required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken and a valid expectation is created vis-á-vis third parties in this respect.

At 31 December 2018, Directors do not expect any significant dismissals or terminations to arise in the future and, accordingly, no provision was recognised in this connection in the accompanying consolidated balance sheet.

3.17 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered mainly through a sale transaction instead of through continued use and a sale is considered highly probable. They are measured at the lower of carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets relating to employee remuneration, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent decrease in the value of an asset (or disposal group) to its fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not for an amount in excess of the accumulated impairment loss previously recognised. The gain or loss not previously recognised on the date of sale of a non-current asset (or disposal group) is recognised on the date on which it is written off.

Non-current assets (including those that are part of a disposal group) are not amortised/depreciated while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Assets of a disposal group classified as held for sale are presented separately from other assets on the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities on the balance sheet.

A discontinued operation is a component of an entity that has been sold or classified as held for sale and which represents a line of business or a significant geographical area of operation, separate from the rest, that forms part of an individual and coordinated plan to dispose of that line or area of operation or is a subsidiary acquired solely for resale. The profit/(loss) on discontinued operations is presented separately in the income statement.

3.18 Environmental matters

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 fair value. In addition, transfer prices are adequately supported and, therefore, the Parent's Directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future.

3.20 Dividend distribution

Dividend distribution 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 information

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. Accounting principles and policies and measurement methods applied (continued)

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 after-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 on 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 2018 and 2017.

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 the US dollar, Korean won, Swedish krona, Turkish lira and British pound).

To control the foreign currency risk that arises from future commercial transactions and recognised assets and liabilities, the 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 the 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 the corporate level, external foreign currency hedges are designated as foreign currency risk hedges on certain assets, liabilities or future transactions.

The detail of the most significant foreign currency transactions (basically in US dollar, Korean won, Swedish krona, Turkish lira and British pound) having an impact on the results of continuing operations in the consolidated income statement is as follows (figures in thousand euro):

	2018	2017
Sales	172,037	185,713
Purchases	33,395	78,935

The most significant foreign currency transactions influencing the results of discontinued operations are detailed below (figures in thousand euro):

	2018	2017
Sales	–	3,693
Purchases	–	548

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 nor loans denominated in a currency other than the functional currency of each subsidiary at the end of 2018.

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 thousand euro, major net assets by currency (including non-controlling interests):

Currency	2018	2017
Swedish krona	2,860	4,964
Korean won	92,066	56,688
Turkish lira	13,029	16,639
British pound	302	1,950

If the average exchange rate of the euro in 2018 and 2017 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 rate finance 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.

(Thousand euros)

4. Financial risk management policy (continued)

In 2018 and 2017, had the average interest rates on the finance debt denominated in euros increased/decreased by 10 basic 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 finance debt to variations in interest rates is set out below:

	2018	2017
Total external finance debt (Note 14)	527,498	524,237
Effect of interest rate swaps (Note 16)	(316,000)	(316,000)
Finance debt subject to variable interest rate	**211,498**	**208,237**

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 options in exchange for a premium through which it assures a minimum sale price or through 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 fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (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, being 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.

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, 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 2018 and 2017:

	2018	2017
Cash and cash equivalents	150,648	117,582
Other current financial assets (Note 12)	60	300
Undrawn credit facilities and unused financing (Note 14)	75,000	75,000
Liquidity reserve	**225,708**	**192,882**
Finance debt (Note 14)	527,360	524,030
Accounts payable for finance leases (Note 14)	138	207
Cash and cash equivalents	(150,648)	(117,582)
Other current financial assets (Note 12)	(60)	(300)
Net debt (Note 2.6)	**376,790**	**406,355**
Less non-current borrowings (Note 14)	(520,169)	(519,154)
Current net finance debt	**(143,379)**	**(112,799)**

(Thousand euros)

4. Financial risk management policy (continued)

Cash and cash equivalents comprise:

	2018	2017
Cash on hand and at banks	150,648	117,582
Total	**150,648**	**117,582**

One of Group's strategic objectives is the optimisation and most efficient 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 2018 and 2017 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 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	–
At 31 December 2017				
Bank borrowings (Note 14)	5,083	497	518,657	–
Trade and other payables (*)	212,271	277	24,798	92
Unaccrued interest payable	17,004	17,004	50,919	–

(*) Long-term payables do not include capital grants amounting to €6.7 and €7.5 million in 2018 and 2017, 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, the approach of which 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.

The detail of the debt/equity ratios (excluding balances with Group companies) at 31 December 2018 and 2017 is as follows:

	2018	2017
Total bank borrowings (Notes 14)	527,498	524,237
Less: Cash and cash equivalents	(150,648)	(117,582)
Other current financial assets (Note 12)	(60)	(300)
Net debt	**376,790**	**406,355**
Total equity	**342,269**	**179,727**
Total capital invested	**719,059**	**586,082**
Borrowing ratio	**52.4%**	**69.3%**

For a detailed definition of net debt refer to Note 2.6.

4.2 Fair value estimation

IFRS 13 establishes as fair value the value that would be received or paid for an asset or liability in an orderly transaction 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 IFRS and establishes 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 IFRS.

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

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

Notes to the consolidated financial statements as at 31 December 2018 (continued) (Thousand euros)

4. Financial risk management policy (continued)

The table below shows the Group's assets and liabilities that were measured at fair value at 31 December 2018 and 2017:

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**

2017

	Level 2	2017
Assets		
– Derivatives (Note 16)	908	908
Total assets at fair value	**908**	**908**
Liabilities		
– Derivatives (Note 16)	81,413	81,413
Total liabilities at fair value	**81,413**	**81,413**

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 swap interest rates is calculated as the present value of future estimated cash flows.
- The fair value of derivative contract exchange rates is determined using forward exchange rates quoted in the market at the balance sheet date.
- It is assumed that the book value of receivables and trade payables 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 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).

This measurement basis excludes the effects of non-recurring expenses and those incurred in atypical transactions (Adjusted EBIT and EBITDA). The financial information received by the Board of Directors also includes financial income and expenses and tax aspects, as well as cash flow and net debt.

For a detailed definition of EBIT and EBITDA as well as Adjusted EBIT and Adjusted EBITDA, 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 2018 and Adjusted EBIT for the year ended 31 December 2017 (thousand euro).

	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**

(Thousand euros)

5. Segment reporting (continued)

	2017				
	Steel Dust	**Salt Slags**	**Secondary Aluminium**	**Corporate, other minor and eliminations**	**Total**
Revenue	332,079	83,397	353,466	(44,153)	724,789
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions)	(212,244)	(58,535)	(346,483)	45,450	(571,812)
Amortisation/depreciation, impairment and provisions	(16,219)	(7,448)	(5,481)	(1,387)	(30,535)
EBIT (Operating profit/[loss])	**103,616**	**17,414**	**1,502**	**(90)**	**122,442**
Extraordinary impairments/provisions	–	–	–	2,001	2,001
EBITDA adjustments (c+d)	14,848	2,279	2,338	(12)	19,453
Adjusted EBIT	**118,464**	**19,693**	**3,840**	**1,899**	**143,896**

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

	2018	**2017**
Adjusted EBIT	**146,974**	**143,896**
– Extraordinary impairments/provisions	–	(2,001)
– EBITDA adjustments	–	(19,453)
Operating profit/(loss)	**146,974**	**122,442**
Financial income (expense)	(16,833)	(48,243)
Corporate income tax	(33,043)	(23,017)
Profit/(loss) attributable to continuing operations	97,098	51,182
Profit/(loss) attributable to discontinued operations	(2,205)	3,779
Non-controlling interests	(4,704)	(5,710)
Profit/(loss) attributed to Parent Company	**90,189**	**49,251**

Set out below is the distribution by segment of EBITDA for the years ended 31 December 2018 and 2017 (thousand euro):

	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 (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**

	2017				
	Steel Dust	**Salt Slags**	**Secondary Aluminium**	**Corporate, other minor and eliminations**	**Total**
Revenue	332,079	83,397	353,466	(44,153)	724,789
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions)	(212,244)	(58,535)	(346,483)	45,450	(571,812)
Amortisation/depreciation, impairment and provisions (a)	(16,219)	(7,448)	(5,481)	(1,387)	(30,535)
EBIT (Operating profit/[loss]) (b)	**103,616**	**17,414**	**1,502**	**(90)**	**122,442**
EBITDA (Operating profit/[loss] before amortisation/depreciation and provisions) (a+b)	**119,835**	**24,862**	**6,983**	**1,297**	**152,977**
One-time projects (c)	14,390	1,669	2,103	–	18,162
Non-recurrent costs/incomes (d)	458	610	235	(12)	1,291
Adjusted EBITDA	**134,683**	**27,141**	**9,321**	**1,285**	**172,430**

Notes to the consolidated financial statements as at 31 December 2018 (continued) (Thousand euros)

5. Segment reporting (continued)

The reconciliation of Adjusted EBITDA to results attributable to the parent company is as follows:

	2018	2017
Adjusted EBITDA	**175,965**	**172,430**
– One-time projects	–	(18,387)
– Non-recurrent costs/incomes	–	(1,066)
Amortisation/depreciation, impairment and provisions	(28,991)	(30,535)
Operating profit/(loss)	**146,974**	**122,442**
Financial income (expense)	(16,833)	(48,243)
Corporate income tax	(33,043)	(23,017)
Profit/(loss) attributable to continuing operations	97,098	51,182
Profit/(loss) attributable to discontinued operations	(2,205)	3,779
Non-controlling interests	(4,704)	(5,710)
Profit/(loss) attributed to the parent company	**90,189**	**49,251**

The detail of sales by geographical segment for the years ended 31 December 2018 and 2017 is as follows:

Geographical area	2018	%	2017	%
Spain	194,451	27%	194,834	26%
Germany	109,015	15%	96,907	15%
France	37,571	5%	48,843	7%
United Kingdom	15,361	2%	43,863	6%
Rest of Europe	199,172	28%	205,434	28%
South Korea	38,663	5%	29,336	4%
Rest of the world	125,857	18%	105,572	14%
	720,090	**100%**	**724,789**	**100%**

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

	2018	2017
Spain	70,929	62,410
Germany	89,934	90,868
France	29,218	24,536
United Kingdom	11,567	10,107
Rest of Europe	13,776	13,774
Turkey	6,638	2,777
South Korea	45,556	50,881
	267,618	**255,353**

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

	2018					2017				
	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)	(14,126)	(6,704)	(5,662)	(77)	(26,569)	(14,000)	(7,109)	(4,341)	(77)	(25,527)
– Intangible assets (Notes 7 and 21)	(798)	(285)	(1,000)	(1,353)	(3,436)	(1,346)	(339)	(1,004)	(1,306)	(3,995)
– Reversal/(recognition) of impairment losses and other (Note 21)	1,815	(727)	(74)	–	1,014	(873)	–	(136)	(4)	(1,013)
Total	**(13,109)**	**(7,716)**	**(6,736)**	**(1,430)**	**(28,991)**	**(16,219)**	**(7,448)**	**(5,481)**	**(1,387)**	**(30,535)**

The detail of the segment assets and liabilities is as follows:

	2018					2017				
	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	357,416	49,937	14,329	986	422,668	357,549	49,595	14,599	1,983	423,726
Property, plant and equipment	132,681	59,241	68,909	683	261,514	125,377	55,907	66,164	743	248,191
Investments in associates and other non-current assets	76,118	1,432	33,326	(6,959)	103,917	59,783	1,442	27,015	11,973	100,213
Current assets	180,912	19,801	41,599	55,710	298,022	132,886	15,473	39,794	49,825	237,978
Total assets	**747,127**	**130,411**	**158,163**	**50,420**	**1,086,121**	**675,595**	**122,417**	**147,572**	**64,524**	**1,010,108**
Equity and liabilities										
Equity	289,041	65,988	36,945	(49,345)	342,629	168,730	68,385	28,328	(85,716)	179,727
Non-current liabilities	369,432	52,134	58,595	121,505	601,666	352,043	42,694	50,867	166,733	612,337
Current liabilities	88,654	12,289	62,623	(21,740)	141,826	154,822	11,338	68,377	(16.493)	218,044
Total equity and liabilities	**747,127**	**130,411**	**158,163**	**50,420**	**1,086,121**	**675,595**	**122,417**	**147,572**	**64,524**	**1,010,108**

(Thousand euros)

5. Segment reporting (continued)

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

	2018					2017 (*)				
	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)	20,411	9,455	10,938	372	41,176	16,373	6,256	5,220	160	28,009
Disposals of non-current assets (Notes 7 and 8)	(3,326)	–	(12,078)	(3)	(15,407)	(2,408)	(43)	(1,330)	(50)	(3,831)
Changes in the scope of consolidation (Notes 7 and 8)	–	–	–	–	–	–	–	–	(2,372)	(2,372)
Net investments in the year (Notes 7 and 8)	**17,085**	**9,455**	**(1,140)**	**369**	**25,769**	**13,965**	**6,213**	**3,890**	**(2,262)**	**21,806**

(*) This includes additions, disposals and variation in the scope of consolidation relating the part of the industrial waste management segments discontinued in 2017

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 and are as follows:

	%	
	2018	**2017**
Steel Dust	79.8%	81.3%
Salt Slags	31.2%	31.5%
Secondary Aluminium	36.2%	40.7%

6. Goodwill

The detail of the "Goodwill" balance in the consolidated balance sheets at 31 December 2018 and 2017 and of movements in 2018 and 2017 is as follows:

	Thousand euro
Balance at 31 December 2016	**339,034**
Others	(3,470)
Balance at 31 December 2017	**335,564**
Others	–
Balance at 31 December 2018	**335,564**

	Balance at 31/12/17	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 between five and ten 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 not envisaged (g=0).

- The gross margins used in the calculation of the value for 2018 and 2017 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.

Notes to the consolidated financial statements as at 31 December 2018 (continued) (Thousand euros)

6. Goodwill (continued)

The measurement methods indicated above led to discount rates used to perform the impairment test in a range of between 8.47% and 5.00% in 2018 and 2017. 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 basic points) would not have a significant impact on these consolidated financial statements.

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

At the end of 2018 and 2017, estimates were made of the recoverable amounts of the cash-generating units 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 2018 and 2017.

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 2018 and 2017 are as follows:

	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)

	Development expenditure	Licenses and other	Computer software	Administrative concessions and others	Total
Cost:					
Balance at 31/12/16	**7,005**	**81,000**	**17,664**	**1,960**	**107,629**
Changes in scope of consolidation	–	–	(439)	–	(439)
Additions	1,279	–	29	–	1,308
Disposals	–	–	(18)	–	(18)
Transfers	–	–	3	–	3
Translation differences (net)	–	–	(28)	5	(23)
Balance at 31/12/17	**8,284**	**81,000**	**17,211**	**1,965**	**108,460**
Accumulated amortisation:					
Balance at 31/12/16	**(3,388)**	**–**	**(11,449)**	**(1,640)**	**(16,477)**
Changes in scope of consolidation	–	–	147	–	147
Additions	(1,230)	–	(2,648)	(137)	(4,015)
Disposals	–	–	17	–	17
Translation differences (net)	–	–	36	(6)	30
Balance at 31/12/17	**(4,618)**	**–**	**(13,897)**	**(1,783)**	**(20,298)**
Other intangible assets, net at 31/12/16	**3,617**	**81,000**	**6,215**	**320**	**91,152**
Other intangible assets, net at 31/12/17	**3,666**	**81,000**	**3,314**	**182**	**88,162**

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.

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 Steel Dust segment, amounting to €624 thousand.

2017

The most significant additions for the year relate to development expenses capitalised in the Secondary Aluminium segment, amounting to €1,279 thousand.

Investment commitments

At 31 December 2018 and 2017, the Group had no significant investment commitments.

(Thousand euros)

8. Property, plant and equipment

Movements in this consolidated balance sheet caption in 2018 and 2017 are as follows:

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**

2017

	Land and buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:					
Balance at 31/12/16	**156,388**	**406,051**	**26,152**	**12,353**	**600,944**
Changes in the scope of consolidation	(432)	(734)	(767)	–	(1,933)
Additions	429	8,565	1,561	16,146	26,701
Disposals	(137)	(3,469)	(191)	(16)	(3,813)
Transfers	132	8,684	654	(9,473)	(3)
Translation differences (net)	(505)	(2,645)	(147)	(815)	(4,112)
Balance at 31/12/17	**155,875**	**416,452**	**27,262**	**18,195**	**617,784**
Accumulated depreciation and provisions:					
Balance at 31/12/16	**(52,921)**	**(261,118)**	**(18,953)**	**–**	**(332,993)**
Changes in the scope of consolidation	34	245	589	–	868
Additions	(4,130)	(20,225)	(1,208)	–	(25,563)
Disposals	71	3,321	182	–	3,574
Translation differences (net)	174	1,858	105	–	2,137
Balance at 31/12/17	**(56,772)**	**(275,920)**	**(19,285)**	**–**	**(351,977)**
Impairment losses at 31/12/16	**–**	**(17,616)**	**–**	**–**	**(17,616)**
Impairment losses at 31/12/17	**–**	**(17,616)**	**–**	**–**	**(17,616)**
Carrying amount at 31/12/16	**103,467**	**127,316**	**7,199**	**12,353**	**250,335**
Carrying amount at 31/12/17	**99,103**	**122,916**	**7,977**	**18,195**	**248,191**

2018

The main additions for the year are related to investment 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.

2017

The main additions for the year relate to investments made in Befesa Aluminio, S.L.U. amounting to €5,7 million, and compliance investments made in Befesa ScanDust AB, amounting to €7 million. Remaining additions relate to other investments in health and safety, and environmental projects and maintenance investments made at each plant.

Impairment losses

In 2018, a reversal of impairment amounting €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.

(Thousand euros)

8. Property, plant and equipment (continued)

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 2018 and 2017.

Mortgaged property, plant and equipment

At 31 December 2018 and 2017, there are no significant fixed assets pledged to secure loans.

Investment commitments

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. At 31 December 2017, the Group had no significant investment commitments.

9. Non-current financial assets

The detail of "Non-current financial assets" is as follows:

2018

	Balance at 31/12/2017	Additions/ (charge for the year)	Disposals	Transfers and others	Balance at 31/12/2018
Investments in subsidiaires and associates					
Investments in Group companies	3,616	439	(281)	(815)	2,959
Investments in associates and other companies	–	–	–	–	–
Value adjustments	(3,466)	–	281	784	(2,401)
	150	**439**	**–**	**(31)**	**558**
Long-term loans					
Other long-term loans	12,936	(1,370)	–	–	11,566
Value adjustments	(8,975)	–	–	–	(8,975)
Derivative financial instruments (Note 16)	908	–	–	42,215	43,123
Other non-current financial assets	219	27	–	–	246
	5,088	**(1,343)**	**–**	**42,215**	**45,960**
Total	**5,238**	**(904)**	**–**	**42,184**	**46,518**

2017

	Balance at 31/12/2016	Additions/ (charge for the year)	Disposals	Balance at 31/12/2017
Investments in subsidiaires and associates				
Investments in Group companies	5,877	–	(2,261)	3,616
Investments in associates and other companies	980	–	(980)	–
Value adjustments	(5,548)	(784)	2,866	(3,466)
	1,309	**(784)**	**(375)**	**150**
Long-term loans				
Other long-term loans	35,312	1,310	(23,686)	12,936
Value adjustments	(14,924)	–	5,949	(8,975)
Derivative financial instruments (Note 16)	–	908	–	908
Other non-current financial assets	135	84	–	219
	20,523	**2,302**	**(17,737)**	**5,088**
Total	**21,832**	**1,518**	**(18,112)**	**5,238**

a) Investments in Group companies and associates

Set forth below is certain significant information relating to the investments in Group companies and associates that are not accounted for using the equity method or fully consolidated, as the case may be, because they are being liquidated, they have not commenced operations or their effect is not material:

2018	% direct and indirect ownership interest	Book cost	Value adjustments	Share capital	Reserves and translation differences	Profit/(loss) for the year
Group companies						
Befesa (China) Investment Co., Ltd	100%	439	–	437	–	(142)
Other	–	2,520	(2,401)			
		2,959	**(2,401)**			

2017	% direct and indirect ownership interest	Book cost	Value adjustments	Share capital	Reserves and translation differences	Profit/(loss) for the year
Group companies						
Befesa Silvermet Izmir, A.S.	53.70%	811	(784)	11	16	(10)
Other	–	2,805	(2,682)			
		3,616	**(3,466)**			

The main variation in equity investment relates to the registration of Befesa (China) Investment Co., Ltd.

(Thousand euros)

9. Non-current financial assets (continued)

2018

	Registered address	Activity
Group companies		
Befesa (China) Investment Co., Ltd	China	Recovery of metals

2017

	Registered address	Activity
Group companies		
Befesa Silvermet Izmir, A.S.	Turkey	Recovery of metals

The fair value of the investments under this heading is calculated, in general, based on their underlying carrying amount or value in use, taking into account the circumstances related to each company.

The assets and liabilities of the companies classified as equity investments in which the Group retains control or joint control are not significant with respect to the consolidated assets and liabilities.

b) Other long-term loans

At 31 December 2018 and 2017, this heading includes an account receivable from a non-fully consolidated Group company relating to prior years' input VAT vis-à– vis the Portuguese tax authorities on the purchase of aluminium scrap. In 2014, this balance was totally impaired (€7.4 million), considering the time elapsed and the development of the ongoing litigation.

In addition, this heading mainly includes in 2018 and 2017 loans with the non-consolidated Group companies Aluminio en Discos S.A.U. (€1.5 million, fully impaired) and Exeltium, S.A.S. (€2.5 million).

10. Inventories

The detail of "Inventories" in the accompanying consolidated balance sheet at 31 December 2018 and 2017 is as follows:

	2018	2017
Finished goods	13,838	19,160
Goods in progress and semi-finished goods	3,550	821
Work in progress	145	84
Raw materials	12,161	12,202
Other	12,569	12,529
Advances to suppliers	3,786	396
Total	**46,049**	**45,192**

The Group has taken out insurance policies to cover risks relating to inventories. The coverage provided by these policies is considered to be sufficient.

11. Accounts receivable

The breakdown of the accounts receivable in the accompanying consolidated balance sheet at 31 December 2018 and 2017 is as follows:

	2018	2017
Work completed not invoiced	1,144	1,940
Trade and other receivables	60,435	52,406
Trade receivables from related companies (Note 24)	924	795
Other receivables	10,807	11,734
Public authorities (Note 19)	9,231	10,266
Loss-allowance for doubtful debts	(1,884)	(2,237)
Total	**80,657**	**74,904**

No significant impact of the applicability of the expected credit loss model has been identified on trade receivable.

The impact on transition to IFRS 9 on loss-allowance for doubtful debts as a result of applying the expected credit risk model was immaterial.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables that were known to be uncollectable were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- Significant financial difficulties of the debtor
- Probability that the debtor will enter bankruptcy or financial reorganisation
- Default or late payments (more than 60 days overdue)

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Changes in the allowances for doubtful debts relating to the Group's trade and other receivables for 2018 and 2017 are as follows:

	2018	2017
Opening balance	**(2,237)**	**(2,054)**
Provision for impairment	–	(458)
Write-off uncollectible accounts receivable and other transfers	353	275
Closing balance	**(1,884)**	**(2,237)**

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.

11. Accounts receivable (continued)

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.

The detail of the accounts receivable denominated in foreign currency and recognised at the end of 2018 and 2017 in the accompanying consolidated balance sheet is as follows (in thousand euro):

	2018	2017
US dollar	12,791	2,326
Swedish krona	1,360	2,026
British pound	2,329	1,965
Korean won	5,227	5,008
Other	1,474	1,048
	23,181	**12,373**

12. Other current financial assets

The detail of "Other current financial assets" in the accompanying consolidated balance sheet at 31 December 2018 and 2017 is as follows:

	2018	2017
Derivative financial instruments – FVOCI (Note 16)	20,608	–
Other short-term loans – amortised cost	–	240
Short-term guarantees and deposits – amortised cost	60	60
Total	**20,668**	**300**

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial instruments classified as loans and receivables.

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 entitle to the preference share return. (Preference share return means the cumulative dividend in an amount of 10% per anum 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*) into 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 Offer ("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, a 45.18% of the ordinary shares of the Company became listed on the Frankfurt Stock Exchange at an initial price of €28.

The number of shares as at 31 December 2018 and 2017 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.

The shareholder structure as at 31 December 2018 is as follows:

	Percentage of ownership	
	2018	**2017**
Triton	40.6%	49.3%
Freefloat (including management)	59.4%	50.7%
Total	**100%**	**100%**

b) Share premium and other reserves

The detail in the consolidated balance sheet is as follows:

	2018	**2017**
Share premium	263,875	288,744
Hedging reserves and revaluation reserves	46,240	(57,013)
Other reserves	(158,918)	(205,836)
Total	**151,197**	**25,895**

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.

During 2017, the Company approved an interim dividend distribution to the selling shareholder under the class A preference shares in an aggregate amount of €16,829,225.15.

Additionally, the share premium was increased by €72,287,087 by the contribution in kind described in Note 13.a) and calculated on 2 November 2017.

In April 2018, the Annual General Meeting of shareholders resolved to approve the distribution of a dividend of €24,869 thousand from the distributable reserve consisting of the share premium.

Notes to the consolidated financial statements as at 31 December 2018 (continued) (Thousand euros)

13. Equity (continued)

Other reserves

Other reserves include, together with other reserves of consolidated companies, the legal reserve required by the Luxembourg law and the distribution of profit/(loss) of consolidated companies. On 26 April 2018, the Annual General Meeting of shareholders for the Parent Company approved the allocation to losses brought forward of €425,541.35 from the net profit of the year 2017.

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 of the legal reserve reaches 10% of the issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net profits must be allocated again towards the reserve. The legal reserve is not available for distribution to the shareholders.

c) Translation differences

The breakdown, by company, of "Translation differences" at 31 December 2018 and 2017 is as follows:

Company or group of companies	2018	2017
Befesa Zinc Korea Co., Ltd	5,441	4,989
Befesa Salt Slags, Ltd	(1,537)	(1,412)
Befesa Scandust AB	(1,777)	(938)
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	(2,486)	(2,037)
Other	(2,400)	(1,164)
Total	**(2,759)**	**(562)**

d) Profit/(loss) for the year

The detail, by business segment, of the contribution to consolidated profit/(loss) attributable to the Parent for the years ended 31 December 2018 and 31 December 2017 is as follows:

	2018	2017
Steel Dust	84,951	46,627
Salt Slags	11,138	12,523
Secondary Aluminium	3,838	113
Corporate, other minor and consolidation adjustments (*)	(7,533)	(13,791)
Profit/(loss) for the year from discontinued operations (Note 26)	(2,205)	3,779
Total	**90,189**	**49,251**

(*) 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

The detail of "Equity – non-controlling interests" is as follows:

	2018	2017
Steel Dust:		
Befesa Silvermet Turkey, S.L. and subsidiaries	9,426	10,567
Total	**9,426**	**10,567**

Summary information on subsidiaries with non-controlling material shareholdings

Below are the main figures of the Befesa Silvermet Turkey, S.L. and its subsidiaries, expressed in thousand euro.

	Befesa Silvermet Turkey, S.L. and its subsidiaries	
Subgroup/Company	**2018**	**2017**
Assets	23,739	28,451
Liabilities	3,398	5,648
Equity	20,341	22,803
Sales	26,247	26,604
Profit before taxes	13,346	15,978
Profit after taxes	10,150	12,322

At 31 December 2018 and 2017, the percentages of non-controlling interests for Befesa Silvermet Turkey, S.L. amounted to 46.3%.

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 2018 and 2017, most of the debts are related to business acquisitions made in prior years.

14. Financial debt

The detail of the related line items in the accompanying consolidated balance sheet is as follows:

	2018		2017	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Bank loans and credit facilities	–	520,091	3,973	519,017
Unmatured accrued interest	7,269	–	1,040	–
Accounts payable for finance leases	60	78	70	137
Total	**7,329**	**520,169**	**5,083**	**519,154**

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 the borrowings are as follows:

			2018		2017	
Limit in nominal currency (thousand currency)	**Effective interest rate**	**Maturity date**	**Current maturity**	**Non-current maturity**	**Current maturity**	**Non-current maturity**
€636,000	Euribor + 2.50% (Euribor + 2.75% until November 2018)	2022	7,269	520,091	1,040	518,636
Other			60	78	4,043	518
			7,329	**520,169**	**5,083**	**519,154**

On October 19, 2017, in order to standardize the financial structure of the Group, the company as parent and certain of its subsidiaries as borrowers and guarantors entered into an EUR 636,000 thousand Facilities Agreement. This post-IPO agreement is intended to raise financing for all the Group and cancel the Group's previous current and non-current borrowings in connection to the EUR 300.0 million Zinc Notes, EUR 150.0 million PIK Notes and the EUR 167.5 million Syndicated Loan.

Upon completion of the IPO on November 3, 2017 (Note 1) the Facilities Agreement took effect on December 7, 2017.

The Facility Agreement has been signed by the parent company 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 Facility Commitment in an amount of EUR 526 million, which is a bullet with a maturity of 5 years.
- Revolving Credit Facility (RCF) in an amount of EUR 75 million with a maturity of 5 years.
- A Guarantee Facility Commitment in an amount of EUR 35 million with a maturity of 5 years.

Interest in the initial term loan B facility is Euribor plus a margin of 2.75% and 2.5% in the case of RCF, these margins can be adjusted downwards up to 2% in the case of term loan B and up to 1.5% in the case of RCF according to established depending on the ratio of net financial debt/EBITDA.

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 2018 and 2017, the RCF has not been yet drawn and no financial covenant applies.

In November 2018 due to the improvement in the leverage ratio of the Group the margin was reduced by 25 bps to Euribor plus 250 from Eurbor plus 275 bps in the case of Term Loan B.

The facilities Agreement Limits dividend distribution if any Group company incurs an event of default as defined in the agreement.

At 31 December 2018 "Other" mainly includes short-term payables for leases (2017 includes short-term payables for leases and factoring).

The repayment schedule for long-term loans is as follows:

	2018	**2017**
2018	–	–
2019	–	441
2020	78	56
2021	–	21
Subsequent years	520,091	518,636
Total	**520,169**	**519,154**

At 31 December 2018, an amount of EUR 75 million was undrawn from the syndicated financing arrangement (EUR 75 million in 2017), (Note 4.c).

(Thousand euros)

14. Financial debt (continued)

The evolution of the net financial debt during the year 2018 and 2017 is as follows:

	Cash and cash equivalents (Note 4)	Other current financial assets (Note 12)	Finance debt (Note 14)	Total
Net financial debt as at 31 December 2016	**(59,054)**	**(1,758)**	**581,884**	**521,072**
Cash flows	(56,432)	–	(55,716)	(112,148)
Exchange rate adjustments	(1,787)	184	(13)	(1,616)
Changes in consolidation scope	(309)	1,390	–	1,081
Other non-monetary movements	–	(116)	(1,918)	(2,034)
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**

14.1 Financing currencies

The carrying amount of the Group's borrowings is denominated in the following currencies:

	2018	2017
Euro	527,431	522,550
Swedish krona	67	1,687
	527,498	**524,237**

15. Other current and non-current payables

	2018		2017	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Payable to non-current asset suppliers	6,308	–	4,908	–
Derivative financial instruments (Note 16)	193	1,794	57,173	24,240
Accounts payable to public authorities (Note 19)	15,067	–	14,976	–
Remuneration payable	8,268	–	8,657	–
Other	2,807	7,290	11,702	8,439
Total	**32,643**	**9,084**	**97,416**	**32,679**

"Other" mainly includes the capital grants not yet released to income and debts with official bodies amounting to approximately €7.6 million (2017: €8.6 million) and the financial liabilities related to the last derivative settlements of the year amounting to €2.1 million in 2018 (2017: €10.3 million).

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. The detail of the balances that reflect the measurement of derivatives in the accompanying consolidated balance sheets at 31 December 2018 and 2017 is as follows:

	2018	2017
Cash flow hedges non-current assets (Note 9)		
Interest rate SWAP	–	908
SWAP contracts for zinc	43,123	–
	43,123	**908**
Cash flow hedges current assets (Note 12):		
Foreign currency SWAP	16	–
SWAP contracts for zinc	20,592	–
	20,608	**–**
Total assets	**63,731**	**908**
Cash flow hedges non-current liabilities (Note 15):		
SWAP contracts for zinc	–	24,240
Foreign currency SWAP	1,794	–
	1,794	**24,240**
Cash flow hedges current liabilities (Note 15):		
SWAP contracts for zinc	–	57,152
Foreign currency SWAP	193	21
	193	**57,173**
Total liabilities	**1,987**	**81,413**

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. The detail of the balances that reflect the measurement of derivatives in the accompanying consolidated balance sheets at 31 December 2018 and 2017 is as follows:

Zinc derivative contracts

The detail of the tonnes hedged and of the maturity of the related contracts at 31 December 2018 and 2017 is as follows:

D

Derivatives are designated to hedge highly probable forecast transactions (sales) and the full effect of the hedge is recognised in equity, net of 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 2018 (continued) (Thousand euros)

16. Financial derivatives (continued)

- *Interest rate swaps (floating to fixed)*

The Company suscribed an interest rate swap during 2017. The notional amounts of the IRSs outstanding at 31 December 2018 and 31 December 2017 totalled €316,000 thousand (Note 4.1), which were classified as highly effective hedging instruments.

At 31 December 2018 and 2017, 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 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

At 31 December 2017, currency purchase contracts (swaps or forwards) amounted to:

- US dollar sales: USD 6,983 thousand
- US dollar purchases: USD 8,500 thousand
- GBP purchases: GBP 467 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 2018 and 2017 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 2018 will be transferred to the income statement over the next 12 months.

17. Long-term provisions

The detail of "Long-term provisions" on the liability side of the accompanying consolidated balance sheet and of movements in 2018 and 2017 is as follows:

	Provisions for litigation, pensions and similar obligations	Other provisions for contingencies and charges	Total long-term provisions
Balance at 1 January 2017	**2,263**	**2,982**	**5,245**
Period provisions charged to income	571	30	601
Transfers	(639)	(299)	(938)
Balance at 31 December 2017	**2,195**	**2,713**	**4,908**
Period provisions charged to income	2,194	(430)	1,764
Transfers	–	(250)	(250)
Balance at 31 December 2018	**4,389**	**2,033**	**6,422**

The Group company Befesa Valera, S.A.S. recognise a provision of approximately €1.9 million at 31 December 2018 (€2.2 million at 31 December 2017 from Befesa Valera, S.A.S and Befesa Zinc Gravelines, S.A.S.) 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 2018, the Group recognises a provision of €2.4 million related to the compensation plans described in Note 23.

In addition, the Group recognises other provisions under “Other provisions for contingencies and charges” to meet liabilities, whether legal or implicit, probable or certain, arising from contingencies, ongoing litigation and tax obligations that arise as a 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 2018 and 2017 there was no material offset of deferred tax assets and liabilities.

The Group recognizes deferred tax assets, tax loss carry-forwards and unused tax credits and tax relief to the extent that their future realisation or utilization is sufficiently assured.

The detail of “Deferred Tax Assets” and “Deferred Tax Liabilities” in the accompanying consolidated balance sheet for 2018 and 2017 is as follows:

	2018	2017
Deferred tax assets arising from:		
Tax loss carry-forwards and tax credits and tax relief	45,733	65,769
Revaluation of derivative financial instruments	509	23,749
Other deferred tax assets	11,157	5,457
Total deferred tax assets	**57,399**	**94,975**
Deferred tax liabilities arising from:		
Asset revaluation	31,627	33,103
Revaluation of derivative financial instruments	15,704	254
Deferred tax liability arising from the tax deductibility of goodwill	16,840	19,646
Other deferred tax liabilities	1,820	2,593
Total deferred tax liabilities	**65,991**	**55,596**

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 2018 and 2017, there was no material offset of deferred tax assets and liabilities.

The Group recognises deferred tax assets, tax loss carry-forwards and unused tax credits and tax relief to the extent that their future realisation or utilisation is sufficiently assured.

The detail of “Deferred tax assets” and “Deferred tax liabilities” in the accompanying consolidated balance sheet for 2018 and 2017 is as follows:

(Thousand euros)

18. Deferred taxes (continued)

Amounts corresponding to deferred tax assets are as follows:

	2018	2017
Deferred tax assets		
Deferred tax assets recoverable in more than 12 months	46,999	94,975
Deferred tax assets recoverable within 12 months	10,400	–
Total deferred tax assets	**57,399**	**94,975**

Movements in deferred tax assets and liabilities in 2018 and 2017 relate to:

2018

	Balance at 31/12/17	Recognised in Income statement	Recognised in Equity	Consolidation change (Note 2.5)	Balance at 31/12/18
Deferred tax assets					
Tax losses carry-forwards and deductions	65,769	(18,786)	(1,250)	–	45,733
Derivatives	23,749	(4,933)	(18,307)	–	509
Others	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
Goodwill	19,646	(2,806)	–	–	16,840
Derivates	254	–	15,450	–	15,704
Other (temporary differences)	2,593	(768)	(5)	–	1,820
Total deferred tax liabilities	**55,596**	**(5,050)**	**15,445**	**–**	**65,991**

2017

	Balance at 31/12/16	Recognised in		Consolidation change (Note 2.5)	Balance at 31/12/17
		Income statement	Equity		
Deferred tax assets					
Tax losses carry-forwards and deductions	65,822	256	(309)	–	65,769
Derivatives	20,019	(15,590)	19,320	–	23,749
Others	7,785	(1,941)	61	(448)	5,457
Total deferred tax assets	**93,626**	**(17,275)**	**19,072**	**(448)**	**94,975**
Deferred tax liabilities					
Revaluations	33,656	(553)	–	–	33,103
Goodwill	19,646	–	–	–	19,646
Derivates	–	–	254	–	254
Other (temporary differences)	5,878	(3,273)	(12)	–	2,593
Total deferred tax liabilities	**59,180**	**(3,826)**	**242**	**–**	**55,596**

The main amounts and changes in deferred tax assets and liabilities in 2018 and 2017, in addition to those arising from the revaluation of derivatives disclosed in Note 17, were as follows:

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 losses carry-forward and deductions is mainly due to the utilisation of these in the fiscal Group of companies subject to the Biscayne tax regulation amounting to €11.0 million and in Korea by €2.6 million.

2017

- Movements recognised in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 16).
- Deconsolidation relates basically to the tax credits recognised mainly by Befesa Argentina, S.A. (Note 2.5).

(Thousand euros)

19. Public administrations

The detail of "Tax receivables" and "Tax payables" on the asset and liability sides, respectively, of the accompanying consolidated balance sheet at 31 December 2018 and 2017 is as follows:

	2018		2017	
	Receivable (Note 11)	**Payable (Note 15)**	**Receivable (Note 11)**	**Payable (Note 15)**
VAT	6,327	2,460	6,468	2,635
Withholdings and interim payments	–	653	3	906
Corporate income tax	836	9,957	1,905	9,179
Social Security bodies	21	1,686	53	1,800
Other	2,047	311	1,837	456
Total	**9,231**	**15,067**	**10,266**	**14,976**

"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 prepayments made each year.

The Group's Parent Company, Befesa, S.A., is subject to Luxembourg law (Note 1).

Befesa Medioambiente HoldCo, S.L. heads the fiscal Group of companies subject to the Biscayne tax regulation. That tax group comprises Befesa Medioambiente HoldCo, S.L.U, Befesa Medio Ambiente, S.L., MRH Residuos Metálicos, S.L.U., Alianza Medioambiental, 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 GbmH 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.

The 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, 2014 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.

The difference between the tax charge allocated to each year and the tax payable for that year, recognised in "Deferred tax assets" and "Deferred tax liabilities" on the asset and liability sides, respectively, of the consolidated balance sheets at 31 December 2018 and 2017, arose as a result of the following noteworthy circumstances:

- Temporary differences arising from the differences between the carrying amounts of certain assets and liabilities and their tax bases. The main differences arose from the measurement of assets and liabilities arising from the valuation of derivatives in relation to which the difference between the tax base and the carrying amount is not tax-deductible and the deductability of the amortisation of certain items of goodwill taken in accordance the regulations applicable to each company.
- Different accounting and tax methods for recognising certain provisions.

Income tax is calculated on the basis of the accounting profit determined by applying generally accepted accounting principles, which does not necessarily coincide with the taxable profit.

The 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 3.15).

The reconciliation of accounting profit/(loss) for the year to income tax expense for the year is as follows:

	2018	2017
Profit/(Loss) before tax from continuing operations	130,142	74,199
Profit/(Loss) before tax from discontinued operations	(2,980)	2,052
Total accounting profit/(loss) before tax	**127,162**	**76,251**
Non-deductible expenses and non-computable income:		
– Other permanent differences	(5.170)	(123)
Adjusted accounting profit/(loss)	**121,992**	**76,128**
Tax charge in the Parent Company's territory	(31,718)	(18,714)
Tax credits generated/used in the year and not capitalised	(3,276)	(4,243)
Others	2,726	1,668
Income tax expense	**(32,268)**	**(21,289)**
– From continuing operations	(33,043)	(23,017)
– From discontinuing operations	775	1,728

The unused tax credit recognised by the Group amount to €18.6 million at 31 December 2018 (2017: €24.7 million), corresponding mainly to credits on double tax deductions, export activities and contributions to Company promotion undertakings. The tax credits not recognised on deductions amounted to €28.1 million at 31 December 2018 (€25.4 million in 2017).

Tax credits on tax loss carry-forwards available for offset recognised in the Group at 31 December 2018 amounted to €27.1 million (31 December 2017: €41.0 million). Unrecognised tax credits on tax loss carry-forwards amounted to €70.7 million at 31 December 2018 (31 December 2017: €78.8 million).

The Directors of the Group companies and of the Parent consider that the tax assets recognised in all the circumstances described above will be offset in the income tax returns of the Group companies taken individually or of the companies forming the consolidated tax group, as appropriate, within the applicable deadlines and limits.

(Thousand euros)

20. Guarantee commitments to third parties and contingencies

At 31 December 2018 and 2017, a number of Group companies had provided guarantees for an overall amount of approximately €34,1 million (31 December 2017: €34.8 million) to guarantee their operations vis-à-vis customers, banks, government agencies and other third parties.

The Group has contingent liabilities for litigation arising in the ordinary course of business from which no significant liabilities are expected to arise other than those for which provisions have already been recognised.

In December 2016, there was a temporary stoppage at the Scandust plant (Sweden) as a result of action related to the update of the activity licence, initiated by the local country council. Group management commissioned several advisors to assess the environmental risk and potential economic effect of the corrective measures, as well as into 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 2018 and 2017 recognises €5.6 million under "Other receivables" (Note 11) as the best estimate of the minimum expected outcome on the ongoing litigation, calculated in a conservative way.

21. Income and expenses

Disaggregation of revenue from contracts with customers

In relation with revenue recognition, the Group considers that under IFRS 15 there is only one kind of contract with customers, the assessment is supported by the fact that main sales of the Company's products do not have more than one performance obligation: delivery of steel and delivery of 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

The detail of "Procurements" in the consolidated income statement for the years 2018 and 2017 is as follows:

	2018	2017
Cost of raw materials and other supplies used	336,931	389,997
Changes in goods held for resale, raw materials and other inventories	(1,387)	(1,783)
Total	**335,544**	**388,214**

21.2 Other operating income

The detail of "Other operating income" in the consolidated income statement for the years 2018 and 2017 is as follows:

	2018	2017
In-house work on non-current assets (Note 3.3)	1,154	688
Income from income-related grants	1,807	2,247
Services and other operating income	2,166	6,540
Total	**5,127**	**9,475**

21.3 Staff costs

The detail of "Staff costs" in the consolidated income statement for the years 2018 and 2017 is as follows:

	2018	2017
Wages and salaries	61,954	59,191
Employer´s social security contributions	11,905	11,563
Other welfare costs	2,059	2,035
Total	**75,918**	**72,789**

The average number of employees at the Group in 2018 and 2017 in continuing and discontinued operations, by professional category, were as follows:

	Average number of employees	
	2018	**2017**
Management	36	40
Experts	139	150
Professionals	200	222
Operators and assistants	744	828
Total	**1,119**	**1,240**

Of the Group's average headcount in 2018, 103 had temporary employment contracts (2017: 154 employees).

In 2018, the average number of employees from companies consolidated following the proportional method amounted to 47 (2017: 47 employees).

The average number of employees in 2018 and 2017, in continuing and discontinued operations, by country, was as follows:

	Average number of employees	
	2018	**2017**
Spain	375	388
Germany	374	374
France	100	107
United Kingdom	41	41
Rest of Europe	79	75
Turkey	95	95
South Korea	52	51
Rest of the world	3	109
Total	**1,119**	**1,240**

(Thousand euros)

21. Income and expenses (continued)

The number of employees at 2018 and 2017 year-end, by gender, was as follows:

	2018		2017	
	Men	Women	Men	Women
Management	32	4	33	5
Experts	106	33	104	30
Professionals	151	51	142	53
Operators and assistants	697	54	688	52
Total	**986**	**142**	**967**	**140**

21.4 Other operating expenses

	2018	2017
Research and development expenditure	455	452
External services	122,628	125,557
Taxes other than income tax	2,299	2,265
Losses on, impairment of and changes in allowances	54	155
Other current operating expenses	8,348	6,630
Total	**133,784**	**135,059**

21.5 Amortisation/depreciation, impairment and provisions

	2018	2017
Amortisation of intangible assets (Note 7)	3,436	3,995
Depreciation of property, plant and equipment (Note 8)	26,569	25,527
Impairment of fixed assets (Notes 7 and 8)	975	–
Other	(1.989)	1,013
Total	**28,991**	**30,535**

22. Financial expenses

The breakdown of this balance in the 2018 and 2017 consolidated income statements is as follows:

	2018	2017
Interest expense	17,078	44,907
Other finance costs	3,356	4,269
Impairment losses	–	1,520
Total (Note 14)	**20,434**	**50,696**

23. Remuneration of the Board of Directors

a) Directors' remuneration and other benefits

In 2018, the members of the Parent's Board of Directors (including Executive Directors members of the Board of Directors) earned approximately €3,033 thousand for salaries and attendance fees for discharging their duties in the Group companies (2017: €275 thousand).

Also, as at 31 December 2018 and during the year ended thereon, 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 to any current members of the Board of Directors.

b) Remuneration of senior management

The annual remuneration (mainly wages and social security) of the senior management (excluding those of the members of the Board of Directors) of Befesa, S.A. industrial groups (see Note 1), and of people discharging similar duties in 2018 amounted to €1,653 thousand (2017: €2,707 thousand).

The Group companies have not assumed any obligations relating to pensions or other types of supplementary retirement benefits with senior executive personnel.

Incentives to executives and other matters

In 2018 and 2017, 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 some members of the 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, cumulative cash flow and return on inputs of strategic projects). 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.

(Thousand euros)

24. Balances and transactions with related parties

All the significant balances at period-end between the consolidated companies and the effect of the transactions between them were eliminated on consolidation.

The detail of the balances with shareholders and Group and related companies at 31 December 2018 and the transactions effected with them in 2018 and 2017 are as follows:

2018

	Accounts receivable and other current financial assets (Note 11)	Long-term loans	Accounts payable	Sales and other income	Purchases and other expenses	Financial income	Financial cost
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**	**–**	**–**

2017

	Accounts receivable and other current financial assets (Note 11)	Long-term loans	Accounts payable	Sales and other income	Purchases and other expenses	Financial income	Financial cost
Bilbao LuxCo, S.A.	–	–	–	–	–	1,446	20
Recytech, S.A.	301	–	1,481	1,819	12,719	–	–
Befesa Zinc (Thailand) Ltd	494	–	–	–	–	–	–
Other	–	39	16	–	–	2	5
Total	**795**	**39**	**1,497**	**1,819**	**12,719**	**1,448**	**25**

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 maturity of which are ordinary for these types of transactions.

Taking into account the fact that 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 2018, no significant environmental investments were made.

In 2018 and 2017, the Group did not incur any significant expenses relating to environmental activities.

26. Assets held for sale and discontinued operations

In 2016, the Parent Company's Board of Directors took the decision to divest and sell off practically all companies that comprised the Industrial Waste Management segment. The assets and liabilities of Solarca, S.L. (and its subsidiaries), Soluciones Ambientales del Norte, S.A. and Befesa Perú, S.A. were classified as held for sale at 31 December 2016. These companies were sold on 29 March 2017.

As required under IFRS 5, the operations of these companies in 2017 (to the date of sale for the first group of companies) are classified under profit/(loss) for the year from discontinued operations in the accompanying consolidated income statement in 2017.

In 2017, the Group decided to sell the company Befesa Argentina, S.A. The results from this company are classified under "profit/(loss) for the year from discontinued operations" in the accompanying consolidated income statement (Note 26).

In the context of the closing of the divestment of the Industrial Waste Management segment, the Group has recognised losses amounting to €2.9 million related to the settlement of the agreement signed.

26.1 Discontinued operations – companies sold in 2017

Information on cash flows and results

The information on cash flows and results is for the years ended 31 December 2017.

	2017
Revenue	7,100
Expenses	(7,290)
Financial results	(704)
Profit/(loss) before taxes	(894)
Corporate income tax	229
Profit/(loss) after tax from discontinued operations	(665)
Profit/(loss) on the sale of subsidiaries after income tax	4,444
Profit/(loss) from discontinued operations	**3,779**
Addition/(disposal) cash from operating activities – net	1,111
Addition/(disposal) cash from investing activities – net	51,901
Addition/(disposal) cash from financing activities – net	77
Net inflow of cash generated by the subsidiary	**53,089**

Notes to the consolidated financial statements as at 31 December 2018 (continued) (Thousand euros)

26. Assets held for sale and discontinued operations (continued)

Detail of sale of subsidiaries

	2017
Consideration receivable	
• Cash received	33,672
• Amounts receivable	–
Carrying amount of net assets sold	30,727
Profit/(loss) on the sale before income tax	**2,945**
Income tax expense	1,499
Profit/(loss) on the sale after income tax	**4,444**

The carrying amounts of assets and liabilities at the date of sale were:

	Net assets sold
Goodwill	14,060
Intangible assets and PP&E	23,100
Long-term financial assets	371
Deferred tax assets	3,533
Investments carried under the equity method	
Long-term receivables	–
Inventories	1,144
Receivables	17,562
Other current assets	1,517
Cash and cash equivalents	3,089
Total assets	**64,376**
Deferred tax liabilities	724
Provisions	457
Financial liabilities	29,855
Accounts payable and other liabilities	6,539
Total liabilities	**37,575**
Translation differences	**3,926**
Net assets	**30,727**

27. Auditors' fees

The fees for professional services rendered by PwC Network firms and other audit firms to Befesa and its subsidiaries are as follows:

2018	Thousand euros	
	Services rendered by PwC	Services rendered by other audit firms
Audit services	583	19
Other assurance services	15	–
Tax advisory services	–	141
	598	**160**

2017	Thousand euros	
	Services rendered by PwC	Services rendered by other audit firms
Audit services	475	19
Other assurance services	845	58
Tax advisory services	–	62
Other non-audit services	855	–
	2,175	**139**

28. Earnings per share

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

	2018	2017
From continuing operations attributable to the ordinary equity holders of the Company	2.71	0.87
From discontinued operations	(0.06)	0.15
Total basic earnings/(losses) per share attributable to the ordinary equity holders of the Company	**2.65**	**1.02**

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

As at 31 December 2018 and 2017, there are no differences between basic and diluted earnings/(losses) per share.

Notes to the consolidated financial statements as at 31 December 2018 (continued) (Thousand euros)

28. Earnings per share (continued)

c) Reconciliation of earnings used in calculating earning per share

	Thousand euros	
	2018	**2017**
Profit/(loss) for the year from continuing operations	97,098	51,182
Less non-controlling interests from continuing operations	(4,704)	(5,710)
Profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company	92,394	45,472
Less: cumulative preference share return	–	(23,659)
	92,394	21,813
Profit/(loss) for the year from discontinued operations	(2,205)	3,779
Profit/(loss) from discontinued operations attributable to the ordinary equity holders of the Company	(2,205)	3,779
Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	90,189	25,592

d) Weighted average number of shares used as the denominator

	Number in thousand	
	2018	**2017**
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (Note 13)	34,067	25,025

As at 31 December 2018 there are no financial instruments or other contracts that might have a significant dilutive effect in the calculation of earnings per share.

29. Subsequent events

Between the balance sheet date (31 December 2018) and the date of presentation of the accounts (19 March 2019), no event of material importance to an assessment of the asset, financial and earnings position of Befesa occurred.

Appendix I

Subsidiaries, joint operations and associates

2018

Entity	Address	Activity	% Interest	Auditor	Thousand euro (31/12/2018)				
					Share	Reserves	Translation differences	Results	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.	Biscay	Holding	100%	PwC	150,003	319,817	–	147,199	(49,870)
MRH Residuos Metálicos S.L.U.	Biscay	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.	Biscay	Holding	100%	PwC	25,010	48,039	–	57,969	(40,000)
• Befesa Zinc Comercial, S.A.U.	Biscay	Sale of recycled waste	100%	PwC	60	9,935	–	(97)	–
• Befesa Zinc Aser, S.A.U.	Biscay	Recovery of metals	100%	PwC	4,260	30,957	–	35,718	(31,000)
• Befesa Zinc Sur, S.L.U	Badajoz	Recovery of metals	100%	(1)	605	248	–	(4)	–
• Befesa Zinc Óxido, S.A.U.	Biscay	Recovery of metals	100%	PwC	1,102	5,423	–	487	–
• Befesa Steel R&D, S.L.U.	Biscay	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	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.	Biscay	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	–
• 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.	Biscay	Recovery of metals	100%	PwC	4,767	59,693	–	6,987	–
• Befesa Aluminio Comercializadora, S.L.U.	Biscay	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.

Notes to the consolidated financial statements as at 31 December 2018 (continued) (Thousand euros)

Appendix I (continued)

Subsidiaries, joint operations and associates

2017

Entity	Address	Activity	% Interest	Auditor	Thousand euro (31/12/2017)				
					Share	Reserves	Translation differences	Results	Interim dividend
Subsidiaries									
Befesa Holding S.à r.l.	Luxembourg	Holding	100%	(1)	13	426,991	–	(1,550)	–
Befesa Medioambiente Holdco, S.L.	Biscay	Holding	100%	(1)	77,870	332,527	–	(5,100)	–
Befesa Management Services GmbH	Germany	Holding	100%	PwC	25	589	–	211	–
Befesa Medio Ambiente, S.L.U.	Biscay	Holding	100%	PwC	150,003	(96,496)	–	(3,722)	–
Alianza Medioambiental, S.L.	Biscay	Holding	100%	(1)	104,359	(28,148)	–	8,417	–
MRH Residuos Metálicos S.L.U.	Biscay	Holding	100%	(1)	15,600	74,771	–	24,339	–
– Befesa Salzschlacke Gmbh	Germany	Aluminium waste treatment	100%	PwC	25	1,888	–	8,140	(5,153)
– Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	PwC	25	303	–	–	–
– Subgroup Zinc Befesa Zinc, S.A.U.	Biscay	Holding	100%	PwC	25,010	37,392	–	35,804	–
• Befesa Zinc Comercial, S.A.U.	Biscay	Sale of recycled waste	100%	PwC	60	9,658	–	276	–
• Befesa Zinc Aser, S.A.U.	Biscay	Recovery of metals	100%	PwC	4,260	8,577	–	30,529	(28,000)
• Befesa Zinc Sur, S.L.U.	Badajoz	Recovery of metals	100%	(1)	605	246	–	2	–
• Befesa Zinc Óxido, S.A.U.	Biscay	Recovery of metals	100%	PwC	1,102	5,331	–	93	–
• Befesa Steel R&D, S.L.U.	Biscay	Development of projects and technology innovation	100%	(1)	3	1,970	–	29	–
• Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	(2.730)	–	466	–
• Befesa Zinc Gravelines, S.A.S.	France	Waelz oxide treatment	100%	PwC	8,000	1,613	–	710	–
• Befesa ScanDust AB	Sweden	Recovery of metals	100%	PwC	5,310	8,663	(187)	(8,822)	–
• Befesa Silvermet Turkey, S.L.	Biscay	Holding	53,70%	(1)	9,775	4	–	3,877	(4,230)
• Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	5,344	1,349	(4,408)	11,867	–
• Befesa DisTicaret, A.S.	Turkey	Recovery of metals	100%	PwC	1,198	274	(553)	1,568	
• Befesa Zinc Germany GmbH	Germany	Holding	100%	PwC	25	5,826	–	24,018	(27,000)
• Befesa Steel Services GmbH	Germany	Sales and logistics	100%	PwC	2,045	67,109	–	367	–
• Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	PwC	5,113	5,890	–	(378)	–
• Befesa Zinc Korea Ltd.	South Korea	Recovery of metals	100%	PwC	17,015	23,810	4,989	10,874	–
• Befesa Zinc Freiberg GmbH	Germany	Recovery of metals	100%	PwC	1,000	(3,243)	–	(621)	–
– Befesa Aluminio, S.L.U.	Biscay	Recovery of metals	100%	PwC	4,767	55,521	–	6,528	–
• Befesa Aluminio Comercializadora, S.L.U.	Biscay	Marketing company	100%	(1)	90	21	–	–	–
• Befesa Salt Slags, Ltd.	United Kingdom	Recovery of metals	100%	PwC	27,108	(21,098)	(2,018)	(2,042)	–
Joint operations									
– Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	1,098	–	21,038	–

(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 2018 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, 19 March 2019

Javier Molina Montes

Wolf Uwe Lehmann

Independent auditor's report

Audit report

To the Shareholders of
Befesa S.A.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Befesa S.A. (the "Company") and its subsidiaries (the "Group") as at 31 December 2018, 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.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement and the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statements for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 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 No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group 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 consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg
T : +352 494848 1, F : +352 494848 2900, www.pwc.lu

Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518

Independent auditor's report
(continued)

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Company and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 27 to the consolidated financial statements.

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, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our 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.

Key audit matter	How our audit addressed the Key audit matter
Recoverability of goodwill and other intangible assets with an indefinite useful life The group has goodwill of €336 million and other intangible assets with an indefinite useful life (licenses) of €81 million as at 31 December 2018. Group's accounting principles and policies regarding Goodwill and other intangible assets are disclosed in Note 3. In accordance with IFRS, the Group tests for impairment these assets at least annually and whenever there are impairment indicators. To perform impairment tests, Management applies judgment to make assumptions to estimate the recoverable amount of the cash-generating units to which the goodwill and licenses are allocated. The most significant assumptions used are discount rates, rates of growth of revenues and the estimate of future margins. This matter was of particular significance to our audit as goodwill and licenses are significant and Management's determination of future revenue forecasts, discount rate and growth rates used in the calculation of the recoverable amount involves significant judgement and estimates.	Our audit procedures included, among others: We assessed the group's processes to test goodwill and other intangible assets with indefinite useful life (licenses) for impairment by performing the following procedures: We back tested past cash flows projections for year 2018 with the actual cash flows for the year. We compared the cash flow projections with forecasts approved by the Board of Directors, and when possible benchmarked them against general and sector-specific market expectations. We tested the rates of growth of revenues and forecast future margins against available comparable, including historical results, actual selling prices for 2018 and the first months of 2019 and, when applicable, prices guaranteed for future years. We tested the sensitivity analysis performed by Management. We involved internal valuation specialists to assist us in evaluating the reasonableness of the discount rate applied against independent data. We finally assessed the adequacy of the disclosures in the consolidated financial statements.

pwc

Key audit matter	How our audit addressed the Key audit matter
Recoverability of deferred tax assets As at 31 December 2018 the Group recognised deferred tax assets amounting to €57 million. This amount includes €46 million 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 to support the recognition. This matter was of particular significance to our audit because it involves significant estimate and judgement.	We assessed Management's process to evaluate the level of future tax profits to support the recognition of deferred tax assets. We compared these forecast with the projections used for testing goodwill and other intangible assets with an indefinite useful life for impairment. We satisfied ourselves as of the reasonability of the deferred tax assets which are expected to be recovered annually, by reference to applicable tax legislation. We also assessed the adequacy of the disclosures on deferred tax assets in the consolidated financial statements.

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 report but does not include the consolidated financial statements and our audit report 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 identified above 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 that 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 an audit report 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 No 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 No 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 scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report 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 audit report. 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.

pwc

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 audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance report is included on pages 62 to 79 to this annual 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 have been appointed as "Réviseur d'Entreprises Agréé" of the Group by the General Meeting of the Shareholders on 26 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 6 years.

Other matter

The Corporate Governance report includes, when applicable, the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) 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.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 20 March 2019

Anne Derouané

STATUTORY ANNUAL STATEMENTS

Balance sheet for the year ended 31 December 2018
(euro)

	Note(s)	2018	2017
Assets			
A. Subscribed capital unpaid			
I. Subscribed capital not called			
II. Subscribed capital called but unpaid			
B. Formation expenses		**0.00**	**132.48**
C. Fixed assets		**774,521,878.18**	**774,521,878.18**
I. Intangible assets			
1. Costs of development			
2. Concessions, patents, licences, trademarks 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	3	**774,521,878.18**	**774,521,878.18**
1. Shares in affiliated undertakings		**248,521,878.18**	**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		**34,421,702.87**	**8,584,748.47**
I. Stocks			
1. Raw materials and consumables			
2. Work in progress			
3. Finished goods and goods for resale			
4. Payments on account			

	Note(s)	2018	2017
II. Debtors	4	**34,404,391.82**	**8,489,051.38**
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:		**34,392,222.53**	**8,489,051.38**
a) becoming due and payable within one year		**33,459,772.15**	**4,923,051.38**
b) becoming due and payable after more than one year		**932,450.38**	**3,566,000.00**
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:		**12,169.29**	**0.00**
a) becoming due and payable within one year		**12,169.29**	**0.00**
b) becoming due and payable after more than one year			
III. Investments			
1. Shares in affiliated undertakings			
2. Own shares			
3. Other investments			
IV. Cash at bank and in hand		**17,311.05**	**95,697.09**
E. Prepayments	5	**5,920,537.39**	**7,364,017.39**
TOTAL (ASSETS)		**814,864,118.44**	**790,470,776.52**

Balance sheet for the year ended 31 December 2018
(continued)
(euro)

	Note(s)	2018	2017
CAPITAL, RESERVES AND LIABILITIES			
A Capital and reserves	6	**275,799,100.14**	**250,493,596.08**
I. Subscribed capital		**94,575,646.35**	**94,575,646.35**
II. Share premium account		**263,875,806.27**	**288,744,501.22**
III. Revaluation reserve			
IV. Reserves		**6,409,319.27**	**6,409,319.27**
1. Legal reserve		**6,409,319.27**	**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			
V. Profit or loss brought forward		**-139,235,870.76**	**-138,810,329.41**
VI. Profit or loss for the financial year		**50,174,199.01**	**-425,541.35**
VII. Interim dividends			
VIII. Capital investment subsidies			
B. Provisions	7	**99,842.50**	**581,210.32**
1. Provisions for pensions and similar obligations			
2. Provisions for taxation		**2,342.50**	**0.00**
3. Other provisions		**97,500.00**	**581,210.32**
C. Creditors	8	**533,056,638.41**	**532,031,952.73**
1. Debenture loans			
a) Convertible loans:			
i) becoming due and payable within one year			
ii) becoming due and payable after more than one year			
b) Non-convertible loans:			
i) becoming due and payable within one year			
ii) becoming due and payable after more than one year			
2. Amounts owed to credit institutions:		**532,982,821.45**	**527,039,752.00**
a) becoming due and payable within one year		**6,982,821.45**	**1,039,752.00**
b) becoming due and payable after more than one year		**526,000,000.00**	**526,000,000.00**

	Note(s)	2018	2017
3. Payments received on account of orders insofar 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:		**28,083.62**	**2,436,609.30**
a) becoming due and payable within one year		**28,083.62**	**2,436,609.30**
b) becoming due and payable after more than one year			

	Note(s)	2018	2017
5. Bills of exchange payable:			
a) becoming due and payable within one year			
b) becoming due and payable after more than one year			
6. Amounts owed to affiliated undertakings:		**0.00**	**2,555,591.43**
a) becoming due and payable within one year			
b) becoming due and payable after more than one year		**0.00**	**2,555,591.43**
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		**45,733.34**	**0.00**
a) Tax authorities			
b) Social security authorities			
c) Other creditors:		**45,733.34**	**0.00**
i) becoming due and payable within one year		**45,733.34**	**0.00**
ii) becoming due and payable after more than one year			
D. Deferred income	9	**5,908,537.39**	**7,364,017.39**
TOTAL (CAPITAL, RESERVES AND LIABILITIES)		**814,864,118.44**	**790,470,776.52**

Profit and loss account for the year ended 31 December 2018
(euro)

	Note(s)	2018	2017
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	6,209,230.70	1,465,841.44
5. Raw materials and consumables and other external expenses		-5,152,288.72	-1,920,814.30
a) Raw materials and consumables			
b) Other external expenses	11	-5,152,288.72	-1,920,814.30
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:		-132.48	-188.48
a) in respect of formation expenses and of tangible and intangible fixed assets		-132.48	-188.48
b) in respect of current assets			
8. Other operating expenses	10	-649,016.21	0.00
9. Income from participating interests:	13	49,868,694.95	0.00
a) derived from affiliated undertakings		49,868,694.95	0.00
b) other income from participating interests			
10. Income from other investments and loans forming part of the fixed assets:	14	14,541,708.33	964,333.33
a) derived from affiliated undertakings		14,541,708.33	964,333.33
b) other income not included under a)			
11. Other interest receivable and similar income:		2,648,372.22	216,859.22
a) derived from affiliated undertakings			
b) other interest and similar income		2,648,372.22	216,859.22
12. Share of profit or loss of undertakings accounted for under the equity method			

	Note(s)	2018	2017
13. Value adjustments in respect of financial assets and of investments held as current assets			
14. Interest payable and similar expenses:	14	**-17,281,994.78**	**-1,143,207.56**
a) concerning affiliated undertakings		**0.00**	**-19,863.01**
b) other interest and similar expenses		**-17,281,994.78**	**-1,123,344.55**
15. Tax on profit or loss	15		
16. Profit or loss after taxation		**50,184,574.01**	**-417,176.35**
17. Other taxes not shown under items 1 to 16	15	**-10,375.00**	**-8,365.00**
18. Profit or loss for the financial year		**50,174,199.01**	**-425,541.35**

Notes to the Annual Accounts
(continued)
(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.. As at 31 December 2017, the registered office of the Company is established at 2C Rue Albert Borschette, L-1246, Luxembourg. On 1 March 2018, the registered office of the Company was transferred to 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 2018 and ends on 31 December 2018.

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 that 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 accounts in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements are available at the registered office of the Company.

2 Summary of significant accounting policies

2.1 Basis of preparation

The annual accounts of the Company are prepared in accordance with Luxembourg legal and regulatory requirements.

Accounting policies and valuation rules follow the historical cost convention and are, besides the ones laid down by the law of 19 December 2002, as amended on 18 December 2015, determined and applied by the Board of Directors.

2 Summary of significant accounting policies (continued)

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 the circumstances.

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.

Long-term debt denominated in currencies other than EUR and having an economic link with receivables recorded in financial assets (and having similar characteristics) are translated at the historical exchange rates ("back to back" loans).

2.3 Formation expenses

Formation expenses include costs in connection with the incorporation of the Company and any subsequent capital increases. Formation expenses are amortised on a straight-line basis over a period of five years.

2.4 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 fixed 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 Summary of significant accounting policies (continued)

2.5 Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.6 Prepayments

This asset item includes expenditure incurred during the financial year but relating to a subsequent financial year.

2.7 Provisions

Provisions are intended to cover losses or debts, 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 the date on which they will arise.

Provisions may also be created in order to cover charges that 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 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”.

2.8 Creditors

Creditors are recorded at their reimbursement value. When the amount repayable on account is greater than the amount received, the difference is shown as an asset and is written off over the period of the debt.

2.9 Deferred income

This liability item includes income received during the financial year but relating to a subsequent financial year.

2.10 Value adjustments

Value adjustments are deducted directly from the related asset.

2.11 Income from dividend

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

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	0.00	0.00	0.00	**248,521,878.18**
Loans to affiliated undertakings	526,000,000.00	0.00	0.00	0.00	**526,000,000.00**
Total	**774,521,878.18**	0.00	0.00	0.00	**774,521,878.18**

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**	0.00	0.00	0.00	**248,521,878.18**
Loans to affiliated undertakings	**526,000,000.00**	0.00	0.00	0.00	**526,000,000.00**
Total	**774,521,878.18**	0.00	0.00	0.00	**774,521,878.18**

In the opinion of the Board of Directors, no durable depreciation in value has occurred on shares in affiliated undertakings as at 31 December 2018; 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:

				As at 31/12/2018		
Name		**Registered Office**	**% holding**	**Net book value (EUR)**	**Net equity (EUR)**	**Net result (EUR)**
Befesa Holding S.à r.l.	Unaudited account	Luxembourg	100%	230,289,450.57	222,465,601.68	45,391,536.29
Befesa Medio Ambiente, S.L.	Audited account	Spain	6%	18,232,427.61	453,926,483.53	100,519,981.27

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 facility 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.

As at 31 December 2018, the nominal amount of this loan is €526,000,000.00 (2017: €526,000,000.00) and accrued interest amount to € 6,907,402.78 (2017: €964,333.33) (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 2018; accordingly, no value adjustment was recorded.

Notes to the Annual Accounts
(continued)
(euro)

4 Debtors

Debtors by category	Within one year	More than one year	As at 31/12/2018	As at 31/12/2017
Amounts owed by affiliated undertakings	33,459,772.15	932,450.38	**34,392,222.53**	8,489,051.38
Other debtors	12,169.29	0.00	**12,169.29**	0.00
Total	33,471,941.44	932,450.38	**34,404,391.82**	8,489,051.38

4.1 Debtors – becoming due and payable within one year

As at 31 December 2018, the amounts owed by affiliated undertakings becoming due and payable within one year are mainly composed of €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: €6,907,402.78 (2017: €964,333.33) on the loan granted to Befesa Medio Ambiente, S.L. (Note 3), €75,418.67 (2017: €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 facility 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 31/12/2018 Amount EUR	As at 31/12/2017 Amount EUR
Accrued interest – interest rate swap Befesa Medio Ambiente, S.L.	75,418.67	75,418.67
Accrued interest loan Befesa Medio Ambiente, S.L.	6,907,402.78	964,333.33
Total	**6,982,821.45**	**1,039,752.00**

Other receivables from affiliated undertakings and participating interests

Due within one year	As at 31/12/2018	As at 31/12/2017
Receivable from Befesa Medio Ambiente, S.L.	**1,476,951**	3,883,299
Total	**1,476,951**	3,883,299

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 31/12/2018 Amount EUR	As at 31/12/2017 Amount EUR
Loan to Befesa Holding S.à r.l.	932,450.38	3,566,000.00
Total	**932,450.38**	3,566,000.00

4 Debtors (continued)

As at 31 December 2018, the amounts owed by affiliated undertakings becoming due and payable after more than one year are composed of cash advances granted to affiliated undertakings. The balance bears no interest.
In the opinion of the Board of Directors, the recovery of debtors is not compromised as at 31 December 2018; accordingly, no value adjustment was recorded.

5 Prepayments

Prepayments	As at 31/12/2018	As at 31/12/2017
Capitalised costs	**903,433.31**	1,087,609.94
Arrangement fees	**5,005,104.08**	6,276,407.45
Other prepaid expenses	**12,000.00**	0.00
Total	**5,920,537.39**	7,364,017.39

Arrangement fees of €6,360,000.00 were paid in relation to the facility 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 2018, the accumulated prorated amortisation amounts to €1,354,895.95 (2017: €83,592.55).

In addition, some costs related to the facility have also been capitalised for an amount of €1,147,995.31 and amortised similarly. As at 31 December 2018, the accumulated prorated amortisation amounts to €244,561.98 (2017: €14,485.37).

6 Capital and reserves

Movements in capital and reserves	Balance as at 31/12/2017	Allocation of preceding year result	Dividend	Net result for current year	Balance as at 31/12/2018
Subscribed capital	94,575,646.35	0.00	0.00	0.00	**94,575,646.35**
Share premium	288,744,501.22	0.00	-24,868,694.95	0.00	**263,875,806.27**
Reserves	6,409,319.27	0.00	0.00	0.00	**6,409,319.27**
Profit or loss brought forward	-138,810,329.41	-425,541.35	0.00	0.00	**-139,235,870.76**
Profit or loss for the financial year	-425,541.35	425,541.35	0.00	50,174,199.01	**50,174,199.01**
Total	250,493,596.08	0.00	-24,868,694.95	50,174,199.01	**275,799,100.14**

6 Capital and reserves (continued)

The allocation of preceding year result correspond to the decision taken by the Annual General Meeting of the shareholders of the Company held on 26 April 2018.

As at 31 December 2018, 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 (including, for the avoidance of doubt, the Company's issued share capital) is set at €111,047,595.14, divided into 39,999,998 shares.

Share premium

The activity for the year on the "Share premium" item corresponds to the distribution of a dividend from the distributable reserve consisting of the share premium following decisions taken by the Annual General Meeting of the shareholders held on 26 April 2018.

Reserves	As at 31/12/2018	As at 31/12/2017
Legal reserve	**6,409,319.27**	6,409,319.27
Total	**6,409,319.27**	6,409,319.27

Legal reserve

In accordance with relevant Luxembourg law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net profits must be allocated again towards the reserve. The legal reserve is not available for distribution to the shareholders.

7 Provisions

Provisions	As at 31/12/2018	As at 31/12/2017
Provisions for taxation	**2,342.50**	0.00
Other provisions	**97,500.00**	581,210.32
Total	**99,842.50**	581,210.32

Other provisions

As at 31 December 2018, the other provisions consist 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 31/12/2018	As at 31/12/2017
Amounts owed to credit institutions	6,982,821.45	526,000,000.00	0.00	**532,982,821.45**	527,039,752.00
Trade creditors	28,083.62	0.00	0.00	**28,083.62**	2,436,609.30
Amounts owed to affiliated undertakings	0.00	0.00	0.00	**0.00**	2,555,591.43
Other creditors	45,733.34	0.00	0.00	**45,733.34**	0.00
Total	7,056,638.41	526,000,000.00	0.00	**533,056,638.41**	532,031,952.73

Amounts owed to credit institutions

On 19 October 2017, the Company entered into a facility 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 agreement ("IRS"), 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.

As at 31 December 2018, the amounts becoming due and payable within one year are composed of €6,907,402.78 (2017: €964,333.33) accrued interest on the facility, and of €75,418.67 (2017: €75,418.67) accrued interest on the IRS.

9 Deferred income

Deferred income	As at 31/12/2018	As at 31/12/2017
Deferred income – capitalised costs loans Citibank and BMA	**903,433.31**	1,087,609.94
Deferred income – arrangement fees Intragroup loan Befesa Medio Ambiente	**5,005,104.08**	6,276,407.45
Total	**5,908,537.39**	7,364,017.39

The facility agreement granted to the Company on 7 December 2017 (Note 8) and the loan granted to Befesa Medio Ambiente, S.L. (Note 3) have the same principal economic terms. The arrangement fees €6,360,000.00 and costs capitalised €1,147,995.31 (2017: €1,102,095.31) on the facility (Note 5) have been accounted for equally on the loan granted to Befesa Medio Ambiente, S.L.. As at 31 December 2018, the accumulated prorated amortisation of the arrangement fees amounts to €1,354,895.95 (2017: €83,592.55), and the accumulated prorated amortisation of the capitalised costs amounts to €244,561.98 (2017: €14,485.37).

Notes to the Annual Accounts
(continued)
(euro)

10 Other operating income and expenses

The other operating income consists of the costs the Company recharged to its subsidiary for the years 2018 and 2017.

Other operating expenses

The other operating expenses consists mainly of Directors' fees (2017: nil).

11 Other external expenses

Other external expenses	As at 31/12/2018	As at 31/12/2017
Accounting, auditing and domiciliation fees	**93,674.00**	46,762.00
Banking and similar services	**2,024.00**	401.00
Legal fees	**791,135.00**	1,324,313.00
Other commisions and professional fees	**4,229,462.00**	548,988.00
Miscellaneous	**35,994.00**	350.00
Total	**5,152,289.00**	1,920,814.00

The legal fees and other commissions and professional fees are mainly composed of costs related to the IPO held on 3 November 2017.

The professional services provided by PwC Network firms to Befesa S.A. and its affiliated undertakings are as follows:

(Thousand EUR)	As at 31/12/2018	As at 31/12/2017
Audit services	**583.00**	475.00
Other assurance services	**0.00**	845.00
Other non-audit services	**0.00**	855.00
Total	**583.00**	2,175.00

12 Staff costs

The average number of employees for the year 2018 was nil (2017: 0)

13 Income from participating interests

The income from participating interests consists of dividend received: €45,368,694.95 from Befesa Holding S.à r.l. (2017: nil) and €4,500,000.00 from Befesa Medio Ambiente S.L. (2017: nil).

14 Income from other investments and loans forming part of the fixed assets/interest payable and similar expenses

Income from other investments and loans forming part of the fixed assets:

As at 31 December 2018, the interest income of the loan of €526,000,000.00 to Befesa Medio Ambiente, S.L. amounts to €14,541,708.33 (2017: €964,333.33) (Note 3).

Interest payables and similar expenses:

As at 31 December 2018, the €17,281,994.78 are mainly related to the interest cost of facility 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 facility agreement (Note 5).

	As at 31/12/2018	As at 31/12/2017
Interest cost	**14,541,708.33**	964,333.00
Cost of IRS	**1,146,992.22**	75,419.00
Amortisation costs	**1,501,380.00**	98,078.00
Other expenses	**91,914.23**	5,378.00
Total	**17,281,994.78**	1,143,208.00

15 Taxation

The Company is subject to the general tax regulation applicable in Luxembourg.

16 Off balance sheet commitments and transactions

On 19 October 2017, the Company entered into a facility agreement of €636,000,000.00 (Note 8). In this context, the Company pledged the shares of Befesa Holding S.à r.l. and Befesa Medio Ambiente, S.L.

On 7 December 2017, the Company entered into an Interest Rate Swap agreement ("IRS") in relation with the facility agreement (Note 8).

17 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.

18 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 (2017: nil).

19 Subsequent events

Between the balance sheet date (31 December 2018) and the date of presentation of the accounts (19 March 2019), no event of material importance to an assessment of the asset, financial and earnings position of Befesa occurred.

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 2018 annual accounts 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, 19 March 2019

Javier Molina Montes

Wolf Uwe Lehmann

Independent auditor's report

pwc

Audit report

To the Shareholders of
Befesa S.A.

Report on the audit of the Statutory annual accounts

Our opinion

In our opinion, the accompanying Statutory annual accounts give a true and fair view of the financial position of Befesa S.A. (the "Company") as at 31 December 2018, 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.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Company's Statutory annual accounts comprise:

- the balance sheet as at 31 December 2018;
- the profit and loss account for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 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 No 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the Statutory annual accounts" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are 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 Statutory annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Company and its controlled undertakings, if applicable, for the year then ended, are disclosed in Note 11 to the annual accounts.

PricewaterhouseCoopers, Société coopérative, 2 rue Gerhard Mercator, B.P. 1443, L-1014 Luxembourg
T : +352 494848 1, F : +352 494848 2900, www.pwc.lu

Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518

pwc

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Statutory annual accounts of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud).

These matters were addressed in the context of our audit of the Statutory annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Recoverability of financial assets The balance sheet as at 31 December 2018 includes shares in affiliated undertakings amounting to €249 million (related to the investments in Befesa Holding S.à r.l. and Befesa Medio Ambiente, S.L.) and loans to affiliated undertakings (Befesa Medio Ambiente S.L.) amounting to €526 million. Both items together represent 95% of the total assets of the Company. Management's estimation of the recoverability of the investments in Befesa Holding S.à r.l. and Befesa Medio Ambiente, S.L. included the comparison of the carrying value of the investments with the market capitalisation of Befesa S.A.. Management's estimation of the recoverability of the loan granted to BMA included projection of consolidated cash flows of BMA and its subsidiaries. The most significant assumptions used are rates of growth of revenues and the estimate of future margins. This matter was of particular significance to our audit as Management's assessment of the recoverable amount of the financial assets required estimates and judgement.	Our audit procedures over the recoverability of the financial assets included, but were not limited to: • Comparison of the carrying value of the investments in Befesa Holding S.à r.l. and Befesa Medio Ambiente, S.L. with the market capitalisation of Befesa S.A. as at 31 December 2018. • Analysis of the capability of Befesa Medio Ambiente S.L. (BMA) to repay the debt owed to the Company, based on the cash position and projections of free cash flows of BMA's subsidiaries. Regarding the projections of free cash flows, we back tested past cash flows projections for year 2018 with the actual cash flows for the year. We compared the cash flow projections with forecasts approved by the Board of Directors, and when possible benchmarked them against general and sector-specific market expectations; we tested the rates of growth of revenues and forecast future margins against available comparable, including historical results, actual selling prices for 2018 and the first months of 2019 and, when applicable, prices guaranteed for future years. We finally assessed the adequacy of the disclosures in the Statutory annual accounts.

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 report but does not include the Statutory annual accounts and our audit report thereon.

Our opinion on the Statutory 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 Statutory annual accounts, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Statutory 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 that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the Statutory annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the Statutory 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 Statutory annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Statutory annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the Statutory annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the Statutory annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report 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 No 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 Statutory annual accounts.

As part of an audit in accordance with the EU Regulation No 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 scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the Statutory annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the Statutory 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 audit report. 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 Statutory annual accounts, including the disclosures, and whether the Statutory 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 Statutory annual accounts of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The management report is consistent with the Statutory annual accounts and has been prepared in accordance with applicable legal requirements.

The Corporate Governance report is included on Pages 62 to 79 to this annual 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 Statutory annual accounts of undertakings, as amended, is consistent with the Statutory annual accounts and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Company by the General Meeting of the Shareholders on 26 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 6 years.

pwc

Other matter

The Corporate Governance report includes, when applicable, the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) 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.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 20 March 2019

Anne Derouané

ADDITIONAL INFORMATION

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 our 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
GALVANIZED 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 our 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
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	A 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
VALORIZATION	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

WEDNESDAY, MAY 8, 2019	Q1 2019 Statement & Analyst Call
WEDNESDAY, JUNE 19, 2019	Annual General Meeting in Luxembourg
FRIDAY, JULY 26, 2019	H1 2019 Interim Report & Analyst Call
THURSDAY, OCTOBER 31, 2019	Q3 2019 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

T: +49 (0) 2102 1001 340
E: irbefesa@befesa.com

PUBLISHED: MARCH 21, 2019
You can find this and other publications online in the "Investor Relations" section of the website www.befesa.com

invicomm
Designed and produced
by Invicomm, London

DISCLAIMER

This report contains forward-looking statements and information relating to Befesa and its subsidiaries that are based on the beliefs of its management, including assumptions, opinions and views of Befesa and its subsidiaries as well as information cited from third party sources.

Such statements reflect the current views of Befesa and its subsidiaries or of such third parties with respect to future events and are subject to risks, uncertainties and assumptions.

Many factors could cause the actual results, performance or achievements of Befesa and its subsidiaries to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, amongst others: changes in general economic, political, governmental and business conditions globally and in the countries in which Befesa and its subsidiaries do business; changes in interest rates; changes in inflation rates; changes in prices; changes to national and international laws and policies that support industrial waste recycling; legal challenges to regulations, subsidies and incentives that support industrial waste recycling; extensive governmental regulation in a number of different jurisdictions, including stringent environmental regulation; management of exposure to credit, interest rate, exchange rate and commodity price risks; acquisitions or investments in joint ventures with third parties; inability to obtain new sites and expand existing ones; failure to maintain safe work environments; effects of catastrophes, natural disasters, adverse weather conditions, unexpected geological or other physical conditions, or criminal or terrorist acts at one or more of our plants; insufficient insurance coverage and increases in insurance cost; loss of senior management and key personnel; unauthorized use of our intellectual property and claims of infringement by us of others intellectual property; our ability to generate cash to service our indebtedness changes in business strategy and various other factors.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or targeted.

Befesa and its subsidiaries do not assume any guarantee that the assumptions underlying forward-looking statements are free of errors nor do they accept any responsibility for the future accuracy of the opinions expressed herein or the actual occurrence of the forecasted developments. No representation (express or implied) is made as to, and no reliance should be placed on, any information, including projections, estimates, targets and opinions, contained herein, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained herein or otherwise resulting, directly or indirectly, from the use of this document.

Befesa and its subsidiaries do not intend, and do not assume any obligations, to update these forward-looking statements.

BEFESA

Befesa S.A., 46 Boulevard Grande-Duchesse Charlotte
L 1330 Luxembourg, Grand Duchy of Luxembourg
www.befesa.com