2020

ANNUAL REPORT

Long-term growth through **sustainable** services


BEFESA

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

Contents

Befesa is the market leader providing regulated critical environmental recycling services to the steel and aluminium industries in key European and Asian markets. Befesa is a vital part of the circular economy providing sustainable solutions to its customers.

Befesa at a glance

FOR MORE THAN THREE DECADES BEFESA HAS BEEN PART OF THE CIRCULAR ECONOMY AND HAS CONTINUOUSLY DEMONSTRATED THE COMPANY'S STRONG COMMITMENT TO IT

1.5

MILLION TONNES OF RESIDUES RECYCLED IN 2020

1.3

MILLION TONNES OF RECOVERED NEW MATERIALS IN 2020 REINTRODUCED INTO THE MARKET

Befesa offers crucial services taking care of hazardous residues in the value chain of secondary steel and aluminium producers enhancing the efficiency of the circular economy material flow.

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

Befesa's recycling plants are positioned in attractive markets that are strategically located across Europe and Asia.

Close proximity to major customers

* Changzhou (Jiangsu province): construction is scheduled to be completed in Q1 2021 with cold and hot commissioning in March/April
† Xuchang (Henan province): construction is expected to be completed after the summer of 2021

1,734,300 tonnes

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

999,300 TONNES[1]	530,000 TONNES[2]	205,000 TONNES[3]
Steel dust (crude and stainless) from electric arc furnaces (EAF)	Aluminium salt slags & spent pot linings (SPL)	Secondary aluminium alloys

20	1,137	€604m	€127m
RECYCLING PLANTS	EMPLOYEES[6]	REVENUE IN 2020	ADJUSTED EBITDA IN 2020[5]
13 / 7	648 / 454	€346M / €262M[4]	€98M / €29M

Adjusted EBITDA margin at 21% of the revenue in 2020

■ Steel Dust
■ Aluminium Salt Slags

[1] Total annually installed capacity to recycle 999,300 tonnes of EAF steel dust (crude and stainless steel) does not include the capacity of the two plants under construction in China (combined additional capacity of 220,000 tonnes)
[2] Total annually installed capacity to recycle 530,000 tonnes of salt slags & SPL includes 80,000 tonnes from the UK plant, which was closed in Q4 2020
[3] Total annually installed capacity of 205,000 tonnes is based on secondary aluminium alloys produced
[4] Revenue of the Aluminium Salt Slags segment is after €28.8m of intersegment eliminations
[5] Adjusted for €3.5m, one-time costs related to the UK plant's closure in Q4 2020
[6] Includes 35 employees in Corporate

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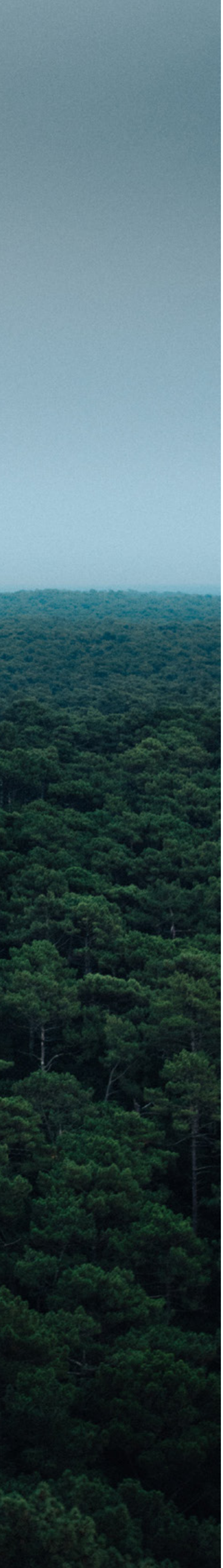
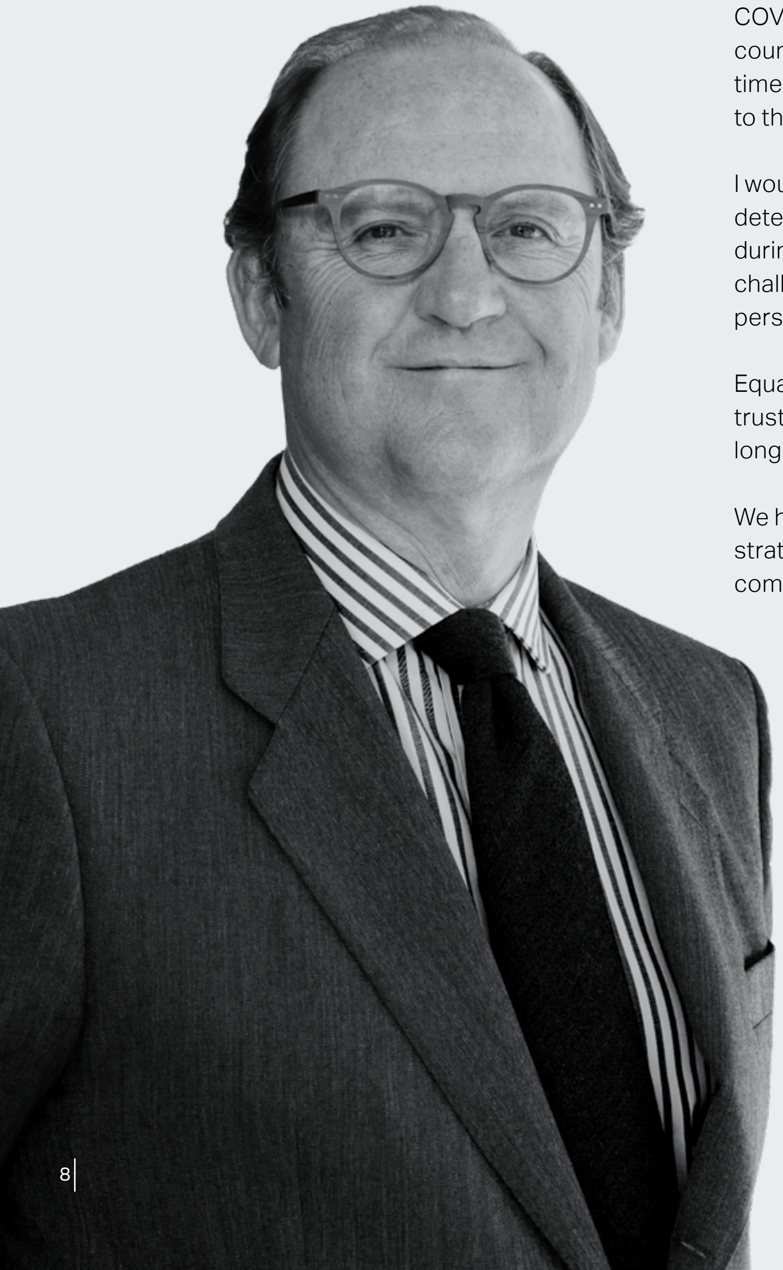
Reduce the consumption of natural resources and prevent around 1.5 million tonnes of residue from reaching landfills each year



To Befesa's shareholders

Letter from the CEO



DEAR SHAREHOLDERS,
The year 2020 has been certainly a challenging year for Befesa; nevertheless, we have been able to manage the crisis well.

Our first priority has been to preserve the health of our workforce and adopting all the necessary measures to avoid COVID-19 infections by taking decisions on a country-by-country basis. This has enabled us to run our operations at all times, thereby enabling us to keep providing a crucial service to the steel and aluminium industries.

I would like to express my gratitude for all the hard work and determination that all Befesa employees have demonstrated during the last year in which they have had to manage many challenging situations, not only in Befesa but also in their personal lives with their families.

Equally, I would like to thank our customers for their continued trust in Befesa's service capabilities and building on our long-term business relationship.

We have made strong progress in the execution of our strategy, setting the foundation for operating growth in the coming years.

We have delivered good operating performance in a challenging environment in which all the industries where we operate have significantly decreased their activity levels.

Despite the negative impact of the lower zinc and aluminium prices, we have achieved good financial results, ending the year in the upper third of the financial guidance we provided to the market, proving once again the resiliency of our business model in which the hedging of the zinc price is a vital element in navigating challenging periods like 2020.

We have generated a strong cash flow, which has enabled us to preserve a very comfortable level of liquidity, pay a dividend and fund our organic growth projects, whilst keeping the financial leverage at reasonable levels.

As a vital part of the circular economy, in Befesa we are very committed to making a strong contribution to creating a more sustainable world. As such, during 2020 we have made significant progress in our communication around environmental, social and governance (ESG) topics. We have improved our ratings and have also become part of the Global Challenges Index (GCX).

We have made strong progress in the execution of our strategy, setting the foundation for operating growth in the coming years.

MACRO-ECONOMIC REVIEW

The year 2020 has been an unprecedented period in the world because of the COVID-19 global pandemic, which has created an extremely challenging environment not only at economic and business levels but also in our personal lives.

The main industries in which Befesa develops its activity have been significantly affected in 2020, although during the fourth quarter there has been a recovery in their levels of activity. As such, the production of steel in Europe decreased 12% in 2020 compared to the previous year. As in the past, the part of the steel industry that Befesa serves, the EAF steel producers, has performed better than the overall steel industry, as demonstrated by Germany. Here, the blast oxygen furnace (BOF) steel production decreased 13% compared to the EAF steel production which decreased only 3% in 2020. This has contributed to the preservation of our volume of steel dust processed during this challenging year.

The automotive industry in Europe has seen a decrease of 24% in car sales compared to 2019, although the second half of 2020 showed a better performance than the first half. This has affected the volume of aluminium salt slags that we have been able to process in 2020.

In 2020, metal prices suffered great volatility throughout the year and only recovered during the fourth quarter from the low levels achieved during the second quarter as a consequence of COVID-19. As such, average zinc price on the London Metal Exchange (LME) in 2020 was €1,979 per tonne compared to €2,276 per tonne in 2019. The Company partially compensated for this by our hedges in place.

OPERATING & FINANCIAL REVIEW

In 2020, we recycled 687 thousand tonnes of steel dust, which represents a higher volume than in 2019, mainly driven by the contribution of our plant in Turkey, which was shut down for most of 2019. In the Aluminium Salt Slags segment, we recycled 445 thousand tonnes of aluminium salt slags and spent pot linings (SPL) which is 10% lower than the previous year, mainly affected by the lower activity in the automotive industry in Europe. On the secondary aluminium business, we produced 174 thousand tonnes of secondary aluminium alloys, at similar levels as the previous year.

During the period, we achieved €604 million of revenue, €127 million of adjusted EBITDA and €48 million of net profit. Our adjusted EBITDA margin amounted to 21%, which is lower than the previous year due to lower prices of zinc and aluminium as well as unfavourable higher zinc treatment charges (TC). Our earnings per share (EPS) came in at €1.40. The operating cash flow of €92.5 million allowed us to fund Befesa's total capex and pay a dividend whilst maintaining a leverage ratio of x3.1.

We want to maintain our strong commitment to paying an attractive annual dividend to shareholders, even during this high-investment period. Based on this, Befesa will continue to carefully manage dividend stability and dividend yield, cash flow, leverage and the funding of organic growth. We maintain our dividend policy to distribute between 40% and 50% of Befesa's net profit as dividend. In 2021, we want to propose a dividend distribution of between €30 million and €40 million. This would consider a regular dividend and additionally a catch-up on the lower dividend distributed in 2020.

Letter from the CEO continued

China is the largest steel market in the world and its steel industry is shifting towards more EAF steel production.

STRATEGY

Environmental regulation has supported Befesa's growth in the past and will be the main driver for organic growth going forward.

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

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

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

The year under review has been a very challenging one in many aspects; however, 2020 has proven that the decision to invest in China, made in 2018, was the right thing to do.

Over the last five years, China more than doubled its EAF steel production to more than 100 million tonnes. Today, China is by far the largest EAF steel market in the world, representing a market of 1.5 to 2 million tonnes of hazardous EAF steel dust.

In 2020, China navigated the COVID-19 crisis well and, while most of the countries in the world are suffering a decrease in their GDP, China has increased its GDP by more than 2%. Similarly, the country has continued to grow its steel production by 5% year-on-year (YOY).

In addition, China is very committed to reducing its CO_2 footprint. Primary steelmaking from BOF produces seven times more CO_2 per tonne of steel compared to secondary EAF steelmakers using steel scrap, which is the customer base of Befesa. Today, only 10% of the steel produced in China is from EAF, compared to an average 30% in the world, 40% in Europe and 70% in the US.

According to the latest market forecast, the steel dust market in China will continue to grow from its current size of 1.5 to 2 million tonnes to a market of 4 to 5 million tonnes over the next five to 10 years.

During 2020, we continued building a strong team of locals with the key personnel being trained across our European and Asian recycling plants.

The year 2021 is an exciting one for Befesa and truly an important milestone in the development of the Company as we complete construction and start operations at our first two EAF steel dust recycling plants in the Jiangsu and Henan provinces.

Finally, on strategy, the management of the volatility of zinc price variability through hedging continues to be a cornerstone of Befesa's strategy. In 2020, we have proven once again that our hedging strategy works well. With an average zinc LME price of €1,979 per tonne, we managed to stabilise the price with our hedges, which were "in the money" and locked in at €2,239 per tonne. This has enabled us to stabilise the blended zinc price at €2,136 per tonne. Furthermore, we extended our zinc hedges further for the next 2.5 years. The hedging provides Befesa with improved pricing, earnings and cash flow visibility to allow us to fund our growth initiatives organically.

GROWTH PROJECTS

Once most of the organic growth projects have been executed in Europe, Turkey and South Korea, the focus will be on the development of two EAF steel dust recycling plants in China, where we are developing two different projects in parallel in the provinces of Jiangsu and Henan.

In Jiangsu province, the construction of the plant is progressing on budget and on time, scheduled to be completed during Q1 2021, with cold and hot commissioning during March and April, right after the Chinese New Year break. Regarding the ramp-up at Jiangsu, we have reserved the first half of 2021 for commissioning, pilot batches and commercial contract negotiation. We have already secured the steel dust volume from customers to do the trials and pilot batches as part of the ramp-up. We plan for commercial output and a positive earnings contribution in H2 2021.

Our second plant, in the province of Henan, is developing as planned, on budget and on time and with a schedule of around six months after the plant in Jiangsu. The construction of the second plant is scheduled to be completed after the summer of 2021.

The total investment amounts to c. €42 million in each of the two plants and we have closed the long-term financing with local Chinese financial institutions.

WASTE MANAGEMENT & SUSTAINABILITY

Finally, on ESG, 2020 has been a year during which we have made significant progress. It is very clear that society and investors push more and more for sustainable solutions, which is very much aligned with Befesa.

A global growing population, together with increased life standards, especially in emerging markets, will drive an increase in the volume of waste generated across the globe. According to recent statistics, by 2050 the population of the planet will increase by 25%, while the volume of waste generated is expected to rise by 70%. This enormous challenge has to be managed properly; it is essential to invest in companies with proven green technology and the right business model.

What we do in Befesa is a vital part of the circular economy – we recycle 1.5 million tonnes of hazardous residues for our customers in the steel and aluminium industries to extract valuable natural resources like zinc, aluminium and salt. Our solutions solve important environmental challenges in the steel and aluminium industries. But also very important is the fact that Befesa's business reduces the extraction of natural resources from the earth.

Furthermore, and especially over the last five years, we focus on all the aspects of ESG, compliance, the environment, health and safety, and employees. The efforts that the entire organisation is making across these areas are being reflected in our ESG ratings improvements. We are very proud of the progress we are making on ESG, which is recognition from the market of the contribution Befesa makes to a more sustainable world.

Sustainability has been the backbone of the business since Befesa started more than three decades ago and the main driver of growth for us.

In summary, 2020 was a challenging year, but we delivered sound strategic and operating results and we look forward to 2021, which we expect to be a year of growth for Befesa: financially, operationally and from a strategic point of view in order to secure future volume and earnings growth.

Yours sincerely,

Javier Molina
CEO

Befesa in the capital markets

SHARE DATA

Ticker symbol	BFSA
ISIN	LU1704650164
German securities code (WKN)	A2H5Z1
Bloomberg code	BFSA:GR
Reuters code	BFSA.DE
Stock exchange	Frankfurt Stock Exchange, XETRA
Market segment	Prime Standard
Index	SDAX
Number of shares	34,066,705

In €	2020	2019
Free-float (end of year)	100%	100%
Closing price	51.70	38.00
Highest price	51.70	41.35
Lowest price	23.25	26.95
Dividend per share	0.88 to 1.17[1]	0.73
Dividend yield (based on closing price end of year)	1.7% to 2.3%[1]	1.9%
Market capitalisation (closing price end of year)	1,761,248,649	1,294,534,790

[1] Proposal – subject to AGM resolution
Data source: Bloomberg XETRA closing prices

Development Befesa vs. DAX vs. SDAX

SHARE PERFORMANCE IN 2020

	Befesa	DAX	SDAX
30 December 2019	38.00	13,249.01	12,511.89
30 December 2020	51.70	13,718.78	14,764.89
Change	**36.1%**	**3.5%**	**18.0%**

The Befesa share started the year 2020 flat, in line with the indices. Then, Befesa underperformed the indices in a decreasing market which was more and more negatively affected by the ongoing news of the COVID-19 pandemic which affected Europe in a significant way. At the end of February 2020, the biggest crash in history started and reached its bottom in March 2020. For Befesa, the all-time low of €23.25 on closing price level was hit on 23 March 2020. What followed was a quick recovery and until end of May, the big majority of losses was compensated and the Befesa share moved up in line with the indices.

In mid-June, consolidation took place and Befesa lost more than the indices and kept this gap in sideways movement, which dragged on into October. News about the successful development of the first vaccine against COVID-19 boosted the capital markets around the globe and resulted in the best November performance for decades. In December 2020, Befesa showed a clear outperformance against the market. This was driven by a strong zinc price increase, but more importantly by the prospects of the market entry in China, which will gain first revenues in 2021, as well as the focus on ESG topics. This brought the Befesa share to an all-time high on the last trading day in December, which closed at €51.70. In total, 2020 might be the most remarkable year in recent stock market history.

In summary, over the course of the fiscal year 2020, Befesa's share price increased significantly by 36.1%. In addition, shareholders received a dividend of €0.73 per share which was paid in two tranches in July and December. The DAX index grew in 2020 by 3.5% and the SDAX closed 18.0% higher. Befesa's daily average volume traded on XETRA decreased to 48,332 shares (2019: 57,845 Befesa shares traded daily). Based on additional figures, Befesa estimates that these volumes represent less than 50% of the real daily trades of Befesa's shares. Alternative trading platforms were used increasingly in 2020.

The market capitalisation of Befesa amounted to €1,761 million as of the end of 2020.

SHAREHOLDER STRUCTURE

Befesa's shares are 100% free-floating and are owned by a large number of international investors and also by retail shareholders.

According to voting rights notifications received, as of 31 December 2020, the following shareholders held (or were attributed to) 5% or more of the total voting rights attached to Befesa shares:

- 10.07% Allianz Global Investors GmbH, Frankfurt, Germany (as of 23 March 2020); and
- 7.49% Bestinver Gestión S.A. SGIIC, Madrid, Spain (as of 10 November 2017).

Based on voting rights notifications, other publicly available data sources and own research, German investors account for the largest share of institutional investors (23%), followed by investors from the UK (19%) and Spain (16%). Additional important shareholders are based in the US (13%) and France (9%). The 10 biggest investors own almost 42% of Befesa.

Befesa in the capital markets continued

DIVIDEND POLICY

Within its dividend policy, Befesa balances four primary aspects:

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

Carefully reviewing these aspects, the Board of Directors of Befesa will propose to the Annual General Meeting (AGM) on 23 June 2021 to distribute a total dividend in the range of €30 million to €40 million or €0.88 to €1.17 per share (2020: €0.73). The rationale is to a) distribute 2020 net profit at the upper-end c. 50%, and b) further catch up on the lower 30% of 2019 net profit distributed in 2020. Combined, this would result in a dividend payout ratio of 60% to 85% of the €47.6 million net reported profit for the fiscal year 2020. Based on the 2020 closing price of €51.70, the proposed dividend payment would result in a dividend yield of around 2%.

Befesa will announce the final proposal after the Q1 2021 results (27 April 2021). On 23 June 2021, Befesa's shareholders will decide on the dividend proposal as part of the AGM agenda.

INDICES

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

In the Deutsche Börse ranking list with all members of the Prime Standard, Befesa improved its ranking in December 2020 to rank #88 with regard to market capitalisation. This is a significant improvement compared to rank #103 in December 2019. Concerning turnover, Befesa worsened to rank #136 in December 2020 (December 2019: #127). This development is based on the lower daily volume traded on XETRA in 2020.

Within the SDAX, with 70 members, Befesa achieved rank #6 as of December 2020, which is a strong improvement against #13 in the prior year. The turnover rank decreased from #37 to #47.

Since May 2019, Befesa has been included in the **MSCI Europe Small Cap Index** and the **MSCI Germany Small Cap Index**. These inclusions increased the demand for the Befesa share because index trackers (ETFs) are required to include the index members.

Befesa was promoted into the **Global Challenges Index (GCX)** on 18 September 2020. The GCX comprises a total of 50 international shares selected according to strict criteria from a total number of around 6,000 companies worldwide.

The GCX was initiated by Boersen AG, the parent company of the Hamburg and Hannover stock exchanges, and it developed in 2007 in cooperation with today's ISS ESG. The GCX only includes shares of companies that make pioneering contributions to the seven global challenges of climate change: the supply of clean drinking water, deforestation, biodiversity, population development, poverty and global governance.

The decision to include Befesa was based on the Company's current performance in the ISS ESG Sustainability Rating (Prime Status) and, in particular, on its contribution to the achievement of sustainable development objectives, as reflected in the Sustainable Development Goals Assessment (SDGA). The GCX advisory board includes representatives from the Federal Association of German Foundations, the Protestant and Catholic Churches and the World Wide Fund for Nature (WWF).

Those responsible for the index at Befesa are particularly pleased with the contribution made to increasing the overall efficiency of raw material used in the metal industry and the development of recycling solutions that promote the transition to a more sustainable recycling economy. At the same time, the safety measures taken to adequately manage social and environmental risks are recognised.

ANALYSTS' COVERAGE

In 2020, eight equity analysts published regular reports and recommendations on the Befesa share (2019: seven).

As of the end of 2020, 87.5% of the analysts recommended buying the Befesa share, whilst 12.5% had a hold (neutral) view on Befesa. The median of the price targets was €48.60 (2019: €42.00) per share.

Analysts' recommendations

Institution	Analyst	Recommen-dation	Target price (€)
Bank of America	Kevin Kerdoudi	Buy	49.00
Berenberg	Benjamin Pfannes-Varrow	Buy	41.00
Citi	Charles Mortimer	Buy	37.00
Commerzbank	Ingo-Martin Schachel	Buy	65.00
JP Morgan	Sylvia P. Barker	Neutral	42.00
Kepler Cheuvreux	Olivier Calvet	Buy	52.00
Santander	Jaime Escribano	Buy	48.20
Stifel	Michael E. Hoffman	Buy	54.00

As of 31 December 2020

ESG RATINGS

Since 2019, four of the most important international ESG rating agencies have been publishing research on Befesa. This underlines the importance of ESG, for which Befesa is well suited, in particular because of its vital position in the circular economy value chain and its core business focus on hazardous waste management and recycling.

After 2019, 2020 was also a year which put ESG more in the focus of the capital markets. The niche topic of ESG is definitely mainstream currently. As a result, there is more interest in ESG ratings and Befesa answered to the substantial information needs with the second Sustainability Report and with dialogue with ESG rating agencies.

In total, the view on Befesa is very positive and the ESG rating results are encouraging for the Company, even resulting in the Top 3 or Top 5 of the industry sectors globally.

Updated information on sustainability at Befesa will be shown in the Befesa Progress Report 2020, which will be issued in April 2021 and will be made available on Befesa's website (www.befesa.com).

As of 31 December 2020, ESG rating agencies following Befesa and their respective ESG ratings assigned to Befesa were:

ISS ESG

B. Top 3 of 205
Metals & Mining

SUSTAINALYTICS

14.8. #3 of 60
Commercial services

V.E

#5 of 105
Business services

MSCI

BBB
Commercial Services & Supplies

INVESTOR RELATIONS ACTIVITIES

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

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

Befesa continued the intensive and direct dialogue with existing shareholders, potential investors and analysts. The circumstances in 2020, due to the pandemic, resulted in the end of physical roadshows and conferences as was customary in the capital markets, and marked a big challenge and change. Most events did take place and virtual meetings and conferences made it possible to meet even more investors without the costs and time for travelling and reducing the carbon footprint of the investor relations activities significantly.

During 2020, Befesa attended 20 investor conferences and made 11 roadshows. In total, more than 420 institutional investors from the relevant financial markets in Europe and North America were met (2019: 350). The significant increase showed a rising demand for the already high interest in the Befesa share.

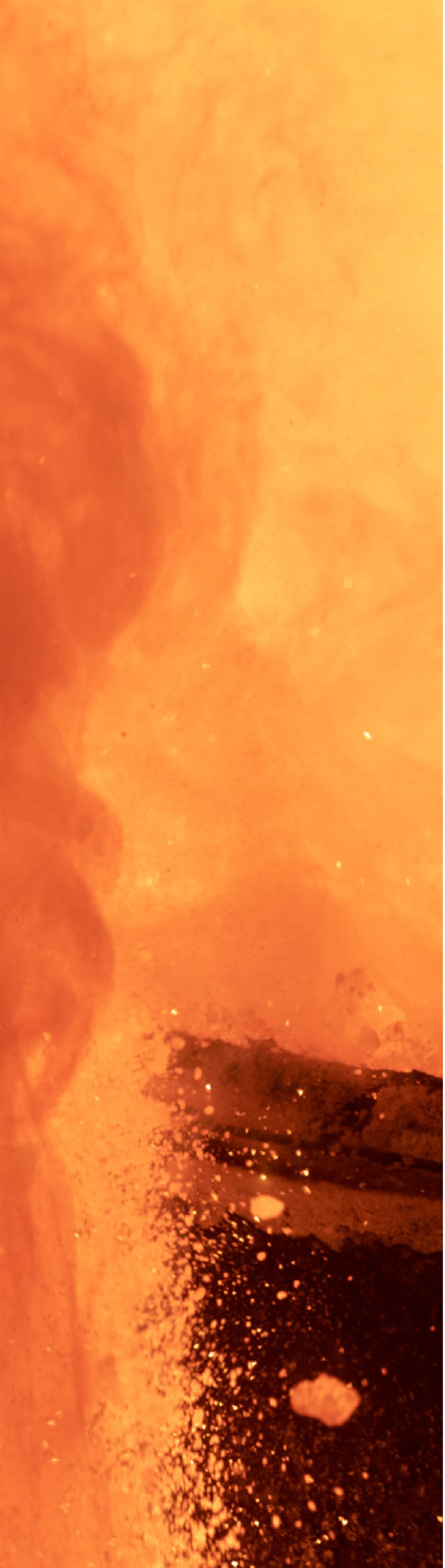
Retail investors can obtain relevant information on request or from Befesa's website. They are also important for Befesa's shareholder base. In 2020, several financial magazines for retail investors followed the Befesa share and published buy recommendations.

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

02

Recycle

hazardous residues from secondary steel and aluminium producers

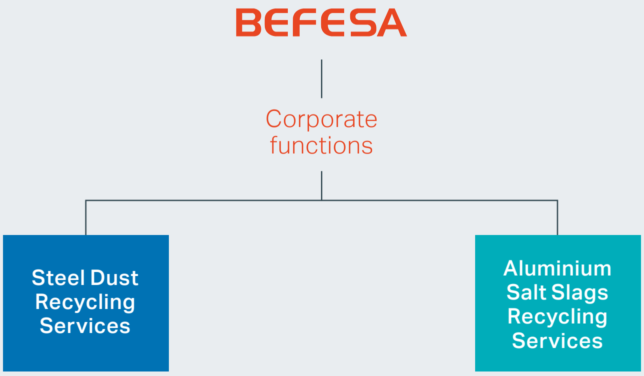


Management report

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 located at 46, Boulevard Grande-Duchesse Charlotte L-1330, Luxembourg, Grand Duchy of Luxembourg. Befesa S.A. is the Parent Company of the Befesa Group. Befesa's financial year starts on 1 January and ends on 31 December.



ORGANISATION OF BEFESA

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

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

In 2020, the Steel Dust Recycling Services segment represented 77% of Befesa's total adjusted EBITDA, whilst the remaining 23% was contributed by the Aluminium Salt Slags Recycling Services segment.

BEFESA'S VISION

Befesa aims to become the global leader in the management and recycling of hazardous residues to the steel and aluminium industries by continuing to play a growing role in a more sustainable world and the circular economy.

BEFESA'S STRATEGY

Befesa focuses on achieving its goals by developing improvements in existing technologies, optimising operations and product quality, and increasing efficiency whilst investing in organic growth and scaling up its proven business model into new and emerging markets.

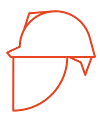
BEFESA'S BUSINESS

Befesa's business is to provide sustainable solutions to the steel and aluminium industries through servicing and recycling hazardous residues generated in the value chains of secondary steel and aluminium producers. Befesa focuses its core efforts on recycling hazardous residues: crude steel dust, salt slags and SPL. Befesa has been a part of the circular economy for more than three decades.

BEFESA'S PRINCIPLES

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

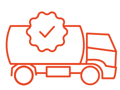
Befesa focuses on the following principles:



Health & safety

Environmental protection

Client focus



Operational excellence

Compliance

Integrity & transparency

Business model

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

The services cover the timely and efficient collection and treatment of hazardous residues – mainly steel dust and salt slags – from customers' facilities. This enables the management of the environmental and regulatory obligations that Befesa's customers have: to recycle the hazardous residues generated in their operations.

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

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

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

In the **Secondary Aluminium** operations of the Aluminium Salt Slags Recycling Services segment, Befesa collects and recycles aluminium scrap and other aluminium residues such as aluminium drosses, shavings and cuttings and aluminium concentrates from, amongst others, aluminium foundries, scrap dealers and collectors, and primary aluminium producers. Befesa also generates aluminium concentrates itself during the salt slags recycling operations and produces secondary aluminium alloys from these aluminium residues. These are mainly sold to customers in the automotive and construction industries. Revenues from the Secondary Aluminium operations are mainly derived from the sale of secondary aluminium alloys.

Inputs

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 to continue to fund its growth initiatives and to distribute dividends to its shareholders.

LEADING TECHNOLOGY & INNOVATION

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

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.

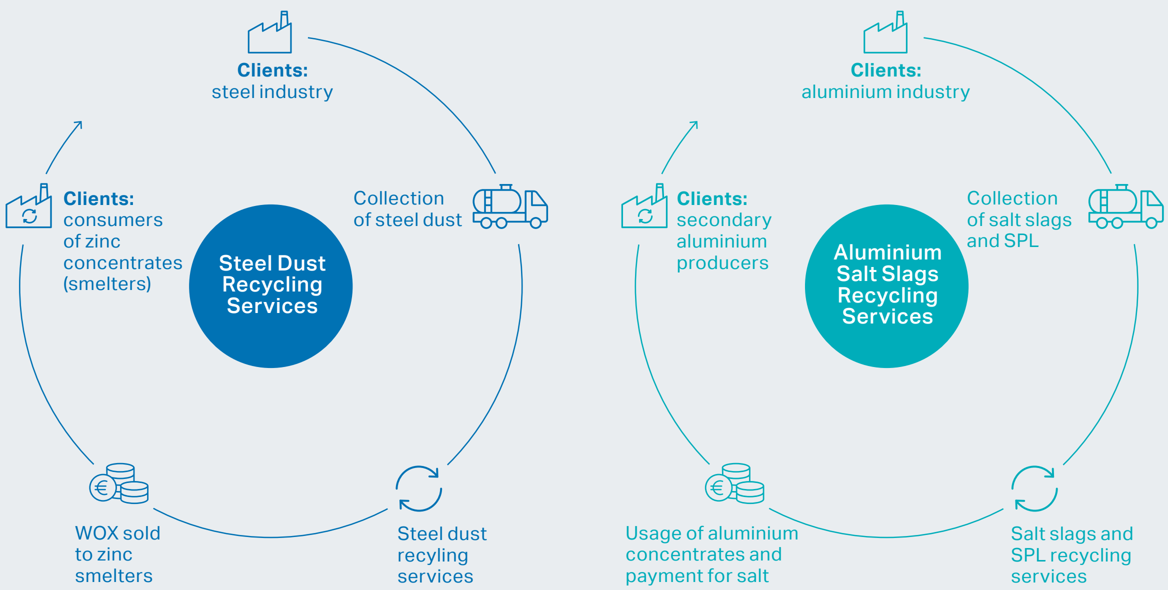
HIGHLY QUALIFIED EMPLOYEES

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

Activities

CIRCULAR ECONOMY

Befesa has been a part of the circular economy for more than three decades and contributes by reintroducing valuable materials into the production process.



Outputs

SHAREHOLDER VALUE

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

CUSTOMER SATISFACTION

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

BENEFITS TO THE ENVIRONMENT

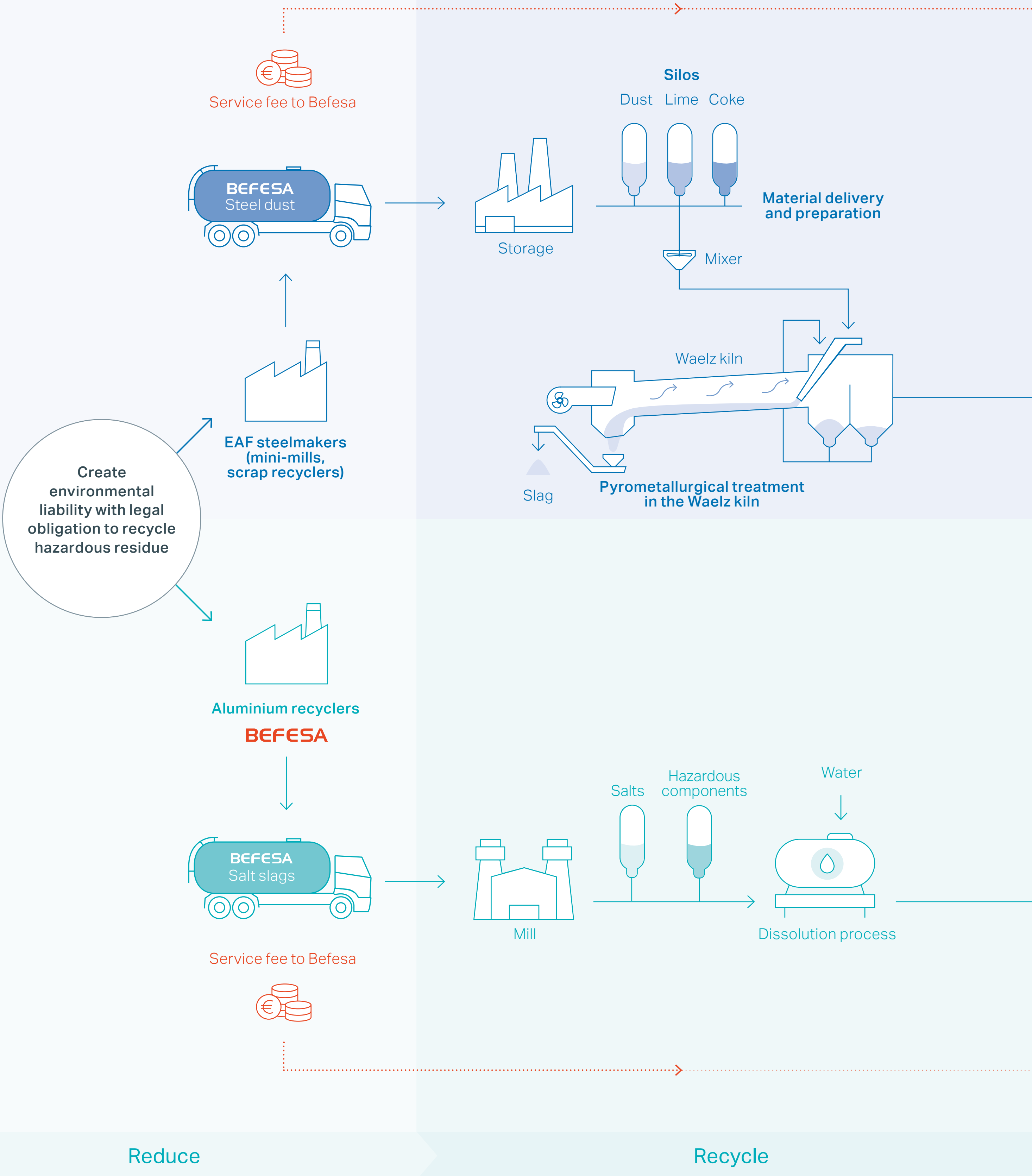
Befesa is continuously looking for new processes and services to help its customers make their businesses more sustainable. Befesa prevents the landfilling of around 1.5 million tonnes of residues each year and reduces the extraction of natural resources from the earth.

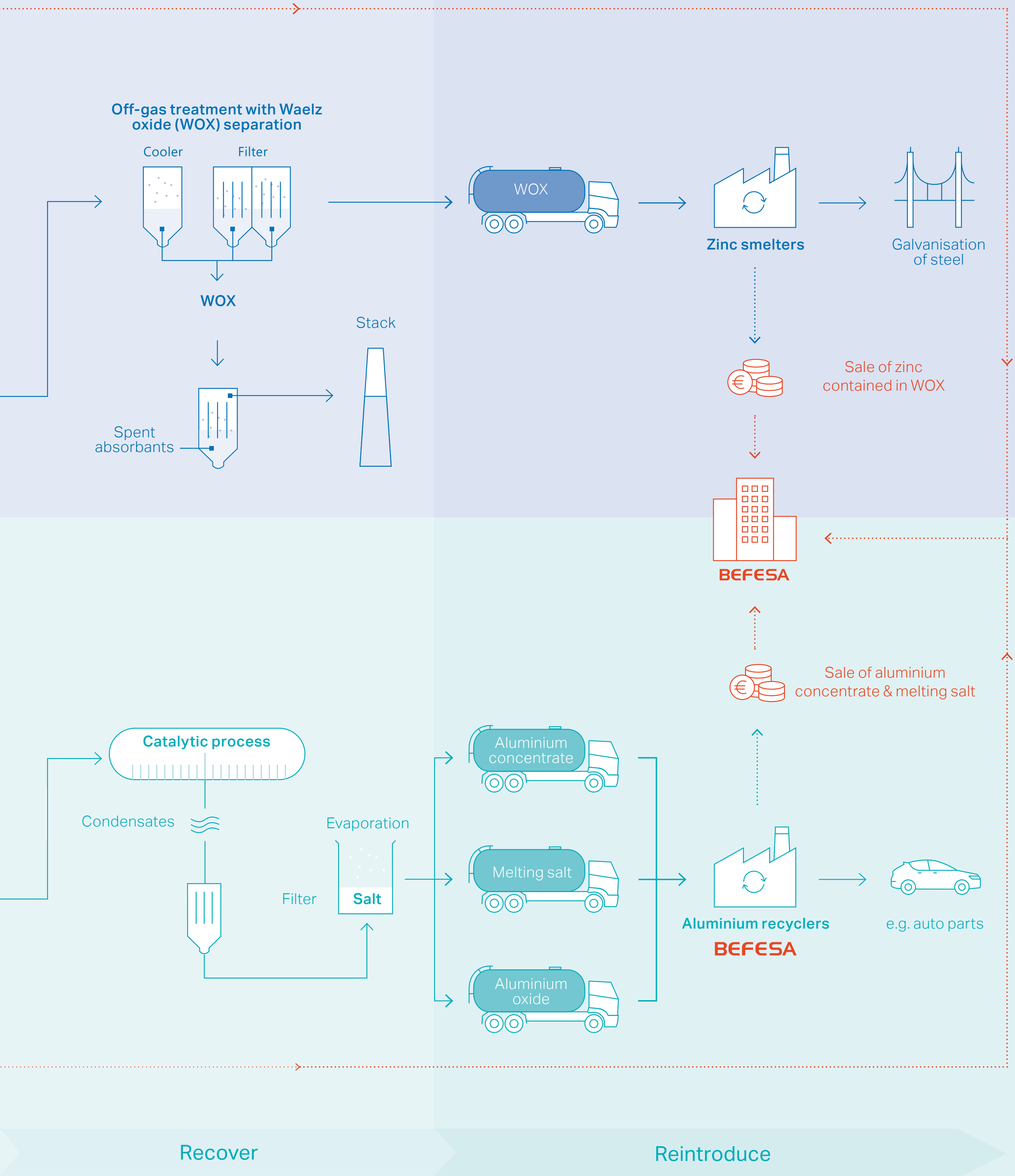
EMPLOYEE SATISFACTION

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

Business model continued

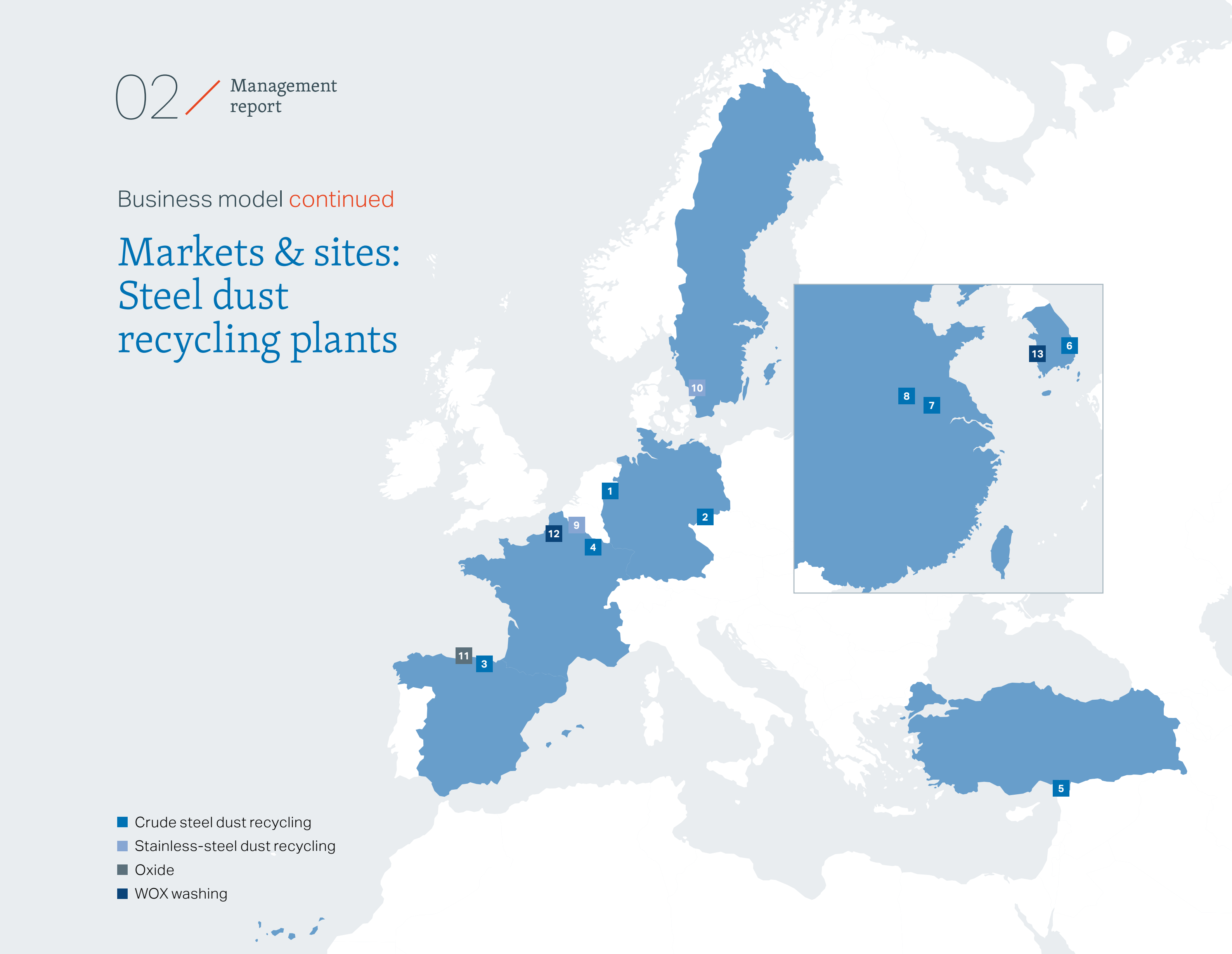
Value chain: Critical services for steel and aluminium producers




Off-gas treatment with Waelz oxide (WOX) separation
Cooler
Filter
WOX
Stack
Spent absorbants
WOX
Zinc smelters
Galvanisation of steel
Sale of zinc contained in WOX
BEFESA
Sale of aluminium concentrate & melting salt
Catalytic process
Condensates
Evaporation
Filter
Salt
Aluminium concentrate
Melting salt
Aluminium oxide
Aluminium recyclers
BEFESA
e.g. auto parts
Recover
Reintroduce

Business model continued

Markets & sites: Steel dust recycling plants



999 kt

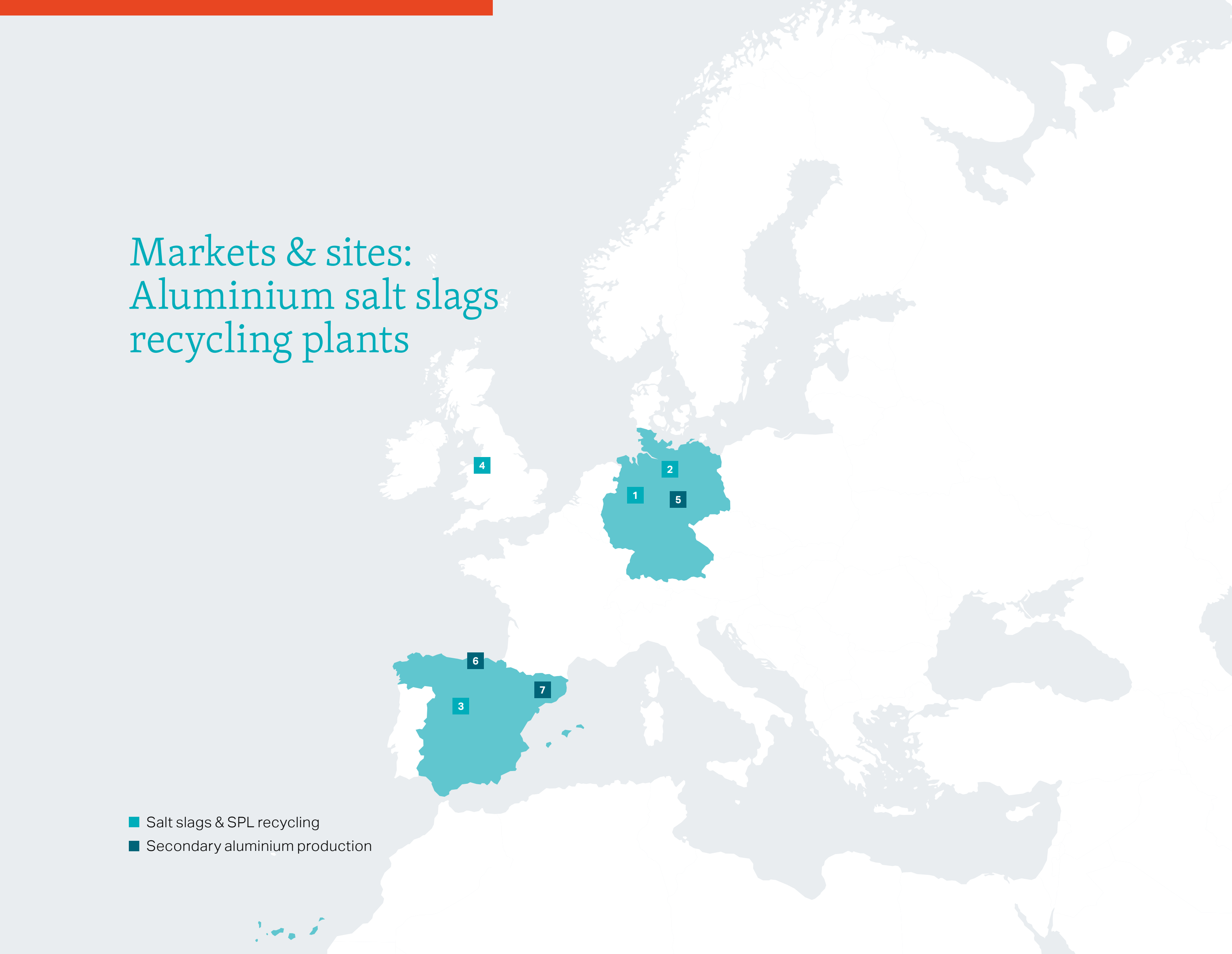
ANNUALLY INSTALLED CAPACITY TO RECYCLE STEEL DUST (CRUDE AND STAINLESS)[5]

Installed capacity by plant

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

[1] 50/50 joint venture with Recylex; 55 kt installed capacity corresponds to Befesa
[2] Befesa owns, either directly or indirectly, 53.60% of the Turkish operations; therefore, 110 kt installed capacity is fully consolidated
[3] Cold and hot commissioning to be completed in March/April 2021
[4] Plant construction expected to be completed after the summer of 2021
[5] Total annually installed capacity does not include the capacity of the two plants in China (combined additional capacity of 220 kt) or the capacity of the oxide and two WOX washing plants

Markets & sites: Aluminium salt slags recycling plants



530 kt

ANNUALLY INSTALLED CAPACITY TO RECYCLE SALT SLAGS AND SPL

205 kt

ANNUALLY INSTALLED CAPACITY TO PRODUCE SECONDARY ALUMINIUM

Installed capacity by plant

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

[1] UK plant's closure in Q4 2020

Market environment

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

FAVOURABLE GLOBAL MACRO TRENDS

The key mega trends influencing the secondary steel and aluminium markets are expected to continue growing in the long-term. First, an increasing population, a growing middle class more environmentally conscious and advancing industrialisation are all expected to drive economic growth, leading to increased steel and aluminium production. Second, greenhouse gas (GHG) emission controls are becoming stricter and challenging CO_2-reduction targets are urging steel and aluminium producers to further innovate their processes with low-carbon technology deployment and resource efficiency. Consequently, these trends are expected to drive the need for further recycling and, hence, for Befesa's services.

The global population is expected to increase at an annual growth rate of 1% between 2020 and 2050. Furthermore, the urban population is envisioned to grow from 56% of the global population in 2020 to 68% by 2050.

Moreover, the environmentally conscious middle class is expected to grow from about 46% of the total population in 2020 to around 62% by 2030 (CAGR of 4%). A total of 85% of the people who are moving into the middle class through 2030 are expected to be from Asia. The middle-class segment is likely to become a driver of demand for products requiring steel and aluminium – such as vehicles – ultimately driving the demand for recycling services.

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

CRUDE STEEL PRODUCTION & DEMAND

Global crude steel production amounted to 1.9 billion tonnes in 2020, down 1% YOY.

Despite the COVID-19 pandemic, China continued to increase its production of crude steel and hit a new record of 1.1 billion tonnes in 2020 (5% up YOY) and continued to lead the crude steel production globally with more than 56% share of the global steel output. This was primarily attributed to relaxed environmental protection constraints on steel mill production, the expansion of crude steel production capacity (whilst phasing out unregulated induction furnaces) and a strong domestic demand for steel, especially from the construction sector.

The positive trend of crude steel global output favours the steel dust recycling operations of Befesa. The increased galvanisation of steel to protect against corrosion is expected to lead to a higher zinc demand and higher zinc content in scrap material. This will result in a higher zinc content in the steel dust collected in the future, which will enable Befesa to continue to utilise its plants more efficiently in the medium-term.

The steel markets currently served by Befesa – the EU, Turkey and South Korea combined – showed in 2020 a YOY decrease of 8% in crude steel production, with Q2 2020 being particularly hard hit by the COVID-19 pandemic. The recovery in the Turkish steel market came in fast and at double-digit growth already in Q3 2020, ending the year with a YOY increase of 6%. However, in the EU and South Korea, the recovery was more moderate and gradual, not showing YOY increases until the very end of 2020. Despite the YOY decrease of crude steel output produced in 2020 in the EU (-12%) and South Korea (-6%), Befesa managed to run its steel dust recycling plants in 2020 at resilient utilisation levels of 83% on average.

For 2021, the global demand for crude steel is expected to increase by 4% over 2020, reversing to pre-COVID levels. As a result, the global steel output produced in 2020 would not be sufficient to satisfy the increasing steel demand expected for 2021, thus driving growth in global steel production in 2021.

The year 2021 is an important one for the Chinese government from a policy perspective given it is the first year of its 14th five-year plan. The Chinese government is expected to continue to support economic growth through property and infrastructure construction. Therefore, the expected rise in Chinese steel demand in 2021 will drive crude steel output, which in 2021 is also expected to increase around 2% YOY, consolidating the billion tonnes mark reached for the first time in 2020, and keeping supply and demand largely in balance.

In the EU, the post lockdown recovery in steel demand has been stronger than expected, supported by strong social security schemes and fiscal stimulus. That said, the deep contraction of major steel using sectors - especially automotive - lead to a double-digit contraction of steel demand in 2020. For 2021, a partial recovery is expected in steel demand from the EU which will drive an increase of crude steel production and EAF steel dust generation and, therefore, will continue to support the demand for Befesa's steel dust recycling services in this region.

SECONDARY ALUMINIUM PRODUCTION & DEMAND

The trend in secondary aluminium production – which is driven primarily by the manufacturing of vehicles – decreased in Western Europe where automotive production trended down across most of the countries during 2020. This was primarily due to lower demand from the automotive industry affected by the COVID-19 pandemic and, to a lesser extent, the ongoing fallout from diesel emissions and uncertainties surrounding Brexit.

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

This estimate is also based on the assumption that the aluminium content per passenger vehicle will grow by around 70%, from the current 180 kg of aluminium per passenger vehicle to about 250 kg by 2030. In the aluminium salt slags recycling business, the positive trend of using higher quantities of aluminium in the construction of light vehicles is also expected to continue into the future, resulting in a higher demand for aluminium and increasing the availability of scrap.

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

Market environment continued

TREND TOWARDS RECYCLING & REGULATION TO PROTECT THE ENVIRONMENT

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

In contrast to developed regions like the EU, 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. Recent examples of these favourable environmental regulation developments are Turkey, South Korea and China. In Turkey, the environmental regulation for hazardous waste was changed in 2010, in South Korea in 2012 and more recently in China during 2016 and 2017. In Turkey and South Korea, Befesa already offers its EAF steel dust recycling services since 2010 and 2013, respectively. In China, supported by the regulations, Befesa will start offering its EAF steel dust recycling services in 2021. Further information on Befesa's projects in China is available in the "Strategy" section of this Annual Report (pages 32 to 35).

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.

Establishing a circular economy is a new and relevant trend across the world, but metal recycling is one of the processes where the circular economy has already been present for many years. Befesa has for three decades continuously demonstrated its strong commitment to this circular economy and has based its sustainable business model on this. By recycling metals from waste and other sources and reintroducing the recovered materials into the market, Befesa uses less energy than extracting the metals mined as raw materials and limited natural resources from the earth. For example, in the case of aluminium, energy savings can reach up to 95%.

DEVELOPMENT OF TREATMENT CHARGES

The zinc treatment charge (TC) represents or can be seen as the fees that miners pay smelters to refine zinc concentrate into zinc metal. The benchmark TC is negotiated annually between major zinc concentrate producers and smelters, with the agreed

benchmark TC usually published around March/April. The benchmark TC is linked to the LME price for zinc through the so-called escalators/de-escalators. As a result, the higher the zinc LME price is over the base reference price, the larger the TC deducted will be, and vice versa. Befesa's zinc smelter customers deduct the TC from the amount of zinc contained in WOX (typically 85% of the zinc LME price), which is payable to Befesa.

For 2020, the benchmark TC was settled at $300 per tonne, $55 per tonne higher YOY (2019: $245 per tonne), representing the highest level over the last decade and not seen since 2007. As a result, the unfavourable higher TC of $300 per tonne drove €12 million or around 35% of the €33 million YOY lower EBITDA in 2020.

As of the date of this Annual Report, the benchmark TC for 2021 has not yet been published in the zinc industry. Once available, Befesa will provide detailed earnings guidance for the full 2021 year – most likely with the Q1 2021 earnings release on 27 April 2021.

DEVELOPMENT OF COMMODITY PRICES

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

During H1 2020, the market prices of zinc and aluminium – like the rest of the commodities – followed a decreasing development affected by the COVID-19 pandemic. However, this negative trend started to reverse by the middle of the year and led to much higher prices by the end of 2020.

Zinc market prices ended the year at US$2,724 per tonne of zinc as of 31 December 2020, US$431 per tonne or 19% above the price of US$2,293 per tonne of zinc as of 31 December 2019. Applying the US dollar/euro exchange rates for the respective dates, zinc market prices closed at €2,219 per tonne as of 31 December 2020, €177 per tonne or 9% above the price of €2,042 per tonne of zinc as of 31 December 2019.

The average cash seller daily price per tonne quoted on the LME for 2020 was US$2,267 per tonne of zinc, representing an 11% or $279 per tonne decrease YOY (2019 average: US$2,546 per tonne). Applying the US dollar/euro exchange rates for the respective periods, the average daily price in 2020 was €1,979 per tonne of zinc (€297 per tonne or 13% lower compared to the average of €2,276 per tonne during 2019).

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

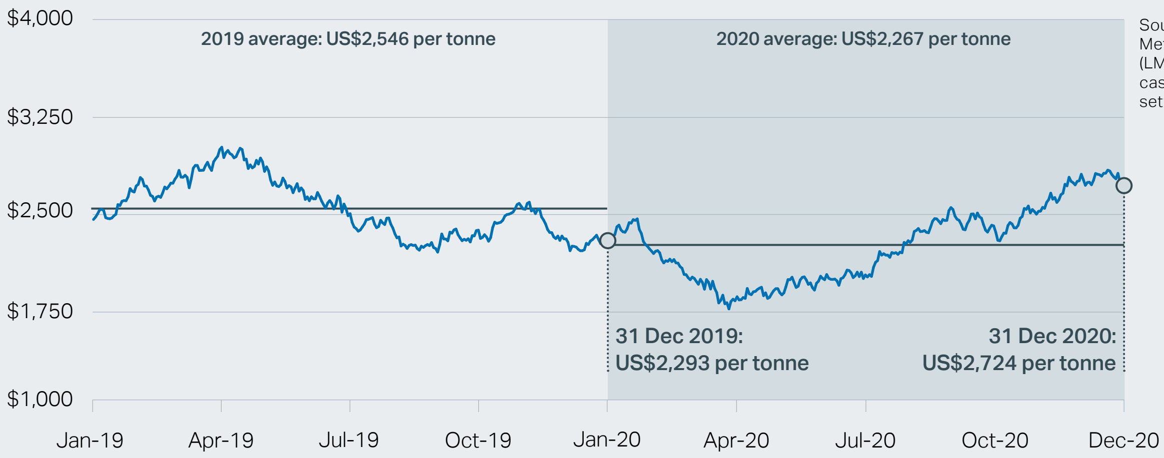
Aluminium alloy market prices started 2020 at slightly higher levels of around €1,400 per tonne compared to the approximate €1,330 per tonne seen during H2 2019. The price level of around €1,400 per tonne continued until April when it was primarily affected by the COVID-19 pandemic, decreasing to €1,180 per tonne in July (the lowest point in 2020 and not seen since 2009). During H2 2020, the aluminium alloy market prices reversed and followed a recovering trend until year-end, emphasised especially during the last quarter of 2020. It closed at €1,985 per tonne of aluminium alloy as of 31 December 2020, €590 per tonne or 42% above the price of €1,395 per tonne of aluminium alloy as of 31 December 2019.

In 2020, the average weekly price per tonne of aluminium alloy referenced by the Free Metal Bulletin (average independent quotation based on prices provided by the major secondary aluminium players in the European market) was €1,420 per tonne, 2% higher YOY (2019 average: €1,397 per tonne).

Market environment continued

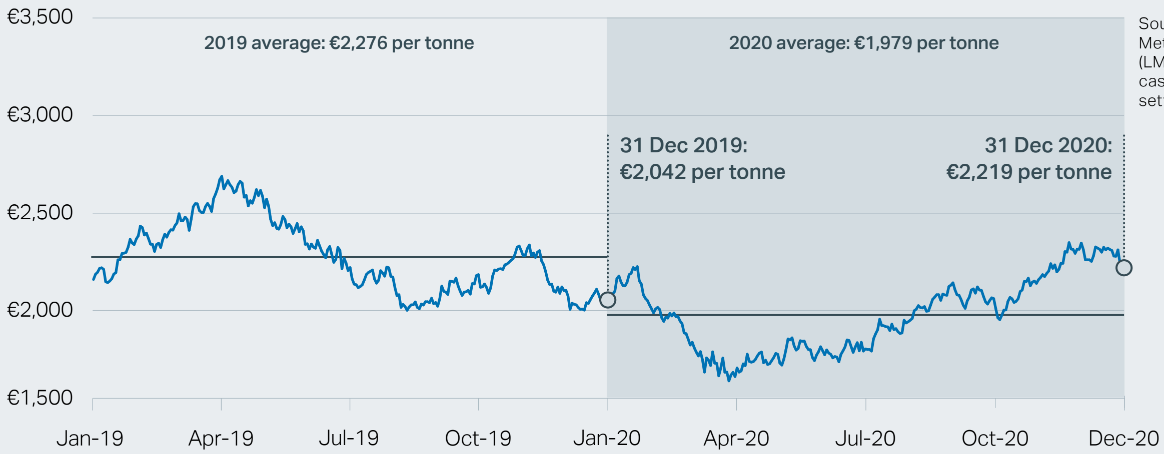
Zinc LME average prices								
	US$ per tonne				€ per tonne			
	2020	2019	$ change	% change	2020	2019	€ change	% change
Q1	**2,128**	2,702	-574	-21	**1,930**	2,380	-450	-19
Q2	**1,961**	2,763	-801	-29	**1,780**	2,459	-679	-28
Q3	**2,335**	2,348	-13	-1	**1,997**	2,112	-115	-5
Q4	**2,628**	2,388	240	10	**2,203**	2,157	46	2
Full year	**2,267**	2,546	-279	-11	**1,979**	2,276	-297	-13

Zinc LME prices
(US$ per tonne)



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

Zinc LME prices
(€ per tonne)

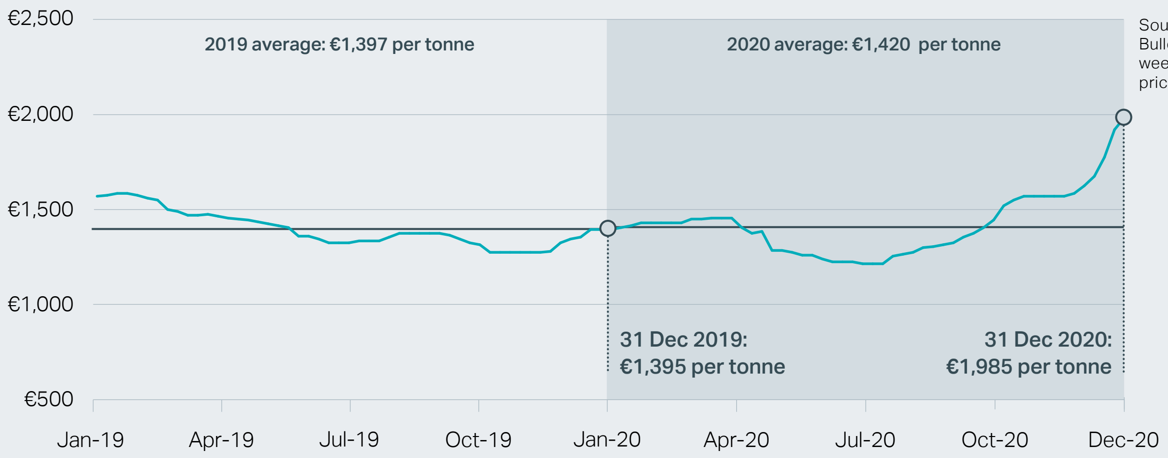


Source: London Metal Exchange (LME), daily cash seller and settlement prices

	Aluminium alloy FMB average prices			
	€ per tonne			
	2020	2019	€ change	% change
Q1	**1,433**	1,528	-95	-6
Q2	**1,282**	1,390	-108	-8
Q3	**1,312**	1,356	-44	-3
Q4	**1,653**	1,312	340	26
Full year	**1,420**	1,397	23	2

Aluminium alloy FMB prices

(€ per tonne)



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

Strategy

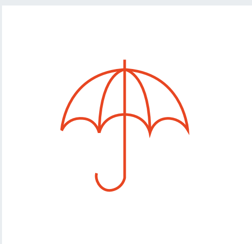
Befesa has the ambition of becoming the global circular economy leader providing steel dust and aluminium salt slags recycling services to steel and aluminium recyclers.

Befesa's strategy focuses on two main objectives:

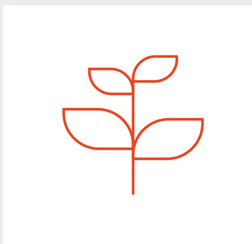
1. Maintaining the leadership position in the markets where Befesa currently operates.

2. Expanding Befesa’s position in steel dust and salt slags recycling services by replicating its business model in new markets that present attractive dynamics, with a combination of environmental regulation and hazardous residue generation (crude steel dust, aluminium salt slags and SPL).

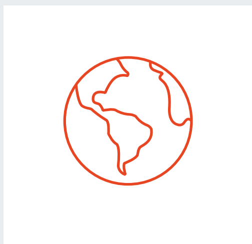
In order to achieve this, Befesa bases its business strategy on three main pillars:



Hedging strategy



Organic growth



Greenfield in new geographies

HEDGING STRATEGY

A key element of Befesa's business model is its hedging strategy to manage zinc price volatility and increase the visibility of its earnings and cash flow going forward. Hedging has been part of Befesa's business model for the last 20 years.

The main goal of the hedging is not to grow the earnings of Befesa but to stabilise the earnings over time versus zinc price fluctuations. This improves Befesa's visibility on earnings and cash flows, enabling to fund its organic growth.

Befesa's strategy is to hedge 60% to 75% of the expected volume of zinc contained in the WOX and paid for by zinc smelters for a period of one to three years going forward.

The majority of the zinc hedges are denominated in euro terms, which also provides a hedging on the FX fluctuation, as the zinc price in the LME is quoted in US dollar.

Befesa has hedged for the last 20 years; its hedging strategy has proven to be a key element in improving earnings, cash flow stability and visibility across different phases of the economic cycle.

Befesa's hedging rigor paid off again in 2020 and protected earnings by c. €24 million. Hedges were "in the money" and locked in at €2,239 per tonne on average, thereby offsetting more than half of the zinc LME price pressure. Combined, the effective zinc average price (monthly blended rate between hedged volume and non-hedged volume) resulted in €2,136 per tonne in 2020, which represents €144 per tonne lower than last year (2019: €2,280 per tonne).

During 2020, Befesa once again proved its ability to successfully extend its zinc hedges at attractive price levels. Subsequently, in February/March 2021, 43,200 tonnes of zinc payable output were hedged for 2023, also at attractive prices, in addition to the 30,600 tonnes that were already hedged for 2023 as of year-end 2020. The hedge book in place as of the date of this Annual Report provides Befesa with improved pricing visibility for the following c. 2.5 years, through 2021 and 2022 and more than half of 2023. Befesa entered these hedges to maintain mid-term visibility on its output prices – expanding on its proven hedging strategy. The average hedged prices for each of the periods are:

Period	Average hedged price (€/tonne)	Zinc content in WOX hedged (tonnes)
2020	2,239	92,400
2021	c. 2,150	92,400
2022	c. 2,200	92,400
2023	c. 2,300	73,800[1]

[1] As of 31 December 2020, 30.6 kt of zinc equivalent were hedged for 2023 at c. €2,300/t; subsequently, in February/March 2021, additional 43.2 kt of zinc equivalent were hedged for 2023 at c. €2,300/t

ORGANIC GROWTH

During 2020, Befesa continued the ramp-up of the operations in the two main growth investments carried out in Turkey and South Korea in 2019, strengthening Befesa's position in these two markets.

The capacity expansion of its Turkish plant, from 65 thousand tonnes to 110 thousand tonnes per year, was completed and the new plant came back into operation in August 2019. During 2020, the plant completed its ramp-up.

During 2020, Befesa has been operating its new WOX washing plant in Pohang (South Korea), which was completed in December 2019. This represents Befesa's first WOX washing plant in Asia and enables the Company to offer washed WOX similar to its European operations.

In the Secondary Aluminium subsegment during 2020, Befesa operated the upgraded secondary aluminum plants after refurbishing its plants in Spain (Erandio and Les Franqueses del Vallès) with best-in-class furnace technology. These projects are resulting in higher efficiencies and are unlocking capacity to meet additional demand for external salt slags services.

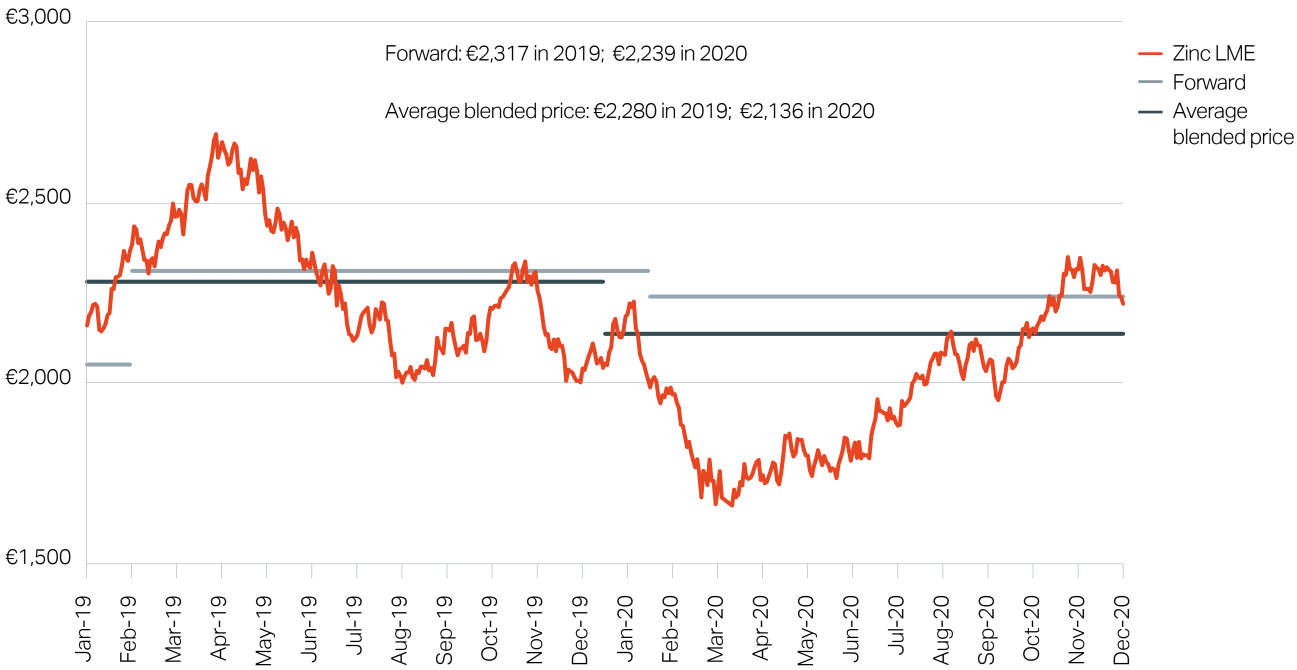
GREENFIELD IN NEW GEOGRAPHIES

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

On the one hand, recycling regulations are increasing in the world, driven by a growing concern about environmental protection. The regulatory framework trends are moving towards stricter regulations to protect the environment across the world. On the other hand, there is a higher generation of industrial waste, specifically crude steel dust, aluminium salt slags and SPL, driven by more steel and aluminium scrap being recycled in the world. These two macro trends will drive future needs for Befesa's business model. Further information on macro trends is available in the "Market environment" section of this Annual Report (pages 26 to 31).

Strategy continued

Zinc market prices vs. zinc hedges
(€ per tonne)



During 2020, the expansion of the Steel Dust Recycling Services operations into China continued progressing well in both provinces – Jiangsu and Henan.

China is the largest steel producer in the world, with more than one billion tonnes of crude steel being produced each year, which represents more than 50% of global production. By 2030, China is expected to produce more than 200 million tonnes of EAF steel. In addition, environmental protection has become a key priority for the Chinese Government, where steel dust was officially classified as a hazardous waste material in 2016. Befesa is looking forward to supporting the steel industry in China by providing state-of-the-art sustainable hazardous waste recycling solutions that contribute to environmental protection in China.

In April 2019, Befesa started building its first EAF steel dust recycling plant in the Chinese city of Changzhou, Jiangsu province. The construction of the plant is progressing well and it is expected to be finalised with cold and hot commissioning scheduled for March/April 2021.

Also, in November 2019, Befesa started the construction works of its second EAF steel dust recycling plant in Xuchang, Henan province. The construction of this plant is expected to be completed after the summer of 2021.

With the construction of these first two plants, Befesa reaffirms its commitment to China by deploying its best available technology (BAT) and providing solutions for a more sustainable world.

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

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

Results of operations

This section includes consolidated financial information of Befesa S.A. from its existing operations, Steel Dust Recycling Services and Aluminium Salt Slags Recycling Services.

More detailed information on the consolidated financial statements is available on pages 93 to 161.

Total **revenue** decreased by 6.7% YOY to €604.3 million in 2020 (2019: €647.9 million). The development was primarily driven by the lower zinc price environment as well as by the unfavourable higher zinc TC. These negative effects were partially offset by the higher EAF steel dust throughput in Steel Dust Recycling Services, favourable zinc hedges and recovered aluminium alloy market prices.

This year-on-year trend on revenue drove the earnings decrease compared to the previous year. In 2020, total **EBITDA** decreased by 22.6% to €123.5 million (2019: €159.6 million). The YOY decrease of €36.1 million was driven by:

- €20 million from a lower blended zinc price at €2,136 per tonne, YOY down €144 per tonne (2019: €2,280 per tonne);
- €12 million due to an unfavourable zinc TC at $300 per tonne (2019: $245 per tonne); and
- €3.5 million, one-time cost from the closure of the salt slags recycling plant in the UK.

Adjusted EBITDA in 2020 amounted to €127.0 million, 20.4% down YOY. The EBITDA was adjusted for the one-time costs derived from the closure of the salt slags recycling plant in the UK.

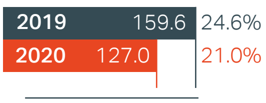
Based on the impacts of COVID-19, Q2 was the weakest quarter of the year, but afterwards a recovery started with Q4 being the strongest quarter of 2020.

Similarly, total EBIT in 2020 decreased by 45.2% to €67.9 million (2019: €124.0 million). Adjusted EBIT in 2020 amounted to €89.5 million, 27.8% down YOY. The one-time cost impact from the UK plant's closure amounted to €16.8 million on an EBIT level due to the corresponding asset impairment and one-time related costs. In addition, total EBIT was also adjusted for the impairment recorded in relation to the affected stainless-steel dust recycling operations at the Landskrona plant, Sweden, which amounted to €4.7 million. Further information regarding these impairments is available in note 8 of the "Consolidated financial statements" section on page 135.

The reconciliation of EBITDA to the International Financial Reporting Standards (IFRS) operating results (EBIT) is available in the "Consolidated financial statements" section on pages 93 to 161.

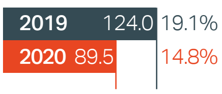
Revenue
(€ million):

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



-€32.6m or -20.4%

Adjusted[2] EBIT & margin
(€ million, % margin of revenue):



-€34.5m or -27.8%

[1] 2020 EBITDA was adjusted for the one-time costs derived from the UK plant's closure (€3.5m)
[2] 2020 EBIT was adjusted for the impact of the UK plant's closure (€13.4m asset impairment plus €3.5m of one-time related costs) and the impairment recorded in relation to the affected stainless-steel dust recycling operations in Sweden (€4.7m)

FINANCIAL RESULT & NET PROFIT

The consolidated financial result in 2020 improved by €10.8 million YOY to -€9.3 million (2019: -€20.1 million). This improvement is primarily driven by a one-time impact from the term loan B (TLB) repricing and related accounting for financial instruments as per IFRS 9 (€13.6 million impact to the financial result as of year-end 2020). Detailed information on Befesa's capital structure is available on pages 142 and 143.

Consolidated net profit attributable to the shareholders decreased in 2020 by 42.4% to €47.6 million (2019: €82.7 million), primarily due to the negative drivers that had an impact on EBITDA and EBIT. Furthermore, the impairments in relation to the plant closure in the UK and the affected stainless-steel dust recycling operations in Sweden were mostly offset by the positive effect of the TLB repricing. Earnings per share (EPS) decreased from €2.43 in 2019 to €1.40 in 2020.

21.0%

ADJUSTED EBITDA MARGIN IN 2020 (24.6% IN 2019)

€47.6m

NET PROFIT IN 2020 (€82.7M IN 2019)

Financial position & liquidity

Befesa closed 2020 with €154.6 million of cash on hand, €29.1 million up YOY (€125.5 million at year-end 2019). This, together with the entirely undrawn Revolving Credit Facility (RCF) of €75.0m, provides €230 million liquidity. The capital structure is long-term and efficient with the €526.0 million covenant-lite TLB maturing in July 2026 at an interest rate of Euribor+200 bps after repricing in February 2020. Net debt improved to €393.6 million (vs. €416.9 million at year-end 2019), mainly driven by the cash position development. Net leverage increased to x3.1 (vs. x2.6 at year-end 2019) due to the underlying lower LTM adjusted EBITDA. Befesa continues to be compliant with all debt covenants.

The following table reconciles net debt to the relevant line items of the consolidated statement of financial position:

Net debt
(€ million)

	31 December 2020	31 December 2019
Non-current financial indebtedness	531.5	530.2
+ Current financial indebtedness	16.8	12.2
Financial indebtedness	**548.2**	**542.4**
– Cash and cash equivalents	-154.6	-125.5
– Other current financial assets[1]	-0.1	-0.1
Net debt	**393.6**	**416.9**
LTM adjusted EBITDA	127.0	156.9
Leverage ratio	**x3.1**	**x2.6**

[1] Other current financial assets adjusted by hedging valuation

€154.6m

CASH ON HAND AT YEAR-END 2020
(€125.5M AT YEAR-END 2019)

€393.6m

NET DEBT AT YEAR-END 2020
(€416.9M AT YEAR-END 2019)

x3.1

NET LEVERAGE AT YEAR-END 2020
(X2.6 AT YEAR-END 2019)

During 2020, Moody's and Standard & Poor's reviewed their corporate credit ratings assigned to Befesa. In May, Moody's reaffirmed its Ba2 rating, but changed its outlook on Befesa from stable to negative. In December, Standard & Poor's confirmed its credit rating at BB, outlook stable.

Operating cash flow in 2020 amounted to €92.5 million, 9.7% down YOY (2019: €102.5 million). This development was mainly driven by the earnings decrease, partially offset by the positive effect in working capital which was primarily due to the reduction of inventory levels in both the Steel Dust and Salt Slags businesses. The YOY lower income tax and interests paid in 2020 also supported to mitigate the YOY reduction of operating cash flow.

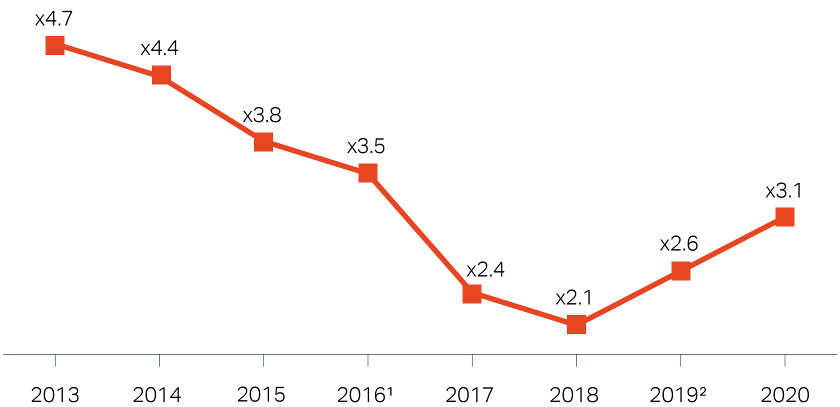
Cash on hand in 2020 improved YOY by €29.1 million, closing the year with a strong cash position of €154.6 million (2019: €125.5 million). In addition to the drivers of operating cash flow, the conservative management of capex (€25 million lower YOY to €54.8 million spent in 2020) as well as dividend distribution (at €24.9 million in 2020 vs. €45.0 million in 2019) resulted in the cash balance improvement YOY.

Credit ratings for Befesa S.A.

	Year-end 2020	Year-end 2019
Moody's	**Ba2 (outlook negative)**	Ba2 (outlook stable)
Standard & Poor's	**BB (outlook stable)**	BB (outlook stable)

Leverage ratio evolution

(Net debt/EBITDA)



[1] Assumes pro forma net debt adjusted for divesture proceeds from the sale of Befesa's former Industrial Environmental Solutions business

[2] From 1 January 2019 onwards, the implemented IFRS 16 amendment affecting renting and leasing resulted in higher net debt

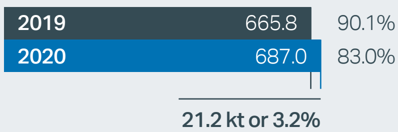
Segment information

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

STEEL DUST RECYCLING SERVICES

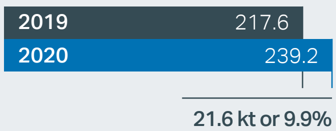
The **EAF steel dust volumes processed** in 2020 amounted to 686,981 tonnes, a 3.2% increase YOY (2019: 665,824 tonnes). This resilient development was primarily driven by the expanded operations in Turkey, which was partially offset by the COVID-19-induced demand constraints. Since the low point in Q2 2020, EAF steel dust throughput showed a quarter-over-quarter recovery of 3.3% in Q3 over Q2, and of 15.2% in Q4 over Q3. Befesa's steel dust recycling plants run at a resilient average load factor of 83.0% of the expanded latest installed annual recycling capacity of 825 thousand tonnes. As a result, the volume of WOX sold increased by 9.9% YOY to 239,173 tonnes in 2020 (2019: 217,599 tonnes).

EAF steel dust throughput & load factor[1]
(Thousand tonnes, % of annual capacity)



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

Waelz oxide (WOX) sold
(Thousand tonnes)



The 2020 **revenue** in Steel Dust Recycling Services decreased by 4.0% YOY to €345.8 million (2019: €360.1 million), primarily affected by the 13% YOY lower average zinc LME prices (average in 2020 at €1,979 vs. €2,276 per tonne in 2019). Zinc hedging average prices in 2020 were lower YOY (2020: €2,239 per tonne vs. €2,317 per tonne in 2019), but "in the money" compared to spot average prices during 2020. These resulted in lower zinc effective average prices (blended rate between hedged volume and non-hedged volume), which declined by 6% YOY to €2,136 per tonne in 2020 (2019: €2,280 per tonne). The revenue was further pressured due to the unfavourable zinc TC settled at $300 per tonne for the whole of 2020 ($245 per tonne in 2019). Combined, the net price effect (LME and TC) was -20% YOY. The YOY decrease in revenue was partially offset by the 10% YOY improvement in WOX sold, mainly driven by the expanded operations in Turkey.

Full year EBITDA of the Steel Dust Recycling segment at €98m; resilient EAF steel dust throughput amid COVID-19 and favourable zinc hedges offset by lower zinc LME prices and unfavourable zinc TC.

Revenue – Steel Dust Recycling Services
(€ million)

2019	360.1
2020	345.8

-€14.3m or -4.0%

Blended zinc average price
(€/tonne)

2019	2,280
2020	2,136

-€143.6 per tonne or -6.3%

The 2020 **EBITDA** in Steel Dust Recycling Services decreased by 22.0% YOY to €97.7 million (2019: €125.3 million), mainly driven by the YOY lower zinc spot and hedging prices as well as by the unfavourable zinc TC. The Steel Dust Recycling Services business proved its resilience, continually recovering quarter over quarter since the low point in Q2 2020.

Similarly, 2020 EBIT came in at €73.5 million, down 31.2% YOY (2019: €106.8 million). In 2020, a €4.7 million impairment was recorded in relation to the affected stainless-steel dust recycling operations at the Landskrona plant, Sweden. The 2020 EBIT adjusted for this one-time impact amounted to €78.2 million (-26.8% or -€28.6 million YOY).

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

2019	125.3	34.8%
2020	97.7	28.3%

-€27.6m or -22.0%

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

2019	106.8	29.7%
2020[2]	78.2	22.6%

-€28.6m or -26.8%

[2] EBIT was adjusted for the impairment recorded in relation to the affected stainless-steel dust recycling operations in Sweden (€4.7m)

ALUMINIUM SALT SLAGS RECYCLING SERVICES

Salt Slags subsegment

Salt slags and SPL recycled **volumes** in 2020 decreased by 9.7% YOY to 444,607 tonnes (2019: 492,603 tonnes). The YOY volume decrease was twofold: first, derived from the lower treated quantities as a result of the UK plant's closure; second, operations continued to be affected by the COVID-19 pandemic, lowering demand especially from the automotive industry, although a moderate recovery trend was seen during the last quarter of 2020. Capacity utilisation levels remained resilient at 84% on average in 2020.

Salt slags & SPL volumes & load factor
(Thousand tonnes recycled, % of annual capacity)

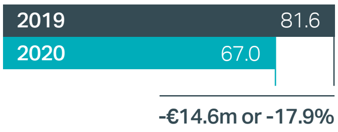
2019	492.6	92.9%
2020	444.6	83.7%

-48.0 kt or -9.7%

The **revenue** in the Salt Slags subsegment decreased in 2020 by 17.9% YOY to €67.0 million (2019: €81.6 million). This development was primarily driven by the YOY volume decrease of 10% due to the closure of the UK plant and the reduced demand from end-use sectors, especially the automotive industry, which was influenced by the COVID-19 pandemic.

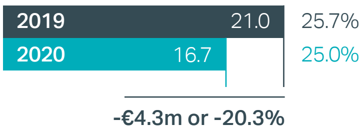
Segment information continued

Revenue – Salt Slags subsegment
(€ million)



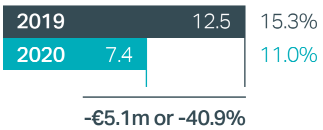
The **EBITDA** in the Salt Slags subsegment in 2020 decreased by 36.8% YOY to €13.3 million (2019: €21.0 million). The 2020 EBIT decreased by €22.0 million YOY to -€9.4 million (2019: €12.5 million). Earnings in the Salt Slags subsegment were influenced by the same drivers that explain the revenue development. The one-time cost impact from the UK plant's closure amounted to €3.5 million on an EBITDA level and to €16.8 million on an EBIT level due to the corresponding asset impairment and one-time related costs. Both EBITDA and EBIT were normalised for this one-time impact. The 2020 adjusted EBITDA amounted to €16.7 million (-20.3% or -€4.3 million YOY) and 2020 adjusted EBIT amounted to €7.4 million (-40.9% or -€5.1 million YOY).

Adjusted[1] EBITDA & margin – Salt Slags subsegment
(€ million, % margin of revenue)



[1] 2020 EBITDA adjusted for €3.5m, from the one-time costs related to the UK plant's closure

Adjusted[2] EBIT & margin – Salt Slags subsegment
(€ million, % margin of revenue)



[2] 2020 EBIT adjusted for €16.8m (€13.4m asset impairment, plus €3.5m one-time costs, in connection with the UK plant's closure)

Secondary Aluminium subsegment

Aluminium alloy production **volumes** in 2020 decreased slightly by 1.3% YOY to 174,334 tonnes (2019: 176,652 tonnes), primarily affected in Q2 2020 by the COVID-19-related demand constraints in the automotive industry. Production volumes and capacity utilisation levels recovered from the lowest point in Q2 2020 until the end of the year. Overall, plant utilisation remained resilient at 85% on average for the full 2020 year.

Secondary aluminium alloys volumes & load factor
(Thousand tonnes produced, % of annual capacity)

[3] Installed capacity and corresponding utilisation rates in 2019 are normalised for the furnace upgrade in Les Franqueses del Vallès (plant was shutdown three months, from mid-August to mid-November)

Aluminium alloy average market price
(€/tonne)

The **revenue** development in the Secondary Aluminium subsegment decreased by 8.7% YOY to €223.9 million in 2020 (2019: €245.2 million), mainly due to pressured aluminium alloy prices for most of the year.

Revenue – Secondary Aluminium subsegment
(€ million)

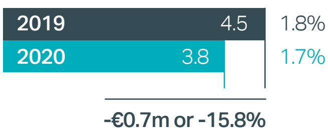
Full year EBITDA adjusted of the Aluminium Salt Slags Recycling segment at €29m; reduced salt slags & SPL treated partially offset by slightly improved aluminium alloy FMB prices; resilient plant utilisation at 85%.

The **EBITDA** in the Secondary Aluminium subsegment slightly improved by 0.6% YOY to €12.1 million in 2020 (2019: €12.0 million). The positive efficiency effects from the new tilting furnaces in place since year-end 2019 were mostly offset by the aluminium metal margins which were pressured during most of the year.

The 2020 EBIT declined by 15.8% YOY to €3.8 million (2019: €4.5 million), primarily driven by the increase in amortisations derived from the start-up of the new furnaces invested at the Spanish plants.

EBITDA & margin – Secondary Aluminium subsegment
(€ million, % margin of revenue)

EBIT & margin – Secondary Aluminium subsegment
(€ million, % margin of revenue)



Sustainability

Sustainability is not about just thinking in quarters but in years, decades and generations. Befesa is a sustainable company and this is the reason to be successful in the long-term.

Sustainability is part of the DNA of Befesa. Economic, environmental and social standards should be considered in all business decisions.

Befesa's business model is predicated on sustainability and a circular-economy approach. The Company uses sophisticated recycling technology to manage hazardous waste and residues, helping customers to comply with environmental regulations. Contributing to the creation of a more sustainable world is at the core of Befesa's business.

For Befesa, environmental protection is not new and has been the backbone of the business since the Company began its operations.

This philosophy has been the main driver for growth for more than three decades.

In the following sections, topics related to sustainability, such as the environment, employees, diversity, inclusion, human rights, health and safety, and corporate citizenship, are described to provide a general overview of how these subjects are managed at Befesa. The governance part is presented separately, in the sections "Corporate governance" (pages 72 to 85) and "Compliance" (pages 86 to 91). Further information about sustainability will be available in the Befesa Progress Report 2020, which will be published in April 2021.

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

Environmental

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

For this reason, at Befesa, the word "residue" is used instead of "waste", meaning that Befesa believes in and strives to give second and multiple lives to products and materials that have been used.

In 2020, Befesa managed and recycled 1.5 million tonnes of residues and produced 1.3 million tonnes of new materials. As a vital player in the circular economy for more than three decades, Befesa reintroduced these new materials into the market, reducing the consumption of natural resources.

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

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

Befesa contributes significantly to the circular economy with a model that closely resembles what the visionaries and authorities describe when they speak about the concept of a "circular economy".

In the Steel Dust Recycling Services segment, Befesa takes residues containing zinc from EAF steel-manufacturing plants and recovers from them zinc oxides that can be reused to manufacture pure zinc. This zinc is then reintroduced into the market for galvanisation and other processes and can be reused almost endlessly. Similar processes allow the recovery of nickel, chromium and other metals from the recycling of stainless-steel dust.

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

Without the actions undertaken by Befesa, a much higher amount of energy, carbon dioxide emissions and negative environmental impacts would have to be incurred to produce the same amount of zinc, aluminium and melting salts. And what is worse, the second option would be limited since resources on the earth are finite.

As in the Steel Dust Recycling Services segment, through the processes and services provided by

Befesa, the Aluminium Salt Slags Recycling Services segment also makes a significant contribution to the circular economy for society.

Sustainability is at the heart of Befesa's business model. Research, development and innovation is continuously focused on looking for new processes and services that can help customers to make their businesses more sustainable. Detailed information on R&D and innovation is available in the "R&D and innovation" section (pages 58 to 61).

Befesa's contribution to the environment:

- Reducing the consumption of natural resources and preventing around 1.5 million tonnes of residue from reaching landfills each year;
- Recycling hazardous residues from secondary steel and aluminium producers;
- Recovering zinc oxides, metal alloys, steel slags, aluminium concentrates and oxides (secondary minerals commercially marketed as Paval®, Serox® or BFA®, which have a high content of alumina) and melting salts; and
- Reintroducing the recovered materials into the market.

KEY PERFORMANCE INDICATORS (KPIS)

Over the last six years, Befesa has developed key performance indicators (KPIs) that measure environmental performance. These KPIs are collected on a quarterly basis and reported internally.

These indicators cover various aspects of environmental management, sustainability, health and safety, and social aspects.

Indicators and their evolution are analysed at the environmental, health and safety (EHS) managers quarterly conferences and by the corporate EHS Committee. The analysis includes the necessary actions to improve these parameters and achieve Befesa's goals.

INVESTMENTS

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

In 2020, Befesa spent €23 million in environment-related investments (2019: €17 million) to renew equipment that increases the efficiency and to reduce energy consumption and emissions. The most relevant investments carried out during 2020 were the following:

- The refurbishment of certain buildings at the EAF steel dust recycling plants to improve dust containment, minimise risk for diffuse dusting from the handling of material and avoid fugitive emissions;
- The installation of a post-combustion unit;
- The installation of new filters at many Befesa sites;
- An energy reuse project started in combination with a local, external major energy supplier to investigate potential alternatives of producing electricity from heat sources;
- The installation of LED lighting across many Befesa sites as part of the initiatives to reduce energy consumption; and
- Additional investments made in Befesa plants as part of the ISO 50001 certification. In particular, the acquisition of independent measuring devices for different installations and processes to better control the energy consumption and detect the energy reduction opportunities.

AIR PROTECTION

Air emissions generated from metal recycling could have an impact on human health and the environment and may be subject to regulations and permissions.

Befesa regularly engages with industry bodies to remain aware of forthcoming regulations and environmental legislation. During the past few years, detailed work has been done to ensure compliance with the Industrial Emissions Directive (IED) regulations. In addition, the implementation of ISO 14001 and the EU Eco-Management Auditing Scheme (EMAS) ensure that Befesa proactively reviews regulations that may be applicable to each site.

Befesa has updated its plants with equipment according to the best available technologies (BAT) to minimise the negative effects on the air and to ensure compliance with current and forthcoming legislation.

SOIL PROTECTION

The processing of metal residues has the potential to cause soil damage and contamination if not managed with the right installations and procedures.

Befesa's installations are designed and maintained with solid protections through concrete and paved operating surfaces, rainwater

Environmental continued

In 2020, Befesa managed and recycled 1.5 million tonnes of residues annually and produced 1.3 million tonnes of new materials. As a vital player in the circular economy for more than three decades, Befesa reintroduced these new materials into the market, reducing the consumption of natural resources.

collection systems and other engineering solutions to protect the soil. Adequate soil and underground-water monitoring is provided where required and according to local legislation.

ENERGY SAVING

As explained, many environmental investments were carried out in 2020 across the Befesa locations to reduce energy consumption and increase energy efficiency.

WATER CONSUMPTION & EFFLUENTS

The processing of metal residues can require substantial quantities of water, which can represent a potential risk to production as well as to the local environment, particularly in regions of water scarcity. Befesa monitors its water consumption as a KPI. Each site submits reports that are consolidated at Group level. Trends are analysed and good practices shared to promote individual projects for the reduction of water consumption.

In 2020, certain locations, such as Duisburg (Germany), improved their stormwater retention to reduce industrial water consumption and potential stormwater contamination.

WASTE REDUCTION EFFORTS

Befesa's inherent business of recycling and reusing hazardous residues from metal processing prevents those residues from reaching landfills. Befesa's process for treating aluminium foundry salt slags offers an example of leading technology in recovering all components of the slags and converting them into reusable materials. The high recovery level results in minimal potential risk of contamination and environmental degradation through the disposal or landfilling of these slags.

The KPIs related to residue generation, including both hazardous and non-hazardous residues (disposed of or recycled), are reported by site periodically (at least on a quarterly basis) and consolidated at a Group level.

GREENHOUSE GAS EMISSIONS

Steel production and metal recycling generates emissions of direct greenhouse gases (GHG), primarily carbon dioxide and methane from the 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 residues. Befesa contributes to the overall reduction of GHG emissions by applying BAT, which minimise these emissions in the recycling process.

As of 31 December 2020, all Befesa's facilities are ISO 14064 certified for GHG emissions monitoring, with 87% of Befesa's sites also having ISO 50001 certification. Through these management systems, Befesa measures and analyses carbon dioxide and other GHG emissions annually. Based on these analyses, improvement projects are considered as part of Befesa's operational excellence programme and are implemented, applying BAT, to minimise GHG emitted by Befesa's operations.

EHS CERTIFICATION

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

Since 2015, all Befesa's facilities have been certified ISO 14064 for the management of GHG emissions.

More than 50% of the plants located in the EU are registered according to EMAS, one of the most demanding environmental management systems. This includes the need for public communication, transparency and recognition by environmental authorities. All Befesa's units are also certified according to OHSAS 18001 or the new ISO 45001 occupational health and safety norm.

All Befesa's plants have an action plan to convert their safety and occupational health from OHSAS 18001 to the new international norm (ISO 45001), adopted in 2020.

EHS AUDITING

Internal and third-party external auditing processes are conducted as part of the ISO 14001, 50001 and 14064 certification processes and to comply with OHSAS 18001/ ISO 45001.

During 2020, all certifications were maintained, and audits did not result in any major nonconformity. In the case of minor non-conformance and observations, these were analysed to identify the root causes and define the necessary improvements.

Further information about environmental issues at Befesa will be shown in the Befesa Progress Report 2020, which will be published in April 2021 on Befesa's website (www.befesa.com).

Befesa's contribution to the environment:

BEFESA

Reduce
the consumption of natural resources and prevent around 1.5 million tonnes of residue from reaching landfills each year.

Recycle
hazardous residues from secondary steel and aluminium producers.

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

Reintroduce
the recovered materials into the market.

Social, health & safety

Employees

Having concluded the year immersed in a global pandemic that has not gone unnoticed in Befesa, it is of utmost importance to highlight once again the effort and exceptional work of all the people who make up the Company. Even with the difficult restrictions arising in 2020, Befesa's staff continued to work with great commitment to the Befesa Strategic Business Plan and targets. Consequently, the results can be recognised in the increase of China's workforce from 10 employees at year-end 2019 to 26 employees at year-end 2020. This is not only in Nanjing – where the Chinese corporate office is located – but also at the two construction sites at Changzhou (Jiangsu province) and Xuchang (Henan province).

As of 31 December 2020, Befesa employed 1,137 people in eight countries, down 0.9% YOY (1,147 as of 31 December 2019). The headcount increase from the expansion in China was offset by a staff reduction due to the closure of the salt slags recycling plant in the UK in Q4 2020. Following the closure of this plant, five employees remained a part of Befesa's headcount as of 31 December 2020 in order to ensure a proper and smooth cessation of operations in compliance with environmental regulations and health and safety requirements.

Approximately 73% of Befesa's staff work on operations and maintenance, a figure that demonstrates the productive nature of the Company. The stability of Befesa's staff remains a priority. In 2020, Befesa continued to have above 85% of employees with open-ended contracts.

Befesa fully commits to its employees' right to freedom of association and collective bargaining in all of its operations, not only in accordance with the laws and regulations of the countries in which Befesa operates but also in accordance with the plentiful work agreements of each Befesa location, which noticeably improves the minimum legal conditions. Therefore, Befesa's turnover rate is mainly driven by voluntary resignations, which amounted to 2.13% of the global average headcount in 2020 (1.53% in 2019). The slight YOY increase was driven by seven more resignations that occurred in 2020 compared to 2019. Notwithstanding, the turnover rate at Befesa continued to be at a low level again in 2020.

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 2020, 38 staff members participated in traineeships or internships with Befesa (2019: 38 interns).

Because of the COVID-19 pandemic, it was challenging to maintain the training level achieved in previous years, since most of the training – especially in health and safety – is face-to-face. Sanitary and safety measures as well as a partial lockdown, working from home, safety equipment and social distancing, amongst many other aspects, affected the countries where Befesa operates, making it difficult to develop and maintain the training courses planned for 2020. This global situation made it necessary to halt the courses initially organised; however, new measures were implemented by year-end, allowing the Company to resume the planned training, either by reducing the number of participants or by offering online training.

For this reason, training decreased YOY by 35% to 17,473 training hours in 2020 (2019: 26,900 training hours). Even under the described circumstances and restrictive measures, Befesa has strived to maintain training in all locations as much as possible. More specifically, training in health and safety amounted to 10,234 hours. This represents 59% of the

In 2020, Befesa has further developed the social awareness, especially as it relates to issues of diversity and inclusion.

total training hours in 2020 (2019: 17,117 training hours or 63% of the total training), which indicates that this field continues to be a key priority at Befesa.

Further information on employees is available on pages 151 and 152 as well as in the Befesa Progress Report 2020, which will be available in April 2021 on Befesa's website (www.befesa.com).

DIVERSITY AND INCLUSION

In 2020, Befesa further developed the social awareness, especially as it relates to issues of diversity and inclusion. This was done by updating Befesa's equality, diversity and inclusion policy to better adapt to the social circumstances and the Company itself. This updated version of the policy has been communicated through the compulsory compliance training and shared with all Befesa employees. Making a special effort to raise social awareness, all human resources (HR) staff at Befesa have participated in extensive diversity training with online courses and webinar discussions in which many topics emerged that will be of special interest in 2021. Likewise, Befesa has immersed itself fully in inclusion and participated in the International Day of People with Disabilities by communicating an awareness campaign through Befesa's intranet to reach the attention of all workers.

Furthermore, Befesa held an informative session on autism and autism spectrum disorder at the workplace in collaboration with the Autism Association of Sevilla (Spain). This organisation was awarded the first prize in Befesa's 2019 Charity Project Contest. Befesa maintains a close relationship with those organisations with which it has collaborated in the past, continuing to work together on social causes.

Another aspect of a diverse workforce is its composition by age. The age chart (page 52) gives a clear picture of how the generational handover follows a natural rhythm. Befesa's human capital is experienced – as of 31 December 2020, the average employee is 45 years old with 13 years of experience at Befesa.

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

HUMAN RIGHTS

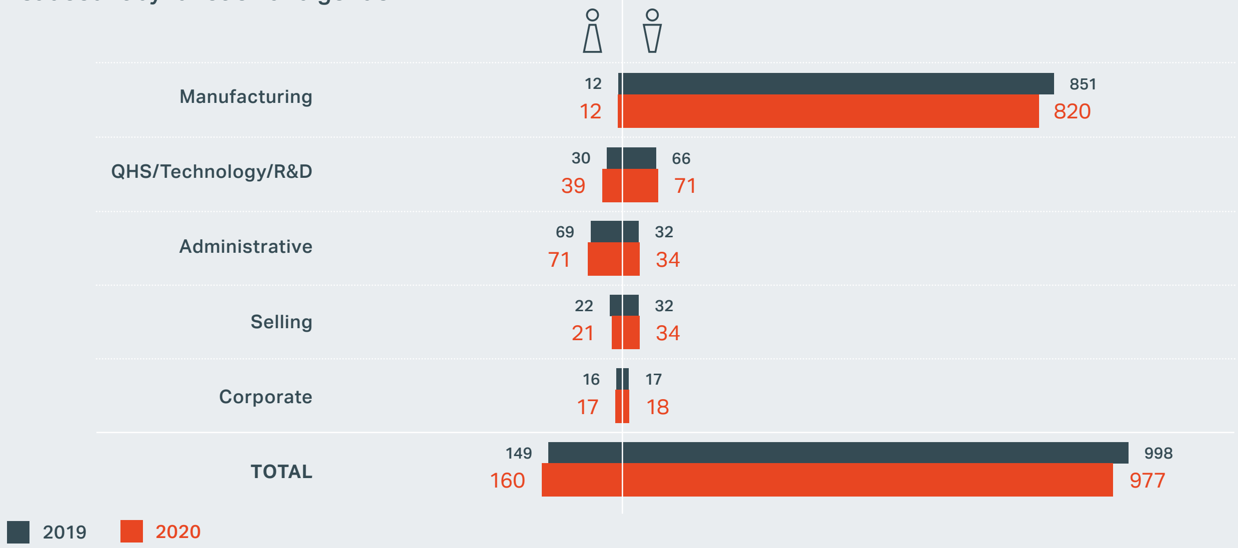
The Company respects the rights of all people in Befesa and those associated with Befesa, including customers, suppliers and their employees. Befesa complies with universal principles regarding human rights and labour practices worldwide, including the United Nations' Universal Declaration of Human Rights.

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

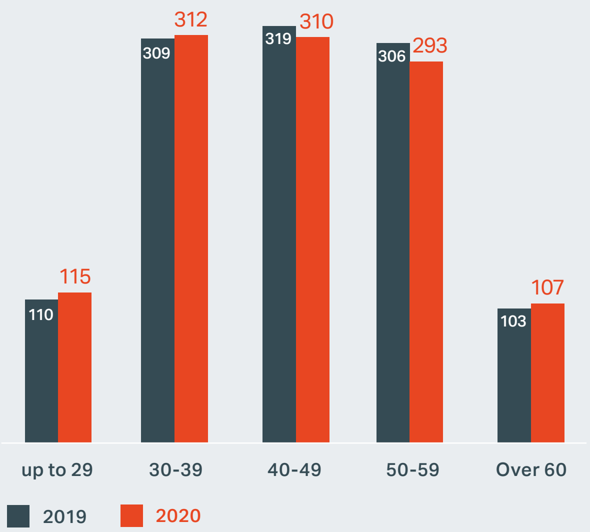
Befesa promotes and expects business integrity, compliance with applicable laws and adherence to internationally recognised environmental, social and corporate governance standards not only within the organisation but also amongst Befesa's business partners. For this reason, during 2020 Befesa implemented a code of conduct for suppliers that must be accepted and signed by all Befesa's suppliers. Further information about Befesa's code of conduct for suppliers is available in the "Compliance" section (pages 86 to 91).

Social, health & safety continued

Headcount by function and gender

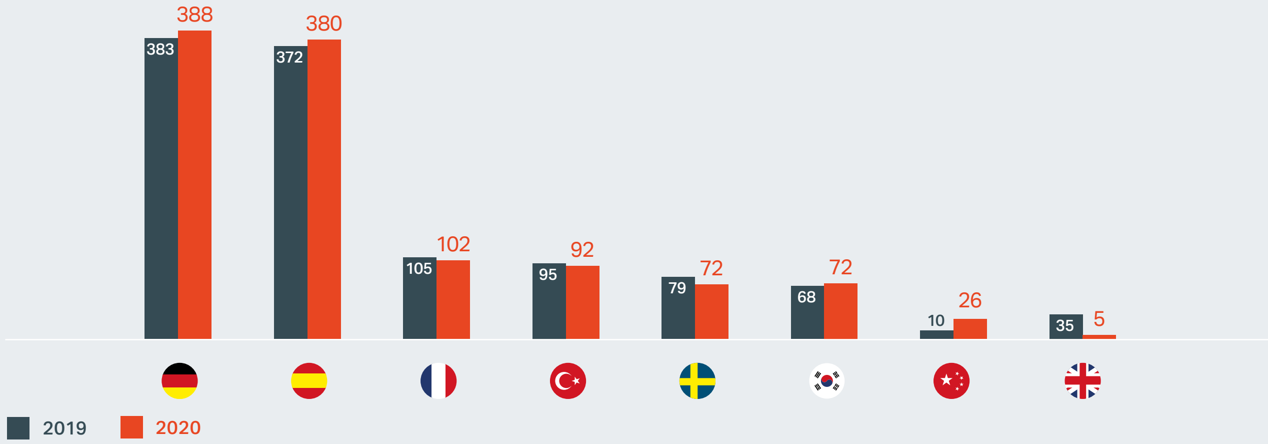


Headcount by age group



Headcount by segment

Headcount by country



Health & safety

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

Befesa is strongly committed to keeping all its employees safe and looking after their well-being. Befesa believes that safety is not only about reducing the number of accidents; it is also about increasing employees' satisfaction at work, their engagement and their productivity.

There are many other tangible and intangible benefits to a safe working environment. These add value to the business and benefit all stakeholders, including employees, the community, customers and shareholders.

Befesa's goal is to be a company that leads by example in terms of safety, health, environment and quality.

SHARING LEARNING LESSONS

Every incident or near miss is reported and investigated by management in a team approach involving operators, amongst others, to ensure learnings are obtained and spread across the organisation. In 2020, a total of 302 incidents were reported and investigated; these were prioritised based on the potential for causing an accident. This represents a YOY decrease of 139 incidents or 31.5% (2019: 441 incidents).

Accidents causing lost time are communicated to the manager of the plant where the accident occurred, who in turn informs Befesa's CEO and the vice-president of the corresponding business segment, in addition to the HR director and the EHS director of Befesa, within 24 hours. This serves to ensure full awareness within the organisation and drives prompt investigation and preventive action plans.

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

In 2020, 84 learning lessons from Lost Time Accidents (LTAs), Non-Lost Time Accidents (NLTAs) and incidents were distributed at a corporate level (2019: 160 learning lessons), reaching all management and the shop floor level. This represents 100% of the LTAs, 30% of the NLTAs and more than 12% of the incidents. This shows the level of work and dedication of Befesa to learn from accidents and incidents and to implement improvements coming from investigations.

PREVENTIVE SAFETY OBSERVATIONS

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

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

In 2020, more than 1,300 observations were completed (2019: more than 1,800), correcting unsafe acts and conditions, and generating appropriate actions and reports.

In 2020, the safety programme was extended; to the existing preventive safety observations, task observations were added by the end of the year. The task observations aim to analyse not only the behaviour but also the consistency of Befesa's written rules and employees' compliance with these written documents (including standards, safe work instructions and permits).

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 accidents and incidents delivers a good improvement path in safety performance.

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

The "Be Safe" team analysed and prioritised this list of the most frequent causes of fatalities and generated the Befesa Life-Saving Rules to prevent them. This initial step was reinforced in 2020 with the launch of a specific programme on fatal and serious injuries. This programme focuses on the identification, timely control, measurement of the controls' effectiveness and the follow-up by management of all the risks with the potential to cause fatal or serious injuries.

Social, health & safety continued

Many activities like audits, training and safety contacts have been conducted in these areas to reduce the risk of accidents with these types of work.

FATAL AND SERIOUS INJURIES PREVENTION

The detection and control of the potential risk of fatal and serious injuries (FSI) has always been a priority for Befesa. The Life-Saving Rules was the first step on that path. In 2020, a new programme was launched: the FSI prevention programme.

The objectives of the programme are to:

- increase the focus on the higher safety risks;
- extend the scope of risk identification, including non-routine tasks, places and operations (e.g. shutdown, start tasks);
- give visibility to those risks at all levels of the organisation (from the executive to the shop floor employees level);
- allocate the appropriate time and resources to risk identification and control; and
- ensure that robust controls are in place, and that those controls are periodically verified.

In 2020, 37 FSI risks were identified across Befesa's locations, of which 81% were satisfactorily managed and closed. For the remaining 19% or seven FSI risks identified in 2020, interim controls were put in place, whilst the final solution is being studied and implemented.

HEALTH & SAFETY PERFORMANCE

Taking as a reference 2015 – the year when the "Be Safe" project was launched – over the course of five years, Befesa has reduced by 78% its Lost Time Injury Rate (LTIR), according to OHSAS's classification, measured as the number of accidents causing lost time divided by work hours and multiplied by 200,000.

The LTIR related to contractors' accidents has been reduced by 91% compared to the 2015 baseline. In 2020, a new corporate standard – "Contractor's Safety Management" – has been deployed in all of Befesa's locations. The standard implementation includes contractors' selection, training, observation and final evaluation. This extra focus on the safety of contractors is one of the enablers of reducing accidents involving contractors.

Also, the Severity Rate (SR) – measured as the number of days the injured individual was away from work as a result of the injury per thousand hours of work – was reduced in 2020 by 38% compared to the base year of 2015.

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

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

Lost Time Injury Rate (LTIR):

	2015	2016	2017	2018	2019	2020	% vs. 2015	% vs. 2019
Own employees	5.3	3.6	2.9	2.6	2.1	1.3	-75%	-38%
Contractors	8.0	0.9	3.9	5.5	1.6	0.7	-91%	-56%
Total	5.7	3.1	3.0	3.2	2.0	1.3	-78%	-35%

Severity Rate (SR):

	2015	2016	2017	2018	2019	2020	% vs. 2015	% vs. 2019
Total	0.77	0.77	0.31	0.44	0.41	0.48	-38%	17%

THE FIVE LEADERSHIP PERSUASIVE BEHAVIOURS

During 2020, all Befesa's line managers continued developing leadership-by-example skills by implementing policies and programmes in line with Befesa's "Five Leadership Persuasive Behaviours".

The Five Leadership Persuasive Behaviours

1. When an unsafe act happens, we always stop and correct it

2. We invest time every day in the plant for safety

3. We speak and listen frequently to employees about safety concerns

4. We integrate safety performance in suppliers and contractors

5. We train all contractors in Befesa rules before commencing work

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

In 2020, Befesa invested a total of 260 training hours in educating and preparing local management teams on:

- FSI;
- task observations and preventive observations;
- conveyor belt safety;
- contractors' safety management; and
- EHS software ("Cority") reporting.

EHS INVESTMENTS

In 2020, Befesa invested in an EHS software – "Cority" – that allows the Company to:

1. centralise the EHS strategic data in one place;
2. simplify the EHS reporting, and report building for the locations;
3. give quick and visual access of the EHS information to the management teams, and allow a simple visual follow-up of the locations' KPIs and action plans; and
4. free up time for the safety personnel to spend on the shop floor.

Social, health & safety continued

Corporate citizenship

Additional safety investments were made at Befesa's locations in 2020, primarily related to the installation of lifelines, machine guarding, lock out tag out equipment, crane safety, and mobile equipment and pedestrian segregation.

Befesa truly contributes to improving local communities and societies. The Company considers the needs and interests of local communities and the consequences of Befesa's actions on the social system to be an essential business obligation. In light of this, Befesa is developing different projects within the fields of environment, sports and culture to continue building excellent neighbourhoods where Befesa is present. The Charity Project Contest that Befesa has run for three consecutive years has been a success again in 2020. This time, the winning projects have been:

- The "Robotic Social Rehabilitation" of the Spanish Association for the Effects of Cancer Treatment in Sevilla, Spain. This project supports children who have overcome cancer and who are experiencing the side effects of the treatment. A small robot named Curro helps these children on their rehabilitation journey through games, dances and riddles. This project targets the expansion of these rehabilitation benefits in a virtual way to enable access for all the children who cannot be at the hospital.
- The project "Parem Taula" from the Nou Quitxalles organisation in Barcelona, Spain. This project aims to offer at least one nutritious meal a day to adolescents living in extreme poverty. Especially due to the current pandemic situation, food donations have substantially decreased, which has had a severe negative effect on this project. With its donation, Befesa is helping Nou Quitxalles to continue offering daily meals to children as well as psychological support.

Befesa's fourth Charity Project Contest was a success in 2020 with donations destined for two social projects.

In addition to the Charity Project Contest, Befesa has continued to support these organisations in other solidarity initiatives.

Furthermore, Befesa has organised a number of volunteer activities and donations that took place during the autumn and winter of 2020. In these activities, the spirit of solidarity of each and every one of Befesa's employees was demonstrated, contributing to the support of the most impoverished, even in a challenging year like 2020. Befesa takes great pride in its employees and the possibility of getting closer to them by supporting NGOs that they themselves support.

Figures on donations and sponsorships carried out in 2020 will be shown in Befesa Progress Report 2020, due out in April 2021.

First prize - "Social Robotic Rehabilitation" project of the Spanish Association for the Effects of Cancer Treatment in Sevilla, Spain

Second prize - "Parem Taula" project from the Nou Quitxalles organisation in Barcelona, Spain

R&D and innovation

Befesa's research and development (R&D) strategy is designed to create value by developing sustainable improvements to existing technologies, optimising operations and product quality, developing new processes for achieving higher recycling efficiency, reducing costs and improving environmental conditions.

€3.2m

EXPENSE ON R&D ACTIVITIES IN 2020 (2019: €2.9 MILLION)

All of this contributes to sustainable development and enhanced customer service.

STRATEGIC FOCUS & APPROACH

Befesa's R&D strategic plan aims to be a technologically competitive reference in providing sustainable environmental services to recycle hazardous residues from the steel and aluminium industries, with a core focus on steel dust, salt slags and SPL.

The R&D activities are organised into two teams in order to develop new technological and sustainable environmental service solutions that are adapted to the technological processes of each of the businesses. These two teams meet on a regular basis to exchange the achievements, findings, knowledge and developments of their respective projects.

EMPLOYEES IN R&D

Befesa's R&D and innovation strength is based on the teams' experience and qualifications across various specialisations. In 2020, a total of 14 employees (2019: 14) were dedicated to R&D activities. Of these, nine were a part of the Steel Dust Recycling Services segment and five were part of the Aluminium Salt Slags Recycling Services segment.

EXPENSES ON R&D

The expense on R&D activities amounted to €3.2 million in 2020, which represents a 10% increase YOY (2019: €2.9 million).

In the Steel Dust Recycling Services segment, expenses on R&D activities amounted to €1.4 million in 2020, flat YOY (2019: €1.4 million).

In the Aluminium Salt Slags Recycling Services segment, expenses on R&D activities amounted to €1.8 million in 2020, up 20% YOY (2019: €1.5 million).

COLLABORATIONS NETWORK

One of the pillars of Befesa's R&D strategy is external collaboration. This is primarily executed via research groups and institutions, public research centres, universities and other industrial enterprises with whom Befesa frequently collaborates on R&D projects.

Befesa is a founding partner of the Basque Innovation Agency, which seeks to coordinate and promote innovation in the Basque Country. Befesa is also a member of the Labein Tecnalia Foundation, a private technology centre with significant business involvement that creates partnerships within their markets to develop innovative capacity using technology as a tool to increase competitiveness. Befesa has developed projects in collaboration with institutions such as Acciona Infraestructuras R&D, Cooperativa Mondragón, Edertek Fagor Ederlan, CIE Automotive and ICM-CSIC (in Spain), IAB and Ibutec (in Germany) and NTNU (in Norway).

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

MAIN ACHIEVEMENTS & PROJECTS IN 2020

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

- The metallurgical evaluation of the potential usage of carbon dioxide-neutral carbon sources to reduce the carbon footprint of the Company;
- The installation of pilot equipment for the monitoring of online process chemical analysis to improve the Waelz process efficiency;
- The transformation of the chemical/physical behaviours of Waelz slag for industrial usages; and
- Treatment tests of waste materials at stainless-steel dust recycling sites for internal recycling and/or transfer into valuable by-products.

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

- Constructing a pre-industrial installation (620 tonnes per year) for secondary aluminium oxide refining to produce a new raw material as an alternative to mineral bauxite (to be used in the refractory industry);
- Developing new polymeric materials using secondary oxides to achieve fireproof properties for new advanced systems in electric vehicles;
- Studying and checking purification processes to insulate different components of oxide, achieving the production of high purity components: alumina and spinel;
- Developing oxide specifications to be used in the ceramic industry. The use of the oxides will be a source of alumina for designing new formulations to improve ceramic products;
- Upscaling (pilot scale) the defined roadmap to use oxides as an alternative raw material to fused oxides in its application in the abrasive industry;
- Evaluating the impact of the quality of recovered salts from the salt slags recycling process in the aluminium wastes melting process; and
- Constructing a pilot crystallisation plant to produce "ad hoc" recovered salts.

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

- The optimisation of the aluminium alloy production process in order to introduce improvements and technologies to increase energy efficiency;
- Studying and improving recovered salts from the salt slags recycling process to increase the efficiency of the aluminium recycling process;
- Developing automotive disc brakes on recycled aluminium alloys from scraps to achieve the maximum level of recycling, ensuring OEM's requirements and significantly minimising the environmental impact;
- Demonstrating the use of secondary wastes, aluminium drosses and scraps to produce high-pure silicon and master aluminium alloys by aluminothermic reduction; and
- Producing high-pure alumina using secondary aluminium oxide, involving hydrometallurgical treatments through basic hydrometallurgical treatments.

R&D and innovation continued

PROJECTS IN THE RESEARCH PIPELINE

In the **Steel Dust Recycling Services segment**, projects in 2021 are the continuation of projects launched in 2020, while new projects include the following:

- Evaluating potential improvements of metallurgical use of carbon dioxide-neutral carbon sources for the Waelz process;
- Optimising the efficiency of the Waelz process by monitoring the installed pilot inline process;
- Testing the transfer of Waelz slag into a by-product and evaluating the usability of the potential products; and
- Reducing waste streams at stainless-steel dust recycling sites through the treatment and internal recycling and/or transfer into valuable by-product.

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

- **Bauxal II**: Valorisation of aluminium by-products from the salt slags recycling process to produce refractory materials as an alternative to calcined bauxite;
- **SisAl**: An innovative pilot for silicon production with a low environmental impact using secondary aluminium and silicon raw materials;
- **Alusalt**: Studying and improving the quality of melting salt that is recovered in the salt slags valorisation process;
- **FISSAC**: Fostering industrial symbiosis for a sustainable, resource-intensive industry across the extended construction value chain;
- **Radius**: Recycling automotive brake discs by upgrading metallic scraps;
- **Al fused**: New corundum-based abrasive materials from secondary bauxite of the aluminium recycling process;
- **Alumelt**: A new quality of secondary aluminium across the improvement of the recycled salts;
- **Mat EV**: New polymeric materials with advanced properties which can be used to produce new-generation components and systems in electric vehicles;
- **Alujoint**: A light modulated chassis developed by means of the integration of the structural components using advanced technology of manufacture and aluminium joint; and
- **HPP**: Using high-pure secondary aluminium oxide to manufacture LEDs and electronic components.

Risks & opportunities

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

BEFESA'S RISK MANAGEMENT SYSTEM

i. Introduction

Befesa considers the management of risk to be one of the key topics the organisation must deal with. A proper compliance system must be based on a detailed risk analysis. For this reason, Befesa has in place a risk management system (RMS) which allows management to analyse, evaluate and manage the risks of different aspects of Befesa's operations. A key goal of Befesa's risk management is to safeguard Befesa's assets against risks.

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

The risk management system approach implies:

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

ii. Risk methodology

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

Impact

Very high	3	4	4	5	5
High	3	3	4	4	5
Medium	2	3	3	3	4
Low	2	2	2	3	4
Very low	1	1	2	2	3
	Very low	Low	Medium	High	Very high

Probability

The process followed is divided into two phases:

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

2. Risk assessment process: After having the risk catalogue, the next step is the risk assessment. The risk assessment is carried out by people from the different areas of the organisation included in the scope. They are provided with and trained on the risk assessment methodology and necessary indications.

For the assessment of the risks, it is necessary to establish scales that allow all risks to be assessed in a homogeneous manner.

The risk score "R" is computed as the Cartesian product of I (impact) x P (probability), as shown in the table.

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

Impact (I):
- Financial impact
- Operational impact
- Legal impact
- Reputational impact

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

iii. Risk map

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

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

iv. Risk monitoring

Befesa's risk management system is a systematic mode of identification, assessment and treatment of risks. Therefore, it must not be understood to be a project carried out in a specific moment in time but as an exercise aimed at continuous improvement that requires updating on a regular basis.

The risk analysis and risk map are updated annually, including new risks (or modifying the current ones) and new controls to mitigate risks.

In this sense, the risk map must as far as possible reflect the reality of Befesa, and must help to adapt to changes that may influence the organisation.

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

- the actions and strategies proposed for the mitigation of risks are effective and efficient, both in design and execution;
- sufficient information is available to improve the assessment of existing risks, as well as for the identification, analysis and assessment of new risks that should be considered; and
- an identification of new risks not previously detected has been carried out.

The risk analysis, risk map and mitigation actions are presented to the Audit Committee and Board of Directors of Befesa on an annual basis for their review.

Befesa's risk map includes financial as well as non-financial risks, the most relevant of which are described on the following pages.

Risks & opportunities continued

FINANCIAL RISKS

i. Commodity prices

Befesa has appropriate risk and review routines and controls in place. An integral part of Befesa's risk management framework is to monitor and manage its risk related to commodity price fluctuations. The Company may not be successful in obtaining long-term hedges for all volumes desired, and it is generally more difficult to successfully hedge larger volumes of zinc over longer periods of time. Consequently, Befesa's main risk management tool is its zinc hedging programme, which targets hedging one to three years forward at a volume level of 60% to 75% of Befesa's annual tonnage of zinc payable output.

During 2020, Befesa further extended its zinc hedge book at attractive price levels. Subsequently, in February/March 2021, 43,200 tonnes of zinc payable output were hedged for 2023 in addition to the 30,600 tonnes that were already hedged for 2023 as of year-end 2020. The hedge book in place as of the date of this Annual Report provides Befesa with improved pricing visibility for the following c. 2.5 years, through 2021 and 2022 and more than half of 2023. Befesa is closely monitoring to hedge the remaining c. 40% targeted hedge tonnage for the remainder of 2023, in order to reach the usual 92,400 tonnes annually hedged. Befesa's average zinc forward hedged price was €2,239 per tonne in 2020, and it will be around €2,150 per tonne, €2,200 per tonne and €2,300 per tonne for 2021, 2022 and 2023, respectively. Befesa does not provide collateral for the contracted hedges, and conducts its hedging programme with reputable hedging partners such as J.P. Morgan, Citibank or Goldman Sachs.

ii. Foreign exchange

Befesa's functional currency is the euro. However, the Company has subsidiaries and operations in a number of jurisdictions, including the UK, Sweden, Turkey and South Korea, where Befesa generates revenues in currencies other than the euro. In light of its growth plans, Befesa may operate in additional jurisdictions with currencies other than the euro.

Befesa has adequate review and risk management processes in place regarding the risk of foreign exchange rates. One of several tools Befesa uses is the hedging of zinc prices forward and transacting those hedges, primarily euro-based versus the LME prices being quoted in US dollars. For 2020, Befesa had hedged 92,400 tonnes of zinc payable output, the same as in 2019, which represents 67% (2019: 74%) of the zinc payable output sold by Befesa in 2020. Of the 92,400 tonnes hedged for 2020, 81% were in euro-denominated zinc forward hedges, the same as for 2019, the remaining 19% being in Korean won.

iii. Capital structure

Befesa's capital structure was refinanced on 9 July 2019, primarily to extend its maturity to July 2026 at attractive rates and to accommodate the planned expansion into, for example, China, through increasing the basket space of the so-called general and local loan baskets. A €75 million RCF is part of the capital structure and was undrawn at year-end 2020 as Befesa had €155 million cash on hand. Subsequently, on 17 February 2020, Befesa repriced its TLB covenant lite, lowering the reference interest rate from Euribor +250 bps to Euribor +200 bps. The 50-bps interest rate reduction equals €2.6 million interest expense savings on an annualised basis. The Euribor +200 bps interest rate could be reduced alongside certain leverage ratchets down to a margin of Euribor +125 bps for leverage lower than x1.75.

In 2020, Befesa extended the period of the variable to fix interest rate swaps; initially in place for the period up to 2022, to now end of maturity, July 2026, on 60% of the €526 million notional TLB. This is to minimise the risk of a rapid increase in the interest rate of the three months Euribor "0" floor. 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 2020 and, based on the financial planning, foresees that it will be fully compliant again in 2021.

iv. Interest rates

Any increase in interest rates would increase Befesa's finance costs relating to its variable rate indebtedness and increase the costs of refinancing its existing indebtedness and issuing new debt. Befesa reviews the interest rate risk on a regular basis and took the opportunity of hedging 60% of the capital structure from variable to fix interest rates forward. Based on this, there is no material interest rate risk that could affect Befesa's business until the end of the TLB's maturity, July 2026.

v. Financial controls & reporting

Befesa's internal control system, financial reviews and reporting are key components of the risk management framework. The purpose of the internal control and accountintg system is to ensure that all transactions are adequately accounted for and that the financial reports present Befesa's financial status fairly. The internal control system ensures compliance with legal regulations and that accounting follows statutory standards and IFRS. A defined calendar ensures that financial reports and statements are produced in a timely manner. Regular reviews at both the Group level and segment level ensure that potential errors are detected and promptly corrected.

The reviews of the Board of Directors and the Audit Committee occur regularly and form part of the control framework. The accounting team monitors changes to the accounting standards, and advisors from external, specialised parties notify Befesa of changes and complex accounting matters to avoid misstatements.

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

NON-FINANCIAL RISKS

i. Industry & business risks

Befesa is exposed to risks and opportunities related to the level of activity of the global economy – in particular, to the level of economic activity in the jurisdictions of the markets which the Company serves in Europe and Asia. The business is dependent on the availability of the materials to which the services relate and which Befesa recycles – in particular, steel dust in the Steel Dust Recycling Services segment, and salt slags and aluminium residues in the Aluminium Salt Slags Recycling Services segment. In periods of slowing economic growth, the industrial recycling industry is affected, resulting in a reduction in the demand for Befesa's services and products. One important initiative to address slower economic growth has been to expand Befesa's operations in emerging markets such as

Risks & opportunities continued

South Korea, South East Asia, Turkey and, most recently, China. Nevertheless, the global economy might be affected by macro-economic events, such as the ongoing China–US trade tensions, Brexit and coronavirus-related issues.

Zinc smelters, which are significant consumers of the WOX that Befesa produces in the Steel Dust Recycling Services segment, typically experience variation in demand for its products due to a change in the level of activity – amongst others, in the automotive and construction industries.

For the Aluminium Salt Slags Recycling Services segment, most of the salt slags and aluminium residues are received from companies operating in the automotive and construction industries in Europe. As such, the demand for and pricing of Befesa's services and products is to a degree dependent on the developments in the automotive and construction industries.

ii. Environmental risks

The nature of Befesa's business subjects the Company to government regulations, including but not limited to increasingly stringent environmental laws and regulations in most jurisdictions where the Company operates. Such laws and regulations also require permits and authorisations to be obtained and manifests to be completed and delivered as they relate to Befesa's business operations and any shipment of prescribed materials. This is so that the movement and disposal of such material can be traced and the persons responsible for any mishandling of material can be identified.

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

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

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

a. Air protection

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

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

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

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

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

Befesa's installations are designed and maintained with solid protections through concrete and paved operating surfaces, rainwater collection systems and other engineering solutions to protect the soil.

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

c. Water consumption & effluents
A reference of the most sustainable approaches and technologies showing the correct stewardship of water is demonstrated in several plants of Steel Dust Recycling Services and Salt Slags Recycling Services, with a ZERO effluent policy.

Whilst leading technologies and regulations allow companies to produce effluent under controlled limits of suspended solids, oils, heavy metals and other elements, Befesa's plants have been designed with the capability of recycling 100% of the effluent produced. The effluents are reintroduced into the process, significantly reducing water consumption but also minimising the chance of possible contamination through the effluent.

Reducing water use and wastewater discharge (e.g. by recycling) can result in lower operating costs, reducing the risk of regulatory impacts and minimising potential production limitations due to the continuous and increasing scarcity of water in some geographic areas.

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

d. Residue reduction efforts
Befesa is an environmental recycling services company that has the potential to position itself for revenue growth whilst playing a critical role in the circular economy and reducing the environmental impacts of the steel and aluminium industries.

Befesa's inherent business of recycling hazardous residues from metal processing prevents those residues from reaching landfills. Befesa's process for the treatment of aluminium salt slags offers an example of leading technology in recovering all components of the slags and converting them into reusable materials. The high recovery level results in minimal environmental impacts as a result of the disposal or landfilling of these slags.

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

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

Risks & opportunities continued

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

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

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

To minimise the GHG emitted by Befesa's operations, the Company applies BAT and looks for efficiency opportunities as part of its operational excellence programme. This programme identifies opportunities for the reduction of CO_2 emissions and energy savings, which are prioritised and implemented. One such example is the continued renewal of aluminium melting furnaces with units that have lower emissions.

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

iii. Health & safety risks

Daily operations at Befesa's plants by employees may cause damages to employees and/or contractors, particularly from the potential occurrence of events or circumstances. These could include being exposed to chemical agents; becoming trapped between objects/in moving parts; the risk of being run over in a plant (by a vehicle); incidents with subcontracted companies/personnel; exposure to high temperatures; damage due to thermal injury; exposure to excessive noise; entering into confined spaces; the threat of explosion; damage due to electrical injury; and operators becoming trapped because of machinery overturning.

To manage this risk, Befesa has a wide variety of controls in place, following the approved H&S policy and plan, which are the most relevant ones. These include the "Be Safe at Befesa" programme, OSHAS 18001 and the Life-Saving Rules; an annual budget with investments to implement safety measures; inspections, audits and safety observations; internal training and communication (H&S monthly safety reports); accident investigations/learning lessons; corporate safety standards, plant level safety standards and work instructions; risk evaluations of all works including periodical revision; procedures and communications with contractors; permanent attention from management; and life and accident insurance.

iv. IT risks

Like almost all companies in today's world, Befesa is exposed to cybercrime. Not surprisingly, over the last years, the frequency of cyberattacks has increased significantly, especially those attacks and fraud attempts that rely on individuals to become effective; phishing and malware attacks.
Befesa addresses a strong cybersecurity approach, combining the collaboration with best-in-class vendors for cybersecurity services, a company-wide training programme to enforce the awareness of employees about the correct behaviour regarding cybersecurity and well-defined cybersecurity response procedures. Cybersecurity risks are periodically assessed and adequately managed by the information security team and in coordination with the management team.

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Subsequent events & outlook

SUBSEQUENT EVENTS

There are no events between the financial statement date (31 December 2020) and the date of the formulation of the accounts (24 March 2021) which would materially affect the Group's assets or the Group's financial and/or earnings position.

OUTLOOK

The year 2021 is expected to be a very important year for Befesa, as the Company expects to achieve key milestones in the execution of its growth strategy. Furthermore, Befesa expects substantial earnings growth driven by a combination of volume growth from the 2020 levels as well as expected favourable price environment.

From a strategic point of view, Befesa expects to accomplish in 2021 some key milestones in the development of the expansion in China. The construction of the first EAF steel dust recycling plant in Jiangsu, with an annual recycling capacity of 110 thousand tonnes, is expected to be completed during the first quarter, with cold and hot commissioning of the plant being carried out during the months of March and April. Befesa expects the operational and commercial contribution of the Jiangsu plant to begin in the second half of 2021. Similarly, Befesa expects the second plant under development in the Chinese province of Henan – also with 110 thousand tonnes annual recycling capacity – to be completed after summer of 2021.

From an operational point of view, Befesa expects an improvement in volume and capacity utilisation over 2020 levels, based on two main drivers.

First, an increase in volume of steel dust from the recovery on existing markets where 2020 steel dust volumes were affected by COVID-19. For 2021, the base volume of steel dust treated is expected to be higher, achieving more regular levels and capacity utilisations. In addition, in steel dust in China, Befesa expects to have a volume contribution from the second half of 2021 coming from the start of the commercial operations in the first plant in the province of Jiangsu.

Second, in Aluminium Salt Slags, Befesa expects some volume recovery to drive up capacity utilisations compared to the level achieved in 2020.

With regard to the prices of zinc and aluminium, 2020 was characterised by high volatility throughout the year, with very-low price levels in the second and third quarters, with prices only recovering in the fourth quarter. In 2021, the market has started in a positive price environment. Overall, Befesa expects higher average prices than in 2020, likely returning to pre-COVID levels. Befesa estimates that the levels of the zinc price of around $2,500 per tonne may represent a medium- or longer-term level.

Similarly, Befesa expects some normalisation in the zinc TC level, which was extraordinarily high and unfavourable in 2020. This will represent a positive earnings contribution for Befesa in 2021.

In summary, considering the above-mentioned operational growth and the expected price environment, Befesa foresees substantial earnings growth in 2021.

Regarding recurrent maintenance capex, Befesa expects to spend around €25 million, similar to pre-COVID levels.

On growth capex, Befesa's focus in 2021 will remain on funding its growth in China. For 2021, between €50 to €60 million will be invested in China in the two plants that Befesa is building in the provinces of Jiangsu and Henan.

Befesa will continue to carefully manage dividend stability and

dividend yield, cash flow, net leverage and the funding of the expansion projects in China.
As such, the cash flow of Befesa will allow the Company to:

- continue to fund another high-investment year focusing on developing the two EAF steel dust recycling plants in China;
- maintain an attractive annual dividend distribution to its shareholders; and
- manage the net leverage at or below x3.

Befesa maintains its dividend policy to distribute between 40% to 50% of its net profit as dividend. For 2021, Befesa will propose a dividend distribution of between €30 million and €40 million. This proposal considers a regular dividend and additionally a catch-up on the lower dividend distributed in 2020. Befesa will announce the final proposal after the Q1 2021 results (27 April 2021).

From a leverage point of view, Befesa expects to return to levels at or below x3, similar to 2019.

Finally, in 2021, Befesa will continue to improve its communication regarding sustainability and ESG with its investors and other stakeholders to ensure that Befesa's contribution to the circular economy and a more sustainable world are clearly understood.

Befesa will provide detailed guidance for the full year of 2021 together with the publication of the Q1 2021 results (27 April 2021).

2021 is an exciting year for Befesa with the expansion into China truly representing a key milestone of Befesa's growth.

Corporate governance

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

The Board of Directors acts in the corporate interest of the Company and serves the common interests of all the shareholders, ensuring the implementation of its strategy. The Board of Directors also ensures the monitoring of the business activities of its affiliates. The Board of Directors is vested with the broadest powers to act in the name of Befesa S.A. and to take any action necessary or useful to accomplish its corporate purpose, with the exception of the powers reserved by the Luxembourg law on commercial companies of 10 August 1915, as amended (the "Luxembourg Companies Law") and the Articles of Association to the General Meeting. The Board of Directors has appointed an Audit Committee and a Nomination and Remuneration Committee in order to deal with specific tasks, to advise the Board of Directors and to make recommendations to the Board of Directors and/or, as the case may be, to the General Meeting (as defined below).

The members of the Board of Directors are:

1 Javier Molina Montes
Executive Director,
Chief Executive Officer

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

2 Wolf Uwe Lehmann
Executive Director,
Chief Financial Officer

Mr. Lehmann was appointed chief financial officer of Befesa upon joining in 2014. In addition to finance, he has 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 US/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).

3 Asier Zarraonandia Ayo
Executive Director, Vice-President
Steel Dust Recycling Services

Mr. Zarraonandia has been the vice-president of Befesa's Steel Dust Recycling Services business unit since 2006. Mr. Zarraonandia joined the Befesa Group in 2001 and was the chief financial officer of the Aluminium Salt Slags Recycling Services business unit from 2001 to 2004 and the financial controller of the Abengoa Group from 2004 to 2006. Before joining Befesa, he was a senior audit manager and consultant for Arthur Andersen, where he worked for 10 years and specialised in mergers and acquisitions in the industrial sector. He holds a bachelor's degree in economics from the University of the Basque Country, Bilbao, Spain.

4 Romeo Kreinberg
Independent Director, Chairman of the Board of Directors

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

5 Frauke Heistermann
Independent Director

In 1999, Mrs. Heistermann founded AXIT GmbH and has been a member of its management board since that time. AXIT GmbH is a digital service platform managing global supply chains, which was sold to Siemens in 2015. Mrs. Heistermann served as chief digitalisation officer at Siemens Postal, Parcel & Airport Logistics GmbH in 2017. She is currently chairperson 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 a consultant and product manager. She holds a diploma in logistics and business administration (Diplom-Betriebswirtin) from the Cooperative State University, Mannheim, Germany.

6 Manuel Soto
Independent Director

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

7 Georg Graf Waldersee
Independent Director

Mr. Waldersee is a German-certified accountant (Wirtschaftsprüfer). For more than 25 years, he was a partner at Arthur Andersen and Ernst & Young (EY) where he served in senior management positions in the EMEIA – and global – management teams of both organisations. Until his retirement from EY in 2016, he was the managing partner of EY in Germany, Switzerland and Austria. Since then, he has been a member of various supervisory and advisory boards. Mr. Waldersee studied economics at the University of Bonn and holds a degree in business administration from the University of Hamburg, Germany.

8 Helmut Wieser
Independent Director

Mr. Wieser was chief executive officer at AMAG Austria Metall AG. Previously he served as group president for Global Rolling at Alcoa Inc. and member of the executive board at AMAG Austria Metall AG, and held several management positions at Voest-Alpine Industrieanlagenbau. He is also member of the supervisory boards at OJSC Novolipetsk Steel (Russia), Holdmayr International AG (Austria) and Cobex GmbH (Germany). Since April 2019, he has served as senior industry expert at Triton. Mr. Wieser graduated as Dipl.-Ing. in mechanical engineering and economics from Graz University of Technology, Austria.

9 Santiago Zaldumbide
Independent Director

Mr. 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 Corporación Industrial y Financiera de Banesto, S.A. (1994–1998). He holds a degree in law from the University of Madrid, Spain; a degree in economics from the University of Deusto, Bilbao, Spain; and an MBA degree from the University of California, Berkeley, United States.

10 Birke Fuchs
Board Secretary

Mrs. Fuchs is the Board secretary and Group's General Counsel. She joined Befesa in 2007. She is a German-qualified lawyer, holds a master of laws degree from Tulane Law School, United States, and has successfully completed the programme for management development at ESADE Business School, Spain.

Corporate governance continued

The Board of Directors of Befesa S.A. is firmly committed to the principles of transparent, responsible and value-based management and supervision. The standards of good corporate governance have a high priority at Befesa and good corporate governance forms the basis for all activities.

As a Luxembourg *société anonyme* – whose shares are exclusively listed on a regulated market in Germany – Befesa S.A. is not required to adhere to the Ten Principles of Corporate Governance of the Luxembourg Stock Exchange (the "LuxSE") which is applicable to companies that are listed and admitted to trading on the regulated market of the LuxSE, or to the German corporate governance regime that is applicable to stock corporations organised under German law. In light of the aforementioned legal framework, Befesa has developed its own corporate governance rules based on the recommendations of the German Corporate Governance Code but with the necessary modifications required by the one-tier Board structure, the Articles of Association of Befesa S.A. and Luxembourg Companies Law. Befesa's corporate governance system is continuously reviewed by the Board of Directors and updated to incorporate new best practices in corporate governance.

Befesa places a strong emphasis on:

i. a skilled and balanced composition of the Board of Directors with a majority of independent directors;

ii. acting in the best interests of all of the Company's shareholders, including minority shareholders;

iii. internal control and reporting, with emphasis on effective risk management;

iv. a compliance management system that ensures strict compliance with applicable laws and regulations, enhancing business integrity;

v. the promotion of social responsibility and ethical values in all of Befesa's areas of activity; and

vi. commitment to sustainability and corporate social responsibility.

Befesa is committed to adhering to good corporate governance practices which provide for the necessary decision-making processes and controls to balance the interests of all stakeholders to ultimately ensure the long-term success of Befesa.

The main corporate bodies are the Board of Directors and the General Meeting of shareholders. Befesa currently has a majority of independent directors on the Board of Directors and all the members of the Audit Committee and the Nomination and Remuneration Committee are independent. To enhance transparency regarding executive compensation, Befesa provides the compensation of all the members of the Board of Directors on an individual basis with respect to the compensation received in 2020. Befesa ensures that its shareholders can exercise their rights before or during the General Meeting, as provided by Luxembourg Companies Law and Befesa's Articles of Association, and thereby exercise their voting rights. Details of the above-mentioned items can be found below.

Executive Directors

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

Independent Directors

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

Corporate governance continued

Skills, experience & background

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

REQUIRED SKILLS, EXPERIENCE & BACKGROUND

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

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

- The alignment of skills with Befesa's strategic direction;
- Value added to the current composition of the Board;
- The cultural fit with the Board of Directors;
- The time it will take to be an effective contributor; and
- Succession planning.

Befesa is looking always for professional experienced persons who have relevant industry experience, strategic and problem-solving skills, and strong interpersonal and negotiation skills. In addition, the representation of a mix of cultural and educational backgrounds offers a wide variety of perspectives on company issues. Naturally, women as well as men can be members of the Board of Directors. Part of diversity for Befesa is to combine different genders, experiences, nationalities and backgrounds in the Board of Directors. This approach is explicitly stated in Befesa's HR and equality policy.

Different skills are a foundation to create an effective and appreciated Board of Directors. Befesa makes sure that the members of each Board committee have the relevant skills based on their experience, which is also shown in their *curricula vitae*.

COMPOSITION

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

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

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

RATIFICATION

On 24 July 2019, the Board of Directors appointed by co-optation Mr. Helmut Wieser as independent non-executive director and Mr. Asier Zarraonandia as executive director of Befesa S.A. to replace Mr. Johannes Maret and Mr. Roland Oelschläger. On 18 June 2020, the Annual General Meeting ratified the appointment of Mr. Helmut Wieser as independent non-executive director and Mr. Asier Zarraonandia as executive director for a term of office ending on the General Meeting approving the annual accounts for the financial year ending on 31 December 2021 and to be held in 2022.

MEETINGS

The Board of Directors holds meetings in person or by tele/videoconference and can take decisions by written circulation. The quorum for a valid meeting of the Board of Directors shall be the presence or the representation of at least half of the directors. For the purposes of approval of resolutions, abstention and nil votes will not be considered, and the Chairman of the Board of Directors shall have no casting vote in case of a voting tie. The Board of Directors met on 13 occasions in 2020 with an attendance record of 98.3%.

COMMITTEES

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

- Audit Committee
- Nomination and Remuneration Committee

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

During 2020, the Audit Committee met on five occasions, while the Nomination and Remuneration met on two occasions. Both committees had an attendance record of 100%.

i. Audit Committee

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

- the consideration and evaluation of all material questions concerning the auditing and accounting policies of the Group;
- the Group's financial controls and systems; and
- matters concerning compliance.

During 2020, the Audit Committee held five meetings with an attendance record of 100% (details are on page 78).

ii. Nomination and Remuneration Committee

Mr. Romeo Kreinberg (chairman), Mr. Helmut Wieser and Mr. Santiago Zaldumbide are the members of this committee, all of whom are independent.

The Nomination and Remuneration Committee ensures that the directors have the necessary knowledge, experience, abilities and professional background to assume their responsibilities. This enables the Board of Directors as a whole to have an appropriate balance in its composition and suitable knowledge of Befesa and its environment, activities, strategy and risks, contributing to a better performance of its functions. In addition, it is responsible for:

- the implementation of HR-related policies;
- making recommendations to the Board of Directors on the terms of appointment and the long- and short-term benefits of executive directors; and
- making recommendations on bonus payments to be made to employees.

These include the implementation of policies, appointments and releases of the daily managers of Befesa S.A., and proposing to the General Meeting of shareholders suitable candidates for their recommendation to be appointed as members of the Board of Directors.

During 2020, the Nomination and Remuneration Committee held two meetings with an attendance record of 100% (details are on page 78).

Corporate governance continued

During 2020, the Board of Directors, the Audit Committee and the Nomination and Remuneration Committee held the following meetings:

Board of Directors meetings

No.	Date	Attending Board members	Attendance record
1	29/01/2020	9/9	100%
2	19/02/2020	8/9	89%
3	25/03/2020	9/9	100%
4	29/04/2020	9/9	100%
5	19/05/2020	9/9	100%
6	15/06/2020	9/9	100%
7	18/06/2020	9/9	100%
8	30/07/2020	8/9	89%
9	22/09/2020	9/9	100%
10	07/10/2020	9/9	100%
11	28/10/2020	9/9	100%
12	25/11/2020	9/9	100%
13	17/12/2020	9/9	100%
		Total attendance	**98.3%**

Audit Committee meetings

No.	Date	Attending Board members	Attendance record
1	25/03/2020	3/3	100%
2	29/04/2020	3/3	100%
3	30/07/2020	3/3	100%
4	28/10/2020	3/3	100%
5	17/12/2020	3/3	100%
		Total attendance	**100%**

Nomination and Remuneration Committee meetings

No.	Date	Attending Board members	Attendance record
1	25/03/2020	3/3	100%
2	29/04/2020	3/3	100%
		Total attendance	**100%**

Shareholders

GENERAL MEETINGS

All General Meetings of shareholders (the "General Meeting") are held in the Grand Duchy of Luxembourg at the address of the registered office of Befesa S.A. or at such other place in the Grand Duchy of Luxembourg specified in the convening notice of the meeting and may be held abroad, if, in the judgement of the Board of Directors, circumstances *force majeure* so require.

The convening notice (including the agenda) to the General Meeting, the reports and any other documents required for the meeting are published in the investor relations section of Befesa's website, in the *Recueil Electronique des Societé et Associations* and in a Luxembourg newspaper at least 30 days before the day of the meeting, in accordance with the Articles of Association and Luxembourg law.

The Annual General Meeting ("AGM") is held once a year within six months of the end of the preceding financial year, in accordance with the Articles of Association and Luxembourg law. The Board of Directors of Befesa S.A. is responsible for presenting the consolidated financial statements and the annual accounts at the AGM. The approval of the consolidated annual financial statements and of the individual accounts of Befesa S.A., the allocation of results, the determination of the dividend, the appointment of the independent auditor and the discharge of the members of the Board of Directors are, amongst others, some of the resolutions adopted at the AGM.

The Board of Directors may convene General Meetings (in addition to the AGM) and it must do so if shareholders representing at least 10% of the share capital of Befesa S.A. so require, in accordance with the Articles of Association and Luxembourg law.

The shareholders of Befesa S.A. exercise their voting rights at the AGM (or at any other General Meeting validly convened). Each share entitles the holder to attend all General Meetings, either in person or by proxy, to address the General Meeting and to exercise voting rights. Each share entitles the holder to one vote.

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

Shareholders holding – individually or collectively – at least 5% of the issued share capital of Befesa S.A. have the right to (i) put items on the agenda of the General Meeting, and (ii) present drafted resolutions for items included or items to be added to the agenda of the General Meeting. A relevant request must be received by Befesa S.A. by the 22nd day prior to the General Meeting.

ORDINARY & EXTRAORDINARY RESOLUTIONS

Luxembourg law distinguishes between ordinary resolutions and extraordinary resolutions. Extraordinary resolutions relate to proposed amendments to the Articles of Association and certain other limited matters. All other resolutions are, as a general rule, ordinary resolutions.

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

- An increase or decrease of the authorised or issued capital;
- A limitation or exclusion of pre-emptive rights;
- The approval of a statutory merger or demerger (scission) or certain other restructurings;
- The dissolution of Befesa; and
- An amendment to the Articles of Association.

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

DIVIDEND RIGHTS

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

The General Meeting will resolve how the remainder of the annual net profits, after allocation to the aforementioned legal reserve, will be disposed of by allocating the whole or part of the remainder to a reserve or to a provision by carrying it forward to the next following financial year or by distributing it, together with carried-forward profits,

Corporate governance continued

distributable reserves or share premium to the shareholder(s), each share entitling to the same proportion in such distributions.

Subject to the provisions of the laws and in compliance with the provisions set forth herein, the Board of Directors may resolve that the Company pays out an interim dividend to the shareholders. The Board of Directors shall set the amount and the date of payment of the interim dividend.

LIQUIDATION RIGHTS

The Company may be dissolved by a resolution of the General Meeting adopted in compliance with the quorum and majority rules set for any amendment of the Articles of Association. Should the Company be dissolved, the liquidation will be carried out by the Board of Directors or such other person(s) appointed by the General Meeting. The General Meeting shall also determine the powers and the compensation (if any) of those other person(s). After settlement of all the debts and liabilities of the Company, including the expenses of liquidation, the net liquidation proceeds shall be distributed to the shareholder(s) in compliance with the same preference as set out for dividend distributions.

OTHER CORPORATE GOVERNANCE PRACTICES

COMPLIANCE MANAGEMENT SYSTEM

The compliance management system (CMS) is an integral part of Befesa's corporate governance system which ensures compliance with national and international laws, regulations and policies, as well as compliance with social responsibility and ethical values.

The core of the ethics and compliance programme at Befesa is the code of conduct. The Company's code of conduct provides the legal and ethical framework for the conduct of all directors, officers and employees of Befesa, and defines the basic behavioural standards within Befesa itself and in connection with other parties. In addition, Befesa has implemented a whistleblowing channel and complementary-specific compliance policies such as a Group security dealing code, and provides continuous training in compliance matters. More information on Befesa's CMS can be found in the "Compliance" section of this Annual Report (pages 86 to 91).

RISK MANAGEMENT SYSTEM

Befesa has established internal procedures which are described in more detail in the "Compliance" section of this Annual Report and which form an integral part of Befesa's risk management system (RMS). This is explained in detail in the "Risks & opportunities" section of this Annual Report (pages 62 to 68).

INDEPENDENT AUDITORS

In accordance with the Luxembourg law on commercial companies, the annual consolidated financial statements and the annual individual accounts of Befesa S.A. are certified by an approved statutory auditor (*réviseur d'enterprises agréé*) appointed by the shareholders at the AGM. The AGM held on 18 June 2020 approved the appointment of KPMG Luxembourg Société Coopérative as the approved statutory auditor (*réviseur d'enterprises agréé*) for the fiscal year ending 31 December 2020. KPMG Luxembourg Société Coopérative have audited the annual consolidated financial statements and the annual individual accounts of Befesa S.A. since the financial year ending 31 December 2019 (i.e. for a period of two years).

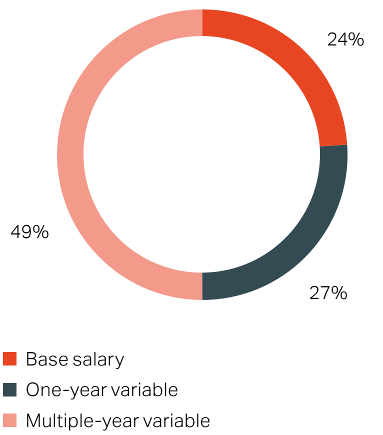
COMPENSATION

For Befesa S.A. to maintain and apply transparent and detailed reporting on the compensation of the Board of Directors is an element of good corporate governance. The compensation disclosed in this Annual Report covers the remuneration of the members of the Board of Directors and is governed by Befesa's remuneration policy. As part of preparing for the IPO, Befesa conducted – with the help of one of the "big-four" independent auditing and advisory service providers – a compensation study and benchmark of the listed companies in the German stock indices SDAX and MDAX, covering the positions of the three executive directors. Befesa's remuneration structure and levels are aligned with this market benchmark and Befesa's remuneration policy. In 2019, Befesa expanded this study with the help of the external advisor to also cover the non-executive directors. To align the total compensation of the non-executive directors with the performed benchmark, Befesa's non-executive directors were granted a long-term incentive plan, vesting over 2019 to 2021.

REMUNERATION OF EXECUTIVE DIRECTORS

The following table provides an overview of the remuneration of the three executive directors of the Board of Directors for the year ended 31 December 2020.

% Base salary / One- and multiple-year variable



NOTES TO THE REMUNERATION OF EXECUTIVE DIRECTORS:

i. Fixed remuneration

Base salary is the fixed gross compensation per fiscal year.

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

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

ii. Variable remuneration

One-year variable remuneration represents the value of the annual bonus paid out in 2020, awarded for the performance achieved in the year 2019. The predetermined performance targets cover four criteria:

1. Environmental, health and safety, and corporate governance
2. EBIT and EBITDA
3. Net debt and cash flow
4. The execution of strategic initiatives and return on growth projects

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

Multi-year variable remuneration is shown in the table using an illustrative valuation method to conceptually approximate the potential market value of the multi-year variable programme. The method uses one-third of the number of performance shares granted in tranche I (vesting over 2018 to 2020), one-third of the number of performance shares granted in tranche II (vesting over 2019 to 2021) and one-third of the number of performance shares granted in tranche III (vesting over 2020 to 2022). For illustrative valuation purposes, a price of €51.70 per share – closing stock price at year-end 2020 – was assumed for remunerating the mentioned performance shares granted for tranches I, II and III. The number of performance shares granted for each of these tranches are: 21,429 shares for Mr. Javier Molina, CEO; 15,179 shares for Mr. Wolf Uwe Lehmann, CFO; and 14,286 shares for Mr. Asier Zarraonandia, vice-president of Steel Dust Recycling Services. The final remuneration for each tranche will depend on the share price at the respective year of vesting as well as the performance level cumulative over the three-year vesting period of the respective tranches. The final remuneration will also include the corresponding

Remuneration of executive directors

	I. Fixed remuneration			II. Variable remuneration					
Name of executive director, position	**Base salary**	**Fees**	**Fringe benefits**	**One-year variable**	**Multi-year variable**	**III. Extraordinary items**	**IV. Social security/ pension expense**	**V. Total remuneration**	**VI. Proportion of fixed and variable remuneration[1]**
Mr. Javier Molina Montes, CEO	€512,474	n/a	€17,189	€612,000	€1,107,879	€337,133	€12,552	€2,599,227	24% / 76%
Mr. Wolf Uwe Lehmann, CFO	€414,120	n/a	€9,185	€408,000	€784,754	€272,431	€13,967	€1,902,457	27% / 73%
Mr. Asier Zarraonandia Ayo, Vice-President Steel	€362,355	n/a	€11,814	€408,000	€738,586	€238,377	€12,552	€1,771,684	25% / 75%
Total remuneration	**€1,288,949**	**n/a**	**€38,188**	**€1,428,000**	**€2,631,220**	**€847,941**	**€39,071**	**€6,273,368**	**25% / 75%**

[1] Proportion of fixed and variable computed as of total remuneration excluding extraordinary items

Corporate governance continued

dividend payable to the granted performance shares during the vesting period.

The performance targets will be determined and measured over a three-year performance period (e.g. tranche II: 1 January 2019 to 31 December 2021).

The predetermined performance criteria cover three performance targets:

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

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

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

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

a. The transfer of Befesa S.A. shares
b. Cash payout of the value of the Befesa S.A. shares

iii. Extraordinary items

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

The granted stock rights vested on 2 November 2020 and were paid out in cash. The average share price over the last 10 days prior to vesting on 2 November 2020 was €35.65 plus applicable dividend rights of €2.49 per share in total (2018: €0.73; 2019: €1.32; 2020: €0.44). The extraordinary remuneration presented in the table corresponds to one-third of the full three-year period (2018 to 2020) for which these stock rights were granted, to reflect the proportional part of one fiscal year.

iv. Social security/pension expense

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

v. Total remuneration

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

vi. Proportion of fixed & variable remuneration

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

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

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The table below shows the remuneration of the non-executive directors of the Board of Directors for the year ended 31 December 2020:

OTHERS

The Company provides a Group insurance policy for all directors and officers of Befesa including the members of the Board of Directors.

Remuneration of non-executive directors

Name of non-executive director	Total compensation in 2020	Status
Mr. Romeo Kreinberg	€150,000	Served from 01.01.2020 to 31.12.2020
Mrs. Frauke Heistermann	€60,000	Served from 01.01.2020 to 31.12.2020
Mr. Manuel Soto	€60,000	Served from 01.01.2020 to 31.12.2020
Mr. Georg Graf Waldersee	€80,000	Served from 01.01.2020 to 31.12.2020
Mr. Helmut Wieser	€60,000	Served from 01.01.2020 to 31.12.2020
Mr. Santiago Zaldumbide	€60,000	Served from 01.01.2020 to 31.12.2020

Note: Non-executive directors were remunerated in 2020 by the above specified base salary and were not remunerated through further fixed compensation such as fees, fringe benefits or pension contribution.

The policy is taken out for one year at a time or renewed annually. It covers the personal liability of the insured in cases of financial loss associated with their activities on behalf of the Company.

Further information about the remuneration of the members of Befesa's Board of Directors can be found in the Remuneration Policy available in the Investor Relations / Annual General Meeting section of Befesa's website (www.befesa.com).

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 2020 amounts to €94,575,646.35, represented by 34,066,705 ordinary shares, each fully paid up.

b. Transfer restrictions

As of the date of this Annual Report, all Befesa S.A.'s shares are freely transferable.

c. Major shareholding

Based on the various major holding notifications received by Befesa S.A. as of 31 December 2020, the following shareholders hold (or to whom were attributed) 5% or more of total voting rights attached to Befesa S.A. shares (see table below).

d. Special control rights

All the issued and outstanding shares have equal voting rights. Befesa S.A. has not issued any securities granting any special control rights to its holders.

e. Control system in employees' share scheme

This is not applicable. Befesa S.A.'s Board of Directors is not aware of any issue regarding section e) of article 11 of the Luxembourg law on takeover bids of 19 May 2006.

f. Voting rights

Each issued share of Befesa S.A. entitles the holder to one vote at the General Meeting of the shareholders. The Articles of Association of Befesa S.A. do not contain any restriction on voting rights. In accordance with the Articles of Association, a record date for admission to a General Meeting of shareholders is set; that is, at 24:00 hours Luxembourg time on the 14th day preceding the date of the relevant General Meeting of the shareholders (the "Record Date") and only shareholders holding shares on such Record Date will be able to participate at the relevant General Meeting. In addition, a shareholder willing to participate in any General Meeting shall notify Befesa of their intention to participate by a declaration in writing to be submitted to Befesa and/or its designated depositary agent by no later than the Record Date, together with any supporting documents that may be required to evidence title to the shares.

g. Shareholders' agreements with transfer restrictions or voting rights

Befesa's Board of Directors has no information about any agreements between shareholders that may result in restrictions on the transfers of Befesa S.A.'s shares; the shares issued by Befesa S.A. are freely transferable in accordance with the legal requirements for shares in dematerialised form. The Board of Directors also has no information about any shareholders' agreements that may result in restrictions on voting rights.

h. Appointment of Board members; amendments of the Articles of Association

Rules governing the appointment and the replacement of members of the Board of Directors and changes to the Articles of Association are

Major shareholding

Name of shareholder (direct or indirect)	% of voting rights in the share capital of Befesa	Based on notification received on
Bestinver Gestión, S.A. SGIIC	7.49% attached to shares	10 November 2017
Allianz Global Investors GmbH	10.07% attached to shares	23 March 2020

Corporate governance continued

contained in articles 11 and 32 of the Articles of Association of Befesa S.A. This document is available at https://www.befesa.com/web/en/informacion_inversores/gobierno-corporativo/estatutos/index.htm

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 meeting and the resolutions are adopted by two-thirds of the votes validly cast.

i. Powers of the Board of Directors

The powers of the Board of Directors are regulated in articles 6, 12 and 13 of the Articles of Association of Befesa S.A. The Articles of Association are available at https://www.befesa.com/web/en/informacion_inversores/gobierno-corporativo/estatutos/index.html

In particular, the following applies:

- Befesa S.A. is managed by its Board of Directors.
- The Board of Directors is vested with the broadest powers to perform all acts necessary or useful to accomplish Befesa's objectives.
- The Board of Directors may delegate the daily management of Befesa and the representation of Befesa for that daily management to one or more persons or committees, specifying the limits of such delegated powers and the manner in which to exercise them.
- The Board of Directors may appoint an Audit Committee, a Nomination and Remuneration Committee, an Operations Committee and/or any other committees it may deem necessary in order to deal with specific tasks.
- The Board of Directors is authorised, up to the maximum amount of the authorised capital, to (i) increase the issued share capital in one or several tranches with or without share premium; (ii) issue subscription and/or conversion rights in relation to new shares or instruments within the limits of the authorised capital under the terms and conditions of warrants, convertible bonds, notes or similar instruments; (iii) determine the place and date of the issue or successive issues, the issue price, the terms and conditions of the subscription of and paying up the new shares and instruments; and (iv) remove or limit the statutory preferential subscription right of the shareholders. The above authorisation is valid for a period ending five years after the date of the General Meeting creating the authorised capital. The relevant authorisation was granted by the General Meeting of the shareholders held on 18 October 2017.
- The Board of Directors is authorised to acquire itself or through a person acting in its own name but on Befesa's behalf, its own shares subject to the following conditions (i) the maximum number of shares to be acquired may not exceed ten per cent (10%) of the total number of shares composing the issued share capital at the time of this resolution, or if lower, at the time of the acquisition; (ii) as a result of those acquisitions, Befesa S.A.'s holding of its own shares may not exceed at any time ten per cent (10%) of the total number of shares composing the issued share capital of Befesa S.A.; (iii) the acquisition price per share shall not be lower than its accounting par value or higher than ten per cent (10%) above the volume weighted average listing price per share in the XETRA

trading system (or a comparable successor system) during the calendar month preceding the resolution of the Board of Directors on the buy-back; (iv) the acquisitions of its own shares by Befesa S.A., as well as shares acquired by a person acting in their own name but on behalf of Befesa S.A., may not have the effect of reducing the net assets of Befesa S.A. below the aggregate amount of the subscribed capital and the reserves which may not be distributed under the law or the Articles of Association of Befesa S.A. Only fully paid-up shares may be repurchased; (v) the authorisation will be valid for a period of five (5) years after the date of the General Meeting creating the share buy-back. The relevant authorisation was granted by the AGM of shareholders held on 18 June 2020; and (vi) the purchase shall be effected either through the stock exchange or on the basis of a public purchase offer to all shareholders. The Company may use, in whole or in part, own shares acquired pursuant to this authorisation for any legally permissible purpose.

j. Significant agreements

With the exception of the senior facility agreement signed on 14 February 2020, there are no significant agreements that Befesa S.A. is party to and which take effect, alter or terminate upon a change of control of Befesa S.A. following a takeover bid.

k. Agreements with directors & employees

The services agreements signed by the executive directors with the relevant Group companies establish the right of an exit payment amounting to the total sum of €3.3 million for all three executive directors in case of the termination of their service agreements without cause by the relevant Group companies.

Compliance

BEFESA'S COMPLIANCE MANAGEMENT SYSTEM

i. Definition & content

Befesa is committed to achieving success and sustainable, profitable growth. Befesa believes that this can only be achieved if everyone is focused on integrity, high moral values and respect for environmental, social and governance practices so that the Company can be recognised as a reliable business partner. Befesa must, at all times, fully respect all applicable laws, regulations and the environment in which it operates.

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

Befesa's CMS includes, but is not limited to, internal guidelines and policies such as the code of conduct and guidelines that address competition law requirements, anti-corruption, anti-money laundering, IT services, environmental, health and safety issues, conflicts of interest and international sanctions. These measures, as well as the whistle-blowing channel, guide members in ensuring that Befesa complies with all laws, regulations and values.

ii. Befesa's general compliance policy

Befesa believes that compliance risk must be identified, managed and reported by management and the Board of Directors. The general compliance policy provides guidance to Befesa and its subsidiaries on how to establish, maintain and report an effective CMS.

This document briefly describes concepts and guidelines that are developed later in specific policies, tools and procedures. It covers several topics such as commitment of management, code of conduct, compliance officer figure, identification and assessment of risks, specific compliance policies, training and the existence of a 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 supported by monthly compliance committees, and by communication and training for the entire organisation.

Code of conduct

DEFINITION & MAIN ASPECTS COVERED

Befesa has established a code of conduct that is binding for all employees and which is the cornerstone of its CMS. It is available to all employees and third parties in the investor relations/ corporate governance/compliance section of Befesa's website (www.befesa.com).

The code provides the legal and ethical framework for the conduct of Befesa's directors, executives, managers and employees and defines basic behavioural standards in the Company itself and in connection with other parties. The document is available in the eight languages spoken in the countries where Befesa operates. Some of the key aspects include the following:

- Strictly comply with the laws and regulations of each jurisdiction.
- Do not compromise your integrity. Do not use your position at Befesa to obtain benefits for yourself, your family or your friends.
- Do not offer or accept gifts and invitations that could create the impression of influencing the commercial judgement of the recipient.
- Do not deliberately mislead anyone. Never attempt to falsify any record.

Befesa's compliance management system (CMS)

Befesa CMS

1 / **Compliance management system**

- Group's compliance policy
- Risk identification and risk management with a software-based integrated risk map and continuous risk monitoring

2 / **Code of conduct**

- Cornerstone of Befesa's CMS
- Eight languages available

3 / **Internal procedures**

- Internal communication and authorisation system that represents the internal rules of Befesa

4 / **Complementary-specific compliance policies**

- Anti-corruption and anti-bribery
- Anti-money laundering
- Anti-trust
- Conflicts of interest
- Environmental, health and safety, and quality
- Group security dealings code
- International sanctions
- IT
- Equality, diversity and inclusion policy
- Confidentiality and industrial and intellectual property

5 / **Monthly messages & training**

- Monthly messages to employees covering diverse compliance topics
- Online platform for compliance training
- Brochures on conduct guidelines available
- Specific cybersecurity training

6 / **Whistleblowing channel**

- Web platform and voice intake
- Eight languages available

7 / **Others**

- Internal controls
- Criminal compliance (Spain)
- Certifications: ISO (9001, 14001, 14064, 50001), OHSAS 18001
- Insurances: coverage of detected risk
- General data-protection regulations
- Code of conduct for suppliers

Compliance continued

- Treat your colleagues with fairness and respect. Any form of discrimination based on race, colour, religion, gender, age, marital status, sexual orientation or disability is unacceptable.
- Respect Befesa's commercial relationships. Treat Befesa's clients and suppliers fairly and with respect at all times. Be a good neighbour.
- Look out for the safety of others. Health and safety standards and procedures are intended to protect you, your colleagues and all others. Comply with them at all times.
- Respect and protect the environment.
- In case of doubt, always ask.

Any violation of laws and regulations or the infringement of the code of conduct by any employee at any level of the organisation will be subject to disciplinary consequences.

COMPLEMENTARY-SPECIFIC COMPLIANCE POLICIES

Based on the results from the risk identification and assessment, Befesa currently develops and updates compliance-relevant documents covering the following areas:

i. Anti-corruption & anti-bribery

One of Befesa's core principles is to strictly comply with all the anti-corruption and anti-bribery laws and regulations where the Company operates. Befesa's principle is to compete by making deals and providing services to its customers based on the quality and price of its products and offerings, instead of providing undue advantages or benefits to others.

ii. Anti-money laundering

Befesa is committed to carrying out its activities with accredited clients and with other trading partners who perform their activities legally and whose funds come from legitimate sources. Accordingly, all employees of Befesa must strictly comply with the pertinent money-laundering legislation and with Befesa's internal procedures that are designed to detect and prevent suspicious payment methods. All Company employees are obliged to report any suspicious behaviour by clients or trading partners, either to the compliance officer or by using the whistleblowing channel. All employees must comply with all the rules and guidelines regarding accounting and financial information applicable to cash and other forms of payment in relation to the transactions that have to be made.

iii. Anti-trust

It is the unconditional policy of Befesa to fully comply with all applicable anti-trust laws worldwide and to enforce compliance throughout the organisation. In this policy, a guideline summarises the basic rules of the anti-trust laws prevailing in the main jurisdictions where Befesa is active. All employees must be familiar with and strictly observe the basic rules and specific anti-trust regulations of the relevant jurisdiction in which they operate or which is affected by their operations. Non-compliance will be taken very seriously by Befesa's management and will lead to personal consequences for the relevant employee(s).

iv. Conflicts of interest

The purpose of this policy is to identify and prevent situations in which an employee's activities conflict or appear to conflict with the interests of Befesa and its subsidiaries. Every employee must offer undivided commercial loyalty to Befesa and make business decisions only in the best interests of the Company, not based on their potential personal interests. All employees must avoid any relationship or activity that could affect their independent judgement in the conduct of Befesa's business or conflicts with the Company's interests, or could reasonably give the appearance of conflicting with Befesa's interests.

v. Group security dealings code

This code applies to all employees, managers and directors of Befesa and its fully consolidated subsidiaries and joint ventures. These rules are designed to ensure that employees do not misuse, or place themselves under suspicion of misusing, information about Befesa that they have access to and which is not available to other investors. This code also includes a closed period calendar to be followed by the affected persons.

vi. International sanctions

International sanctions or restrictive measures take the form of economic instruments that seek to modify policies or activities in other countries that breach international law or human rights. The implemented measures are obligatory and affect all the countries that form part of the organisation that adopts them. In the case of the EU, they are obligatory for all its member states. Befesa believes that all its employees must comply with these restrictive measures, insofar as they affect their activities. The aforementioned CMS of Befesa includes a specific section on policies, systems and controls in relation to international sanctions.

vii. Equality, diversity and inclusion

Befesa is committed to encouraging equality, diversity and inclusion amongst its workforce, and seeks to eliminate discrimination. The policy's purpose is to provide equality, fairness and respect for all the employees of Befesa, and to oppose and avoid all forms of discrimination by ensuring that recruiting, remuneration and promotion at Befesa is based on qualifications and performance.

viii. Confidentiality and industrial and intellectual property

Befesa is aware of the value of its assets, in particular the industrial and intellectual property rights inherent in the innovative knowledge generated during the progress of its activities. The Company strives to protect this by adopting appropriate measures for interactions with its employees and with third parties. This policy establishes the operational rules and standards to be applied at Befesa, as well as for third parties, to ensure the effective protection of the industrial and intellectual property of Befesa, guaranteeing a high level of security and compliance with current legislation.

INTERNAL PROCEDURES

i. Concept

The internal procedures of Befesa take the form of a suitable internal control system that represents the internal rules of the Company. It works through an internal system of communication and authorisation. The main goal is to have a common method of operating, assessing and mitigating the business risks inherent in Befesa's activities.

This implies the following:

- Consistency of actions
- Reinforcement of corporate identity
- Risk control and reduction
- Optimisation of management
- Creation of value for stakeholders
- Profitability

ii. Covered areas

The internal procedures cover different areas considered as key for Befesa. Twenty-one procedures are in place and include controls for the following areas:

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

COMMUNICATION TO EMPLOYEES & ENGAGEMENT

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

i. Monthly messages

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

ii. Training

The continuous training of Befesa's employees is key for the future and development of the organisation. Compliance is an important aspect for the Company. Befesa has developed annual training for certain employees; the training courses and training tests 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.

During 2020, Befesa carried out specific cybersecurity training for all employees, covering several topics related to this issue (e.g. phishing attacks, ransomware, CEO fraud and USB attacks). This cybersecurity training will be in place for the coming years as cyber-attacks continue to increase all over the world.

iii. Brochures on conduct guidelines

Printed brochures on the conduct guidelines are in place and have been sent to all Befesa's employees. These brochures are available in the eight languages of the Group and cover the main aspects of Befesa's code of conduct and CMS in a visual format that can be easily checked by all personnel.

OTHER ASPECTS COVERED BY BEFESA'S CMS

In addition to the above aspects, as part of Befesa's CMS there are other relevant areas in the system, such as internal controls, risk analyses, insurance coverages and data-protection regulations.

i. Internal controls

In addition to the aforementioned compliance policies, Befesa has in place an internal control matrix that contains more than 500 controls, which cover the most significant areas of the Company:

- Purchases
- Fixed assets
- Stocks
- Sales
- Treasury
- Human resources
- Taxes

Compliance continued

- Hedging
- Equity
- Closing & reporting
- Legal & ethics

ii. Risk analysis & insurance coverage

Befesa has in place a risk management system (RMS), which is explained in detail in the "Risks & opportunities" section (pages 62 to 68).

iii. Data-protection regulations

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

iv. Supplier code of conduct

Befesa promotes and expects business integrity, compliance with applicable laws and adherence to internationally recognised environmental, social and corporate governance standards within the organisation and amongst its business partners.

For these reasons, during 2020, Befesa implemented a code of conduct for suppliers that must be accepted and signed by all suppliers. Befesa expects its suppliers to implement the principles set out in this code of conduct throughout their organisations worldwide and to comply with these principles. Befesa also expects suppliers to use their best efforts to implement these standards with their suppliers and subcontractors and to take these principles into account when selecting them. The supplier code of conduct covers different areas, including: environmental protection and energy efficiency; human rights, employment practices, and health and safety; and business integrity and corporate governance standards, which are available on Befesa's website (www.befesa.com).

v. Criminal compliance certification UNE 19601

The Spanish criminal code establishes that legal persons may have criminal responsibility. In order to avoid this from happening in Befesa, a criminal compliance programme (Criminal Risks Management System) has been implemented. It comprises a set of preventive tools with the aim of preventing the breach of rules of a criminal nature and of avoiding possible sanctions that could generate responsibility for the Company. Furthermore, there is a certifiable standard UNE 19601 concerning criminal compliance that Befesa Medio Ambiente S.L.U. has satisfactorily achieved in the first quarter of 2021.

INTERNAL AUDIT ON FINANCIAL INFORMATION & ETHICAL STANDARDS

Internal controls and processes included in Befesa's internal control matrix cover financial and non-financial information. Its compliance is audited each year by Befesa's internal audit department across all significant subsidiaries. In 2020, a total of 34 audits were carried out following these processes.

The financial statements of Befesa and its subsidiaries are internally audited on an annual basis, providing Befesa's investors with additional confidence regarding the financial information published every quarter.

In addition, Befesa's internal audit team reviews compliance with ethical standards and ESG policies, such as:

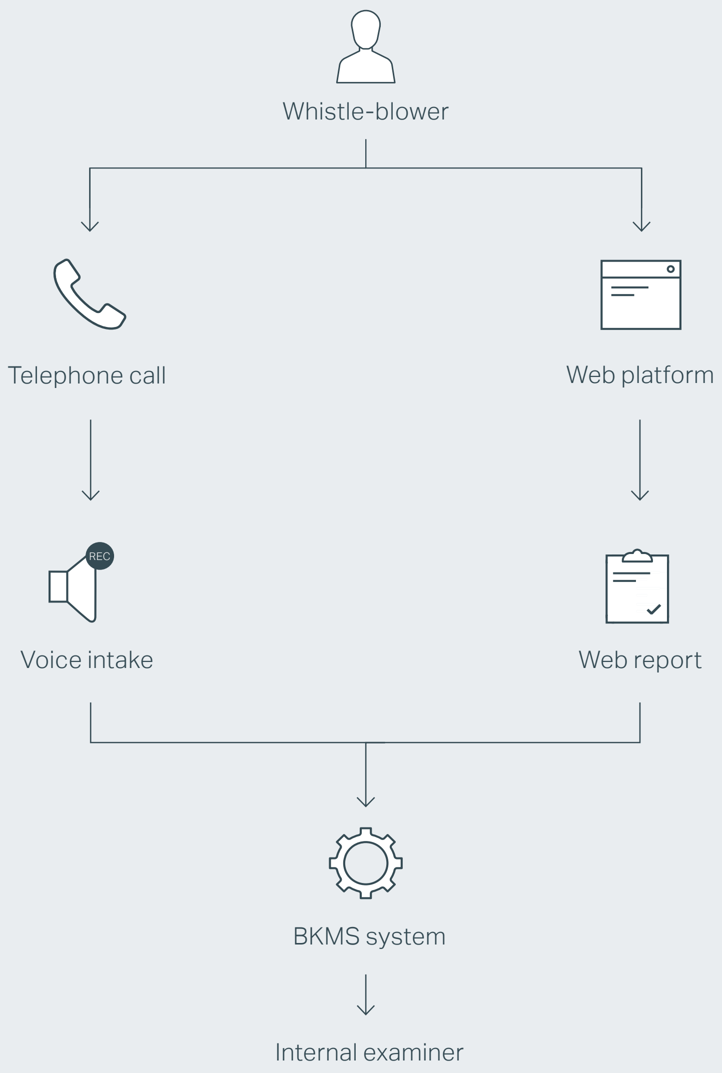
- Anti-money laundering, payments and collections, and cash destinations and origins;
- Powers of attorney and compliance with the "four-eyes" principle;
- Internal approvals for key actions;
- Negotiations with suppliers, customers and other business partners, in addition to existing contracts;
- Compliance with Befesa's supplier code of conduct;
- The definition of proper criminal compliance policies of Spanish entities;
- Training for employees on compliance policies, code of conduct and IT security;
- Hiring and remuneration of employees;
- Donations and sponsorships; and
- Taxes.

Befesa's internal audit team is also involved in investigations concerning complaints received through the Company's whistle-blowing channel.

The results and progress on internal audit works are reported to Befesa's Audit Committee periodically.

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



European Privacy Seal

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

03

Recover valuable materials from previously used products using best available technology

Consolidated financial statements

Consolidated statement of financial position as at 31 December 2020

(Thousands of euros)

Assets	Note(s)	2020	2019
Non-current assets:			
Intangible assets			
Goodwill	**6**	335,564	335,564
Other intangible assets	**7**	87,458	86,912
		423,022	**422,476**
Right-of-use assets	**10**	**20,401**	**17,409**
Property, plant and equipment	**8**	**295,308**	**308,592**
Non-current financial assets			
Investments in Group companies and associates		118	118
Other non-current financial assets	**9**	2,546	18,507
		2,664	**18,625**
Deferred tax assets	**18**	**81,369**	**70,913**
Total non-current assets		**822,764**	**838,015**
Current assets:			
Inventories	**11**	**39,350**	**51,753**
Trade and other receivables	**12**	**54,222**	**42,786**
Trade receivables from related companies	**12–24**	**1,003**	**751**
Accounts receivable from public authorities	**12–19**	**9,621**	**10,771**
Other receivables	**12**	**18,817**	**21,543**
Other current financial assets	**9**	**64**	**24,737**
Cash and cash equivalents	**4**	**154,558**	**125,460**
Total current assets		**277,635**	**277,801**
Total assets		**1,100,399**	**1,115,816**

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

Consolidated statement of financial position (thousands of euros) continued

Equity and liabilities	Note(s)	2020	2019
Equity:			
Parent Company	**13**		
Share capital		94,576	94,576
Share premium		263,875	263,875
Hedging reserves		(9,509)	26,951
Other reserves		(54,306)	(117,286)
Translation differences		(15,077)	(4,396)
Net profit/(loss) for the year		47,608	82,713
Interim dividend		(9,880)	–
Equity attributable to the owners of the Company		**317,287**	**346,433**
Non-controlling interests	**13**	**10,294**	**13,785**
Total equity		**327,581**	**360,218**
Non-current liabilities:			
Long-term provisions	**17**	**9,968**	**8,759**
Loans and borrowings	**14**	**520,602**	**519,210**
Lease liabilities	**10–14**	**10,860**	**11,013**
Other non-current financial liabilities	**16**	**4,614**	**3,174**
Other non-current liabilities	**15**	**4,905**	**6,091**
Deferred tax liabilities	**18**	**68,293**	**68,053**
Total non-current liabilities		**619,242**	**616,300**
Current liabilities:			
Loans and borrowings	**14**	**13,629**	**8,621**
Lease liabilities	**10–14**	**3,124**	**3,572**
Other current financial liabilities	**16**	**8,842**	**–**
Trade payables to related companies	**24**	**613**	**835**
Trade and other payables		**98,091**	**91,040**
Other payables			
Accounts payable to public administrations	**15–19**	11,432	17,033
Other current liabilities	**15**	17,845	18,197
		29,277	**35,230**
Total current liabilities		**153,576**	**139,298**
Total equity and liabilities		**1,100,399**	**1,115,816**

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 2020

(Thousands of euros)

	Note(s)	2020	2019
Continuing operations:			
Revenue	**5, 21.1**	604,330	647,940
Changes in inventories of finished goods and work in progress		(5,541)	16,708
Procurements	**21.2**	(249,713)	(280,816)
Other operating income	**21.3**	5,823	8,555
Personnel expenses	**21.4**	(82,989)	(75,621)
Other operating expenses	**21.5**	(148,422)	(157,207)
Amortisation/depreciation, impairment and provisions	**21.6**	(55,567)	(35,584)
Operating profit		**67,921**	**123,975**
Finance income	**14**	16,005	330
Finance costs	**22**	(22,295)	(19,491)
Net exchange differences		(2,997)	(931)
Net finance income/(loss)		**(9,287)**	**(20,092)**
Profit/(loss) before tax		**58,634**	**103,883**
Corporate income tax	**19**	(11,749)	(15,987)
Profit/(loss) for the year from continuing operations		**46,885**	**87,896**
Profit/(loss) for the year		**46,885**	**87,896**
Attributable to:			
Parent Company's owners		47,608	82,713
Non-controlling interests		(723)	5,183
Earnings/(losses) per share from continuing and discontinued operations attributable to owners of the Parent (expressed in euros per share)			
Basic earnings per share:			
– From continuing operations	**27**	1.40	2.43
		1.40	2.43

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 2020

(Thousands of euros)

	Note(s)	2020	2019
Consolidated profit/(loss) for the year		**46,885**	**87,896**
Other comprehensive income from continuing operations:			
Items that may subsequently be reclassified to income statement:			
Income and expense recognised directly in equity		**(34,583)**	**(18,854)**
– Cash flow hedges	**16**	(30,191)	(23,419)
– Translation differences		(13,449)	(2,461)
– Tax effect	**18**	9,057	7,026
Transfers to the income statement		**(15,326)**	**(2,896)**
– Cash flow hedges	**16**	(21,209)	(4,067)
– Tax effect	**18**	5,883	1,171
Other comprehensive income/(loss) for the year, net of tax		**(49,909)**	**(21,750)**
Total comprehensive income/(loss) for the year		**(3,024)**	**66,146**
Attributable to:			
Parent Company's owners		467	61,787
Non-controlling interests		(3,491)	4,359
Total comprehensive income/(loss) attributable to the Parent Company's owners resulting from:			
Continuing operations		467	61,787

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 2020

(Thousands of euros)

	Attributable to the owners of the Parent								
	Share capital (Note 13)	Share premium (Note 13)	Hedging reserves (Note 13)	Other reserves (Note 13)	Interim dividend (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 2018	**94,576**	**263,875**	**46,240**	**(158,918)**	**–**	**(2,759)**	**90,189**	**9,426**	**342,629**
Total comprehensive income for the year	–	–	(19,289)	–	–	(1,637)	82,713	4,359	66,146
Distribution of profit for the year									
Reserves	–	–	–	90,189	–	–	(90,189)	–	–
Dividends (Note 13)	–	–	–	(44,968)	–	–	–	–	(44,968)
Other movements	–	–	–	(3,589)	–	–	–	–	(3,589)
Balances at 31 December 2019	**94,576**	**263,875**	**26,951**	**(117,286)**	**–**	**(4,396)**	**82,713**	**13,785**	**360,218**
Total comprehensive income for the year	–	–	(36,460)	–	–	(10,681)	47,608	(3,491)	(3,024)
Distribution of profit for the year									
Reserves	–	–	–	67,724	–	–	(67,724)	–	–
Dividends (Note 13)	–	–	–	–	(9,880)	–	(14,989)	–	(24,869)
Other movements	–	–	–	(4,744)	–	–	–	–	(4,744)
Balances at 31 December 2020	**94,576**	**263,875**	**(9,509)**	**(54,306)**	**(9,880)**	**(15,077)**	**47,608**	**10,294**	**327,581**

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

Consolidated statement of cash flows for the year ended 31 December 2020

(Thousands of euros)

	2020	2019
Cash flows from operating activities:		
Continuing operations	58,634	103,883
Profit/(loss) for the year before tax including discontinued operations	**58,634**	**103,883**
Adjustments for:		
Depreciation and amortisation (Note 21.6)	37,460	35,584
Impairment losses (Note 8)	18,107	–
Changes in provisions	1,209	2,337
Interest income	(16,003)	(330)
Finance costs	22,295	19,491
Other profit and loss	(1,030)	(2,993)
Exchange differences	2,997	931
Changes in working capital:		
Trade receivables and other current assets	(11,529)	8,789
Inventories	12,403	(11,755)
Trade payables	1,645	(12,417)
Other cash flows from operating activities:		
Interest paid	(17,011)	(19,572)
Taxes paid	(16,634)	(21,426)
Net cash flows from/(used in) operating activities	**92,543**	**102,522**
Cash flows from investing activities:		
Investments in intangible assets (Note 7)	(2,278)	(2,586)
Investments in property, plant and equipment (Note 8)	(52,542)	(74,401)
Payments for right-of-use assets	–	(3,199)
Collection from financial assets	906	–
Collections from sale of property, plant and equipment	102	172
Investments in other current financial assets	(73)	(144)
Net cash flows from/(used in) investing activities	**(53,885)**	**(80,158)**
Cash flows from financing activities:		
Cash inflows from bank borrowings and other liabilities	20,237	1,777
Cash outflows from bank borrowings and other liabilities (Note 14)	(4,532)	(4,037)
Dividends paid to shareholders (Note 13)	(24,869)	(44,968)
Net cash flows from/(used in) financing activities	**(9,164)**	**(47,228)**
Effect of foreign exchange rate changes on cash and cash equivalents	**(396)**	**(324)**
Net increase/(decrease) in cash and cash equivalents	**29,098**	**(25,188)**
Cash and cash equivalents at the beginning of the year	125,460	150,648
Cash and cash equivalents at year-end from continuing operations	154,558	125,460

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 2020

(Thousands of euros)

1. General information

Befesa, S.A. (formerly Bilbao Midco, S.à r.l.) (hereinafter the "Parent Company" or the "Company") was incorporated in Luxembourg on 31 May 2013 as a "société à responsabilité limitée" subject to Luxembourg law for an unlimited period of time. The registered office of the Company is 46, Boulevard Grande-Duchesse Charlotte, L-1330, Luxembourg.

The Company's statutory activity is the acquisition, holding and disposal of interests in Luxembourg and/or in foreign companies and undertakings, as well as the administration, development and management of such interests.

The Company may provide loans and financing in any other kind or form, or grant guarantees or security in any other kind or form, for the benefit of the companies and undertakings forming part of the Group of which the Company is a member.

The Company may also invest in real estate, in intellectual property rights or any other movable or immovable assets in any kind or form.

The Company may borrow in any kind or form and issue bonds, notes or any other debt instruments as well as warrants or other share subscription rights.

In general, the Company may carry out any commercial, industrial or financial operation which it may deem useful in accomplishing and conducting its statutory activity.

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

The Company's shareholders at their General Meeting held on 18 October 2017, agreed to convert the Company from a private limited liability company to a public limited company.

On the same date, it was also agreed at the Company's General Shareholders' Meeting to change the name of the Company from Bilbao Midco, S.à r.l to Befesa, S.A.

The principal place of business of the Group is located in Asúa – Erandio, Bizkaia (Spain).

The Company and its subsidiaries ("Befesa" or the "Group") is an international industrial group (see Appendix) that engages mainly in the management and treatment of industrial residues (see Note 5).

The majority of the systems, equipment and facilities included in the Group's property, plant and equipment should be deemed to be assigned to the management and treatment of industrial residues and, in general, to the protection and improvement of the environment, either because of the business activities carried out by the Group or because of their nature (industrial residues). Most of the expenses and revenues for 2020 and 2019 should be understood to accrue in the normal course of the aforementioned activities. Any information on possible provisions for contingencies and charges and on possible contingencies, liability and grants, if any, arising from the normal performance of the activities constituting the Group's statutory activity, and other environmental measures are described, as and when appropriate, in the related notes to the consolidated financial statements.

Since 3 November 2017, Befesa, S.A. has been listed on the Frankfurt Stock Exchange (Germany) (Note 13) (ISIN code LU1704650164).

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

The consolidated financial statements have been prepared on the basis of the accounting records of Befesa, S.A. and its consolidated subsidiaries and joint arrangements. The consolidated financial statements for 2020 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other applicable provisions of the applicable financial reporting framework, to give a true and fair view of the consolidated equity and consolidated financial position of Befesa, S.A. and subsidiaries at 31 December 2020, and the consolidated results of operations, consolidated cash flows and changes in consolidated equity for the year then ended.

Details of the Group's accounting policies are included in Note 3.

The Directors of the Parent consider that the consolidated financial statements for the year ended 31 December 2020, authorised for issue on 24 March 2021, will be approved with no changes by the shareholders at their Annual General Meeting to be held on 23 June 2021.

2.1 Fair presentation

The consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto for the financial year 2020 include comparative figures for the prior year, which formed part of the 2019 consolidated financial statements approved by the shareholders of the Parent at their Annual General Meeting held on 18 June 2020.

The Company's consolidated financial statements for 2020 were formally prepared:

- In accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU), in conformity with the Regulation (EC) of the European Parliament and of the Council, including International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the accompanying consolidated financial statements are summarised in Note 3.
- Considering all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly the Group's consolidated equity and consolidated financial position at 31 December 2020 and the consolidated results of its operations, changes in consolidated equity and consolidated cash flows for the year then ended.
- On the basis that the accounting records kept by the Parent and by the other Group companies, which include the joint arrangements in which they had interests at 31 December 2020. However, since the accounting policies and measurement bases used in preparing Befesa, S.A.'s consolidated financial statements (IFRS-EU) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with IFRS-EU.
- The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.4.
- The consolidated financial statements have been prepared in accordance with Luxembourg's legal and regulatory framework and on the going concern assumption.

2.2 Adoption of new standards and interpretations issued

2.2.1 First-time application of standards

The following new and amendments to standards and interpretations, which are applicable for the first time in 2020, are either not relevant or do not have a material impact on the consolidated financial statements of the Group:

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform

Notes to the consolidated financial statements (thousands of euros) continued

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

2.2.2 Standards, amendments and interpretations issued but not yet effective

At the date these consolidated financial statements were authorised for issue, standards, amendments and interpretations issued but not yet effective, and which the Group expects to adopt for annual periods beginning on or after 1 January 2021, are as follows:

- Amendment to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform
- Amendment to IFRS 16: COVID-19-Related Rent Concessions
- Amendment to IFRS 4: Insurance Contracts – deferral of IFRS 19

In light of the Group's activities, the effect of applying the new standards, amendments or interpretations to the consolidated financial statements when they are applied for the first time is not deemed to be relevant for the Group.

2.2.3 Standards, amendments and interpretations to existing standards that have not been adopted by the European Union

At the date these consolidated financial statements were authorised for issue, the IASB and the IFRS Interpretations Committee had published the following standards, amendments and interpretations, which are pending adoption by the European Union:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current;
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates;
- IFRS 17 Insurance Contracts;
- Amendments to IAS 1: Classification of liabilities as current or non-current; and
- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements 2018–2020.

In light of the Group's activities, the effect of applying the new standards, amendments or interpretations to the consolidated financial statements when they are applied for the first time is not deemed to be relevant for the Group.

2.3 Functional currency

These consolidated financial statements are presented in thousands of euros, since the euro is the currency used in the main economic area in which the Group operates. Foreign operations are recognised in accordance with the policies established in Note 3. The main currencies other than the euro in which the Group carries out its transactions are US dollar, Korean won, Swedish krona, Turkish lira, Chinese yuan and British pound.

2.4 Use of estimates and judgements

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

In the Group's consolidated financial statements for the year ended 31 December 2020, estimates are occasionally made by senior management of the Parent Company and of the consolidated companies, and later ratified by the Directors, in order to qualify certain assets, liabilities, income, expenses and obligations reported herein. The Directors have considered in all of their estimates the current and future impacts of COVID-19.

Those estimates relate to the following:

Impairment losses on goodwill and certain assets (see Notes 6, 7, 8 and 10)

The Group verifies annually whether there is an impairment loss in respect of goodwill and other assets, in accordance with the accounting policy described in Note 3.

When calculating the value in use of the principal items of goodwill and licenses with indefinite useful life, the assumptions used were as follows:

- Projections of the cash flows of the cash generating unit (CGU) or group of CGUs in question are made for periods of five years (when based on past experience it is possible to predict cash flows accurately over a period longer than five years), calculating a residual value based on flow for the last year projected, provided that this flow is representative of a normalised flow to reflect margin and cash flow experience in those businesses, as well as future expectations. The projections are based on the budgets for the next year increased in accordance with the assumptions estimated by management.
- The gross margins used in the calculation are in line with the profit expected to be obtained, based on past experience of profits of each of the segments and on new contracts existing in each case.
- To discount the flows, a discount rate is used based on the weighted average cost of capital for assets of this type, adjusted where necessary, on the basis of the additional risk that could be contributed by certain types of activity.
- In any case, further sensitivity analyses are conducted, particularly with regard to the discount rate used and the residual growth rate, to ensure that the effect of possible changes in estimates of these rates does not have an impact on the recoverability of the recognised goodwill and licenses with indefinite useful life.

Recoverability of deferred taxes (Notes 3.18 and 18)
Deferred tax assets are recognised for all deductible temporary differences and unused deductions for which it is probable that the companies of the Group will have future tax profits against which they can be utilised. To determine the deferred tax assets eligible for recognition, their amount, the dates on which the future tax profits are expected to be obtained and the reversal period of the temporary differences are estimated.

Estimates made in the context of share-based payments (Note 23)
To calculate the liability for the obligation derived from share-based compensation plans with certain employees, at year-end the Group estimates the fair values of the liabilities based on Befesa, S.A.'s share price, and the degree of target achievement.

Although these estimates were made on the basis of the best information available at 31 December 2020 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statement.

2.5 Changes in the scope of consolidation

The following is a description of the main changes in the scope of consolidation in 2020 and 2019:

2020
There was no change in the scope of consolidation in 2020.

2019
Following the growth plan of the Group, three new companies were incorporated in China: Befesa (China) Investment Co., Ltd., Befesa Zinc Environmental Protection Technology (Jiangsu) Co., Ltd. and Befesa Zinc Environmental Protection Technology (Henan) Co., Ltd.. In addition, Befesa Holding S.à r.l. has been dissolved as a result of the simplification process carried out on the corporate structure.

2.6 Alternative performance measures

The Company regularly reports alternative performance measures (APMs) not defined by IFRS that management believes are relevant indicators of the performance of the Group.

Alternative performance measures are used to provide readers with additional financial information that is regularly reviewed by management and used to make decisions about operating matters. These measures are also used for defining senior management's variable remuneration. They are useful in terms of relating to discussions with the investment analyst's community.

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

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

Notes to the consolidated financial statements (thousands of euros) continued

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

2.6.1 Net debt

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

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

The following table reconciles net debt to the relevant statement of financial position line items:

	2020	2019
Non-current financial debt (Note 14)	520,602	519,210
Non-current lease liability (Notes 10 and 14)	10,860	11,013
Current financial debt (Note 14)	13,629	8,621
Current lease liability (Notes 10 and 14)	3,124	3,572
Cash and cash equivalents (Note 4)	(154,558)	(125,460)
Other current financial assets net of derivative financial instruments (Note 9)	(64)	(61)
Net debt	**393,593**	**416,895**

2.6.2 EBITDA, Adjusted EBITDA and EBITDA margin

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

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

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

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

	2020	2019
Revenue (Note 5)	604,330	647,940
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions) (Note 21)	(480,842)	(488,381)
Amortisation/depreciation, impairment and provisions (a) (Note 21)	(55,567)	(35,584)
EBIT (Operating profit/(loss)) (b)	**67,921**	**123,975**
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (a+b)	**123,488**	**159,559**
One-time projects	–	–
Non-recurrent charges/income (Note 8)	3,460	–
Adjusted EBITDA	**126,948**	**159,559**

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

	2020	2019
Revenue (a)	**604,330**	**647,940**
EBITDA (b)	**123,488**	**159,559**
One-time projects	–	–
Non-recurrent charges/income (Note 8)	3,460	–
Adjusted EBITDA (c)	**126,948**	**159,559**
EBITDA margin (%) (b/a)	**20%**	**25%**
Adjusted EBITDA margin (%) (c/a)	**21%**	**25%**

2.6.3 EBIT, Adjusted EBIT and EBIT margin

EBIT is defined as operating profit for the year. The Company uses EBIT to monitor its financial return after both operating expenses and a charge representing the cost of usage of both its property, plant and equipment and finite-life intangible assets.

Adjusted EBIT is defined as EBIT adjusted by any one-time projects/non-recurrent charges or incomes.

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

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

	2020	2019
Revenue (Note 5)	604,330	647,940
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions) (Note 21)	(480,842)	(488,381)
Amortisation/depreciation, impairment and provisions (Note 21)	(55,567)	(35,584)
EBIT (Operating profit/(loss))	**67,921**	**123,975**
One-off impairments/provisions (Note 8)	18,107	–
EBITDA adjustments (Note 8)	3,460	–
Adjusted EBIT	**89,488**	**123,975**

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

	2020	2019
Revenue (a)	**604,330**	**647,940**
EBIT (b)	**67,921**	**123,975**
One-off impairments/provisions (Note 8)	18,107	–
EBITDA adjustments (Note 8)	3,460	–
Adjusted EBIT (c)	**89,488**	**123,975**
EBIT margin (%) (b/a)	**11%**	**19%**
Adjusted EBIT margin (%) (c/a)	**15%**	**19%**

Notes to the consolidated financial statements (thousands of euros) continued

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

2.6.4 Net debt/Adjusted EBITDA (Adjusted leverage ratio)

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

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

	2020	2019
Net debt (Note 4)	393,593	416,895
Adjusted EBITDA	126,948	159,559
Net debt/Adjusted EBITDA	**3.1**	**2.6**

2.6.5 Capex

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

The Company believes that this measure is useful to understand the effort made by the Company each year to acquire, upgrade and maintain physical assets such as property, industrial buildings or equipment.

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

	2020	2019
Cash flows from investing activities:		
Investments in intangible assets (Note 7)	2,278	2,586
Investments in property, plant and equipment (Note 8)	52,542	74,401
Payments for right-of-use assets (Note 10)	–	3,199
Capex	**54,820**	**80,186**

3. Accounting principles and policies and measurement methods applied

All accounting principles and policies are consistently applied by the Group.

3.1 Subsidiaries

Subsidiaries are entities, including structured entities, over which the Group, either directly or indirectly, exercises control. The Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Company is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

The income, expenses and cash flows of subsidiaries are included in the consolidated financial statements from the date of acquisition, which is the date on which the Group obtains effective control of the subsidiaries. Subsidiaries are no longer consolidated once control ceases.

Transactions and balances with Group subsidiaries and unrealised gains or losses have been eliminated on consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The accounting policies of subsidiaries have been adapted to Group accounting policies for transactions and events in similar circumstances.

The consolidated financial statements or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Company.

3.2 Joint arrangements

Joint arrangements are those in which there is a contractual agreement to share the control of an economic activity, in such a way that decisions about the relevant activities require the unanimous consent of the Group and the remaining venturers or operators. The existence of joint control is assessed by considering the definition of control over subsidiaries.

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

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

Joint operations arise when investors have rights to the assets and obligations with respect to the liabilities of an arrangement. The Group recognises the assets, including its share of any assets held jointly, the liabilities, including its share of any liabilities incurred jointly with the other operators, the revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation and the expenses, including its share of any expenses incurred jointly, in the consolidated financial statements.

The Group's acquisition of an initial and subsequent share in a joint operation which constitutes a business is recognised by following the same criteria used for business combinations, at the percentage of ownership of each individual asset and liability. However, in subsequent acquisitions of additional shares in a joint operation, the previous share in each asset and liability is not subject to revaluation, to the extent that the Group retains joint control.

In purchases by the Group from a joint operation, the resulting gains and losses are only recognised when it resells the acquired assets to a third party. However, when such transactions provide evidence of a reduction in net realisable value or an impairment loss of the assets, the Group recognises its entire share of such losses.

The integration of "joint operations" (Recytech S.A.S., part of the Steel Dust Recycling Services segment) in the consolidated financial statements means that assets, liabilities, income and expenses at 31 December 2020 are increased by approximately €12,239 thousand, €2,606 thousand, €14,648 thousand and €11,750 thousand, respectively (approximately €12,989 thousand, €2,252 thousand, €21,225 thousand and €14,538 thousand, respectively, at 31 December 2019), before consolidation adjustments and eliminations.

3.3 Non-controlling interests

Non-controlling interests in subsidiaries acquired as of 1 January 2004 are recognised on the acquisition date at the percentage participation in the fair value of identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the percentage participation in their equity on the date of first consolidation.

Non-controlling interests are disclosed in consolidated equity separately from equity attributable to shareholders of the Parent. Non-controlling interests in consolidated profits for the year (and in consolidated comprehensive income for the year) are also presented separately in the consolidated statement of comprehensive income.

The consolidated total comprehensive income for the year and changes in equity of the subsidiaries attributable to the Group and non-controlling interests after consolidation adjustments and eliminations are determined in accordance with the percentage ownership at year-end, without considering the possible exercise or conversion of potential voting rights and after discounting the effect of dividends, agreed or not, on cumulative preference shares classified in equity accounts. However, Group and non-controlling interests are calculated taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently give access to the returns associated with the interests held in the subsidiaries.

The results and each component of other comprehensive income are allocated to equity attributable to the shareholders of the Parent and to non-controlling interests in proportion to their investment, although this implies a balance receivable from non-controlling interests.

Notes to the consolidated financial statements (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

3.4 Goodwill

This heading in the consolidated financial statement reflects the difference between the price paid to acquire certain consolidated subsidiaries and the Group's interest in the fair value of the net assets (assets, liabilities and contingent liabilities) of those companies at the date of acquisition.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the company acquired over the acquisition cost of the investment is allocated to income on the date of acquisition.

Goodwill is recognised as an asset and at the end of each reporting period it is estimated whether any impairment has reduced its value to an amount lower than its carrying amount. If so, impairment losses are recognised for the goodwill, which must not be reversed in a subsequent period.

Goodwill is allocated to CGUs for the purpose of impairment testing. The goodwill is allocated to the CGUs that are expected to benefit from the business combination in which the goodwill arises.

On disposal of a subsidiary or associate, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

3.5 Other intangible assets

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

Internally generated intangible assets – research and development expenditure

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

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

Internally generated intangible assets are amortised on a straight-line basis over the period that they are expected to generate income, which is generally five years. The technical, economic and financial potential of each project is reviewed at each year-end. If a project is progressing negatively or if there are no financing plans to assure effective completion, the related amount is charged to income in full.

Where no internally generated intangible asset can be recognised, development expenditure is accounted for as an expense in the year in which it is incurred.

The Group has recognised the work performed on its intangible assets in relation to the development of new technologies for which there is a high probability of technical and economic success as a decrease in the income statement headings which reflect the carrying amount of capitalised expenses for an amount of €953 thousand (31 December 2019: €944 thousand). The amounts capitalised during the year mainly relate to projects aimed at improving aluminium scrap treatment processes developed by the subsidiary Befesa Aluminio, S.L..

Computer software

The acquisition and development costs incurred in relation to the basic computer systems used in the management of the Group are recognised with a charge to "Other intangible assets" in the consolidated financial statement. Computer system maintenance costs are recognised with a charge to the consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over the useful life of the assets (five years).

Concessions, patents, licences and similar items
In general, the amounts recognised by the Group in connection with concessions, patents, licences and similar items relate to the cost incurred in acquiring them, which is amortised on a straight-line basis over the estimated useful life based on the concession arrangement.

The capitalised concessions have a maximum estimated useful life of 25 years.

Licences acquired in a business combination are recognised at fair value at the acquisition date and have an indefinite useful life. Licences with indefinite useful life are tested for impairment at least annually (Note 7). The useful life, in accordance with IAS 38, is considered indefinite due to the fact that those licences represent the amount that any producer willing to enter the market at any moment would have to pay in order to obtain the needed environmental authorisation to start the activity, and have no maturity.

3.6 Property, plant and equipment
Property, plant and equipment are recognised at acquisition cost less any accumulated depreciation and any recognised impairment losses. However, prior to the date of transition to IFRS, the Group revalued certain items of property, plant and equipment as permitted by the applicable legislation. In accordance with IFRS, the Group considered the amount of the restatements as part of the cost of the assets.

Costs of expansion, modernisation or improvements, leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Repairs that do not lead to a lengthening of the useful life of the assets and maintenance expenses are charged to the consolidated income statement for the year in which they are incurred.

In-house work on non-current assets is recognised at accumulated cost (external costs plus in-house costs, determined on the basis of in-house warehouse materials consumption and manufacturing costs allocated using hourly absorption rates, similar to those used for inventory valuation). In 2020, €1,506 thousand was recognised in this regard (2019: €2,532 thousand) (Note 21.3). At 31 December 2020, 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 China in connection with the construction of the new plants in Changzhou (Jiangsu province) and Xuchang (Henan province) (2019: work carried out in Turkey in connection with the capacity expansion of the plant and in Korea in connection with the construction of the new WOX washing plant) (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 property, plant and equipment	4–10

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

Assets' residual values and useful lives are reviewed, and adjusted as appropriate, at each consolidated financial statement date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the items sold.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 8).

Notes to the consolidated financial statements (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

3.7 Leases

(i) *Identification of a lease*

At inception of a contract, the Group assesses whether it contains a lease. A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The period of time during which the Group uses an asset includes consecutive and non-consecutive periods of time. The Group reassesses the conditions if the contract is changed.

(ii) *Lessee accounting*

For contracts that contain one or more lease components and non-lease components, the Group considers all the components as a single lease component.

At the date of initial application, the Group recognises a right-of-use asset and a lease liability for leases previously classified as an operating lease applying IAS 17.

The right-of-use asset comprises the amount of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred and an estimate of dismantling and restoration costs to be incurred, as described in the accounting policy for provisions.

The Group measures the lease liability at the present value of the lease payments that are not made at the commencement date. The Group discounts the lease payments using the appropriate incremental borrowing rate, unless the interest rate implicit in the lease can be reliably determined. In this regard, for initial measurement of the lease liability, the incremental borrowing rate has been used, which represents the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment (2% – 2.75%).

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

The Group measures the right-of-use asset at cost, less any accumulated depreciation and any accumulated impairment losses, adjusted for any remeasurement of the lease liability.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the right-of-use asset includes the price of the purchase option, the lessee shall depreciate the right-of-use asset following the depreciation criteria for property, plant and equipment from the commencement date of the lease to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset and the end of the lease term.

The Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

The Group recognises remeasurements of the lease liability as an adjustment to the right-of-use asset, until this is reduced to zero and then in profit or loss.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.

The Group remeasures the lease liability if there is a change in the amounts expected to be payable under a residual value guarantee or a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review.

3.8 Non-financial asset impairment

At each reporting date, the Group reviews non-current assets to determine whether there is any indication that they might have undergone an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, at each balance financial statement date, the possible impairment of goodwill and of any intangible assets that have not yet come into operation or which have an indefinite useful life is analysed.

The recoverable amount is the higher of fair value, less costs to sell and value in use, which is taken to be the present value of the estimated future cash flows. In order to calculate value in use, the assumptions used include discount rates, growth rates and forecast changes in selling prices and costs. The Directors estimate post-tax discount rates, which reflect the time value of money and the risks specific to the CGU. The growth rates and the changes in selling prices and costs are based on in-house and industry forecasts, and experience and future expectations, respectively.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised for the difference, with a charge to “Amortisation/depreciation, impairment and provisions” in the consolidated income statement. Impairment losses recognised for an asset in prior years are reversed, with a credit to the aforementioned heading when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, except in the case of the impairment of goodwill, which cannot be reversed.

3.9 Financial instruments

(i) Recognition and classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 “Financial Instruments: Presentation”.

For measurement purposes, the Group classifies financial instruments in the following categories of financial assets and financial liabilities according to the business model and the characteristics of the contractual cash flows.

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the income statement and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the consolidated income statement. This category includes the loans, trade and other receivables, and security deposits.

- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in the income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the consolidated income statement. This category corresponds with the hedging derivatives.

- Fair value through profit or loss (FVPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the income statement and presented net within other gains/(losses) in the period in which it arises. This category includes the factoring.

Notes to the consolidated financial statements (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

The business model is determined by key Group personnel and on one level reflects the manner in which they jointly manage groups of financial assets to reach a specific business objective. The Group's business model represents the manner in which it manages its financial assets to generate cash flows.

The Group initially designates a financial liability at FVPL if doing so eliminates or significantly reduces an inconsistency in the measurement or recognition that would otherwise arise, if measurement of the assets of liabilities or recognition of the results thereof were made on different bases, or if a group of financial liabilities or financial assets and financial liabilities is managed, and their return is evaluated, based on fair value, in accordance with an investment strategy or documented risk management strategy, and information on this group is provided internally on the same basis to the Group's key management personnel.

The Group classifies the remaining financial liabilities, except financial guarantee contracts, commitments to extend below-market rate loans and financial liabilities resulting from a transfer of financial assets that do not qualify for derecognition or are recognised using the continued involvement approach, as financial liabilities at amortised cost.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated statement of comprehensive income. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

(iii) Impairment

The Group recognises an impairment loss for expected credit losses on financial assets at amortised cost, FVOCI, lease finance receivables, contractual assets, loan commitments and financial guarantees.

For trade receivables, the Group applies the simplified approach permitted under IFRS 9 which requires that expected lifetime losses be recognised since the initial recognition of the receivable.

(iv) Derecognition, modification and extinguishment of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(v) Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor or is legally released from primary responsibility for the liability, either by a process of law or by the creditor.

The exchange of debt instruments between the Group and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, providing the instruments have substantially different terms.

The Group considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted for as an extinguishment of the original financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, the modified flows are discounted at the original effective interest rate, and any difference in the previous carrying amount is recognised in the income statement. Any costs or fees incurred adjust the carrying amount of the financial liabilities and are amortised using the amortised cost method over the remaining term of the modified liability.

The Group has contracted reverse factoring facilities with various financial institutions to manage payments to suppliers. The Group applies the above criteria to determine whether it should derecognise the original trade payable and recognise a new liability with the financial institutions. Trade payables settled under the management of financial institutions are recognised under trade and other payables only if the Group has transferred management of the payment to the financial institutions, but retains primary responsibility for settling the debt with the trade creditors.

Factoring receivables
Befesa derecognises trade receivables for the amount transferred to financial institutions, providing the factor assumes all the risk of insolvency and default (non-recourse factoring). At 31 December 2020 and 2019, balances receivable not due, which were extinguished as a result of the aforementioned non-recourse factoring operations, amounted to €36,181 thousand and €37,653 thousand, respectively. Unlike the above, Befesa does not derecognise amounts receivable transferred to financial institutions for which it retains substantially the associated risks.

3.10 Hedge accounting

Derivative financial instruments are initially recognised using the same criteria as for financial assets and financial liabilities. Derivative financial instruments that do not qualify for hedge accounting are classified and measured as financial assets and financial liabilities at fair value through profit or loss. Derivative financial instruments which qualify for hedge accounting are initially measured at fair value, plus any transaction costs that are directly attributable to the acquisition, or less any transaction costs directly attributable to the issue of the financial instruments. Nonetheless, transaction costs are subsequently recognised in profit and loss, inasmuch as they do not form part of the changes in the effective value of the hedge.

At the inception of the hedge, the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. This documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group measures hedge effectiveness.

Hedge accounting only applies when there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does dominate the value changes that result from that economic relationship, and the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness, irrespective of whether recognised or not, that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting.

For cash flow hedges of forecast transactions or a component thereof, the Group assesses whether these transactions are highly probable and if they present an exposure to variations in cash flows that could ultimately affect profit or loss for the year.

At the inception of the hedging relationship, and on an ongoing basis, the Group evaluates whether the relationship meets the effectiveness qualifying criteria prospectively. The Group assesses the effectiveness at each accounting close or when there are significant changes affecting the effectiveness requirements.

The Group performs a qualitative assessment of effectiveness, providing that the fundamental conditions of the instrument and the hedged item are the same. When the fundamental conditions are not exactly the same, the Group uses a hypothetical derivative with fundamental conditions equivalent to the hedged item to assess and measure efficiency.

The Group records changes in the time value of the options, hedging an item related to a transaction in other comprehensive income. If the hedged item results in the recognition of a non-financial asset or liability, the Group includes the accumulated amount in other comprehensive income with an adjustment to the non-financial asset or liability. For the remaining hedging relationships, the amount deferred in other comprehensive income is reclassified to profit or loss in the same period or periods in which the expected hedged cash flows affect profit or loss. Nonetheless, if the Group expects that part of the amount will not be recovered in one or more future periods, this is immediately recognised in profit or loss.

However, if the hedge is interrupted, the amount deferred in other comprehensive income is reclassified immediately to profit or loss.

Notes to the consolidated financial statements (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

Cash flow hedges

The Group recognises the portion of the gain or loss on the fair value measurement of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised under finance income or costs.

The separate component of other comprehensive income associated with the hedged item is adjusted to the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in fair value or present value of the expected future cash flows on the hedged item from inception of the hedge. However, if the Group expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies into finance income or finance expenses the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss and under the same caption of the consolidated income statement.

3.11 Cash and cash equivalents

This item includes cash on hand, current bank accounts and, where applicable, deposits and reverse repurchase agreements that meet all of the following requirements:

- They may be converted into cash.
- They have a maturity of three months or less on the date of acquisition.
- They are not subject to a significant risk of changes in value.
- They form part of the Company's usual cash management policy.

Bank overdrafts are recognised in the consolidated financial statement as current borrowings.

3.12 Inventories

"Inventories" in the consolidated financial statement includes the assets that the Group:

- holds for sale in the ordinary course of its business;
- has in the process of production, construction or development for such sale; or
- expects to consume in the production process or in the provision of services.

Raw materials and goods held for resale are measured at the lower of FIFO cost and market. Ancillary products, consumables and spare parts are measured at the lower of the price per the last invoice and market value, which does not differ significantly from FIFO cost.

Work-in-progress and finished goods are measured at the lower of market value and average production cost. Average production cost is calculated as the specific cost of the supplies and services plus the applicable portion of the direct and indirect cost of labour and general manufacturing expenses. Other warehouse materials are measured at the lower of average acquisition cost and market value.

Obsolete, defective or slow-moving materials have been reduced to their net realisable value.

3.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are presented in equity as a deduction, net of taxes, from revenue obtained.

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

3.14 Provisions, contingent liabilities and contingent assets

In the preparation of the consolidated financial statements, the Parent's Directors drew a distinction between:

- Provisions: Credit balances covering present obligations at the consolidated financial statement date arising from past events that could give rise to a loss for the companies, which are certain as to their nature but uncertain as to their amount and/or timing.
- Contingent liabilities: Possible obligations arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated companies and which do not meet the requirements for recognition as provisions.
- Contingent assets: Possible assets that arise from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the entities.

The Group recognises provisions for the estimated amount required to suitably meet its liability, whether it be legal or constructive, probable or certain, arising from contingencies, litigation in process or obligations, which arise as a result of past events, for which it is more probable than not that an outflow of resources will be required, provided that it is possible to make a reasonable estimate of the amount in question. Provisions are recognised when the liability or obligation arises with a charge to the relevant heading in the consolidated income statement, based on the nature of the obligation, for the present value of the provision when the effect of discounting the obligation is material.

Provisions for pensions and similar obligations
Several Group companies have certain defined benefit obligations with their employees to supplement social security retirement pensions. These obligations had been externalised at 31 December 2020 and 2019. Subsidiaries' obligations as pension plan promoters are established in the contribution of a percentage of employees' pensionable salaries. These commitments are not significant on a Group scale.

Dismantling, restoration and similar provisions
In addition to the above, "Long-term provisions" in the accompanying consolidated financial statement also include, where applicable, the estimated amounts required to close certain facilities (Note 17), and the estimated amounts required to settle any liability that might arise from ongoing litigation and other significant obligations, when it is considered more probable than not that these obligations will have to be met, while any contingent liabilities (possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of Befesa) are not recognised in the consolidated financial statements, but rather are disclosed, as required by IAS 37 (see Note 21).

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

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

Notes to the consolidated financial statements (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

3.15 Revenue recognition

a) Sale of goods

Sales of WOX and secondary aluminium are recognised when control of the products is transferred to the customers, mainly manufacturing companies, when the customer has full discretion over the products and there is no unfulfilled obligation that could affect the client's acceptance of the products. Delivery occurs depending on the specific agreements with customers (incoterm), the risks of obsolescence and loss have been transferred to the customers, and the Group has evidence that all criteria for acceptance have been satisfied.

Revenue is recognised when the goods are delivered as this is the point in time when the consideration is unconditional because only the passage of time is required before the payment is due.

The Group acts as the principal in all sales transactions. In addition, the Group has determined that its contracts with customers do not contain a significant financing component and Group sales have no variable component.

No critical judgements in recognising revenue are identified.

In relation to the revenue recognition of sales, the Group considers that under IFRS 15 there is only one kind of contract with customers. This assessment is supported by the fact that the main sales of the Group's products have only one performance obligation: the delivery of WOX or the delivery of secondary aluminium. Furthermore, the products are not dependent on or connected to other products or services. Consequently, as there are no delayed performance obligations, the revenue is recognised fully after the passing of control to the customer.

The performance obligations for this type of sale reflect the delivery of distinct goods defined in each contract and the price of each delivery is established in each separate contract, having been indexed to various market variables on the payment dates.

b) Sale of services

Revenue from customer contracts is recognised based on the amount expected to be received from the customer when the transfer of control of a customer service occurs. Control transfer can occur at a specific time or over time.

The performance obligations for this type of sale correspond to the collection of waste, the collection of salt slags and SPLs and the delivery of the defined product in each technology contract. The Company considers that the performance obligation related to this type of service is satisfied at a specific point in time except for technology contract sales, when the performance obligation is satisfied over time.

The price of each service is established in each separate contract. Each contract has a unique performance obligation which means that the price is estimated on an individual contract basis.

A contract is not considered to contain a significant financing component when the period between when the customer's committed service is transferred and when the customer pays for that service is one year or less.

There are no incremental costs for any of this type of rendering of services to secure the contract.

Consequently, as there are no delayed performance obligations, the revenue is recognised fully after the passing of control to the customer.

Based on this, the Group discloses revenue by reporting segment and geographical area (Note 5).

The different types of service provided by Befesa are:

<u>Steel Business Services</u>

In the Steel Dust Recycling Services segment, the Group collects and recycles crude steel dust and other steel residues generated in the production of crude, stainless and galvanised steel through EAF steel production. The Group sells the WOX produced in the recycling of crude steel dust to zinc smelters and, to a lesser extent, return metals (mainly nickel, chromium and molybdenum that are recovered in the recycling of stainless steel residues) to stainless-steel producers for a tolling fee or sells such recovered metals on the market.

In this segment, additionally to the Group revenues from sales of WOX, the other revenue sources are:

(i) The service fees the Group charges for collecting and recycling crude steel dust. The performance obligations for this type of sale correspond to the collection of waste as defined in each contract; the price of the service is established in each separate contract.

(ii) The tolling fees the Group charges for collecting and recycling stainless-steel residues and for returning the recovered metals to the stainless-steel producers. Most of the services of this type are with the return of recovered metals. If there are no returns, the service is the same as in the previous point (collecting). The performance obligations for this type of sale correspond with waste collection. The Company invoices customers a tolling/conversion fee per tonne of dust treated. The plant receives stainless steel dust from its customers, treats this dust and returns to the customers the alloys contained in this dust.

Collection of salt slags and SPLs
In the Salt Slags operations of the Aluminium Salt Slags Recycling Services segment, the Group recycles salt slags, which it receives from customers for a service fee or generates during its own production of secondary aluminium. In addition, the Group recycles SPLs generated by primary aluminium producers.

The basis for the Aluminium Salt Slags Recycling Services segment is the secondary aluminium production market in Europe. The secondary aluminium production market produces salt slags, which is categorised as a hazardous waste in Europe and other markets.

The performance obligations for this type of sale reflect the collection of the salt slags and SPLs; the treatment price per tonne is a fixed price indicated in each contract, based on the tonnes received during the year.

Technology division
The Secondary Aluminium subsegment has a small technology division which designs, constructs, assembles and starts up the facilities so they are ready for use in the aluminium, zinc and lead cast houses.

The performance obligation for this type of sale reflects the delivery of the defined product in each contract, with each contract containing a purchase order with all of the specifications of the project and a fixed price for it.

Note 12 to the financial statements for 2020 reflects a breakdown of "Contract assets" at 31 December 2020 and 2019, which amount to €2,691 thousand (2019: €721 thousand).

c) Interest income
Interest income is accrued on a time-proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

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

3.16 Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of assets, in accordance with IAS 23 for assets that necessarily take a substantial period of time to be prepared for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

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

Notes to the consolidated financial statements (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

3.17 Foreign currency

(i) Foreign currency transactions, balances and cash flows

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies have been translated into euros at the foreign exchange rate ruling at the financial statement date, while non-monetary assets and liabilities valued at historical cost are translated at the rates prevailing at the transaction date. For these purposes, advances to suppliers and customers are deemed non-monetary items and are translated at the exchange rate on the date the payment or collection took place. Subsequent recognition of the receipt of the inventories or the advance on the income from sales is translated at the original exchange rate and not at the transaction date. Non-monetary assets measured at fair value have been translated into euros at the exchange rate at the date that the fair value was determined.

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(ii) Translation of foreign operations

Foreign operations whose functional currency is not the currency of a hyperinflationary economy have been translated into euros as follows:

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparative amounts, are translated at the closing rate at the reporting date.
- Income and expenses, including comparative amounts, are translated at the exchange rates prevailing at each transaction date.
- All resulting exchange differences are recognised as translation differences in other comprehensive income.

Translation differences recognised in other comprehensive income are accounted for in profit or loss as an adjustment to the gain or loss on the sale using the same criteria as for subsidiaries.

3.18 Income tax, deferred tax assets and deferred tax liabilities

Expense for income tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction the result of which is recognised directly in equity, in which case the related tax is also recognised in equity.

Current income tax expense is calculated by aggregating the current tax arising from the application of the tax rate to the taxable profit (tax loss) for the year, after deducting allowable tax credits, plus the change in deferred tax assets and liabilities, and any tax loss and tax credit carry-forwards and deductions.

Deferred tax assets and liabilities include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carry-forwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. In addition, deferred tax assets recognised for tax loss and tax credit carry-forwards and temporary differences are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

Deferred tax assets and liabilities recognised are reassessed at each financial statement date in order to ascertain whether they still exist; the appropriate adjustments are made based on the findings of the analyses performed (see Notes 18 and 19).

The Group recognises tax loss carry-forwards and deductions providing their realisation or future application is probable within a period of 10 years. To do so, management uses prudent estimates approved by the Directors which reflect a growth rate of 0% in the years beyond the budgeting period for the business (one year). Directors have also taken into account the Group's ability to use tax benefits in different fiscal years depending on their needs.

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

3.19 Environmental matters

The Group carries out actions mainly aimed at preventing, reducing or repairing any damage its activities may cause to the environment.

The Group recognises environmental investments at acquisition or production cost, net of the related accumulated depreciation/amortisation, and classifies them by nature in the appropriate non-current asset accounts.

Expenses incurred in order to comply with the applicable environmental legislation are classified by nature under "Other operating expenses" in the accompanying consolidated income statement.

3.20 Related party transactions

The Group performs all its transactions with related parties at arm's length. In addition, transfer prices are adequately supported and, therefore, the Parent's Directors consider that there are no material risks in this regard that might give rise to significant liabilities in the future.

3.21 Dividend distribution

The distribution of dividends to the Parent Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

3.22 Segment reporting

The operating segments are presented consistently with the management approach, in accordance with the information used internally at the highest decision-making level. The maximum authority for decision-making is responsible for assigning resources to operating segments and evaluating the segments' performance. Segment reporting is disclosed in Note 5.

3.23 Consolidated statement of cash flows

The following terms are used in the consolidated statement of cash flows, which was prepared using the indirect method, with the meanings specified:

- Cash flows: Inflows and outflows of cash and cash equivalents, which are short-term, liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities: The principal revenue-producing activities of the Group companies and other activities that are not investing or financing activities.
- Investing activities: The 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.

3.24 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.

Notes to the consolidated financial statements (thousands of euros) continued

3. Accounting principles and policies and measurement methods applied continued

b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- The post income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- The weighted average number of additional ordinary shares that would have been outstanding, assuming the conversion of all dilutive potential ordinary shares.

4. Financial risk management policy

The activities carried out by the Group through its business segments are exposed to several financial risks: market risk (including foreign currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Risk Management Model used by the Group focuses on the uncertainty in financial markets and attempts to minimise the potential adverse effects on the Group's earnings.

Risk management is carried out by the Corporate Financial Department in accordance with internal management rules. This department identifies, assesses and hedges financial risks in close cooperation with the different operating units. The internal management rules provide written policies for global risk management, as well as for specific areas such as foreign currency risk, interest rate risk, liquidity risk, the use of derivative and non-derivative instruments, and investment of cash surpluses. There were no changes in risk management policies between 2020 and 2019.

4.1 Financial risk factors

a) Market risk

i) Foreign currency risk

The Group companies operate internationally and are therefore exposed to foreign currency risks in foreign currency transactions (especially US dollar).

To control the foreign currency risk that arises from future commercial transactions and recognised assets and liabilities, Group companies use derivative contracts. Foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that it is not the Group's functional currency.

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

The Group's main exposures to currency risk at 31 December 2020 and 2019 are shown below. The table reflects the carrying amount of the Group's financial instruments or classes of financial instruments denominated in foreign currency:

	2020				2019			
Currency	**Trade and other receivables**	**Treasury**	**Short-term loans and borrowings**	**Trade and other payables**	**Trade and other receivables**	**Treasury**	**Short-term loans and borrowings**	**Trade and other payables**
USD	4,657	19,312	6,578	1,125	4,084	18,579	–	4,205
EUR	9,057	89	–	987	10,408	1,030	–	518
WON	260	–	–	–	–	–	–	–
Other	11	2	–	139	4	2	–	161
Total	**13,985**	**19,403**	**6,578**	**2,251**	**14,496**	**19,611**	**–**	**4,884**

If the average exchange rate of the euro in 2020 and 2019 had depreciated/appreciated by 10% on all functional currencies other than the euro, with other variables remaining constant, equity and results for the year would not have changed significantly.

ii) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from variable interest financial debt.

To manage interest rate risk, in certain situations, the Group uses floating-to-fixed interest rate swaps, either for the total amount or a portion of the loan and either for the full term or a portion thereof.

In 2020 and 2019, had the average interest rates on the financial debt denominated in euros increased/decreased by 10 basis points, with all other variables remaining constant, the profit after tax for the year would not have been significantly affected as a result of the hedging policies in place.

The exposure of the Group's financial debt to variations in interest rates is set out below:

	2020	2019
Total external financial debt (Note 14)	548,215	542,416
Effect of interest rate swaps (Note 16)	(316,000)	(316,000)
Financial debt subject to variable interest	**232,215**	**226,416**

iii) Price risk

Earnings in the Steel Dust, Salt Slags and Secondary Aluminium segments are exposed to the movement of recycled metal prices (zinc and aluminium). The Group manages price risk through the acquisition of commodity swaps. Befesa's target in the Steel Dust Recycling Services segment is to hedge between 60% and 75% of the sale transactions, which are subject to the risk of changes in selling prices.

The objective of the Group is to secure a certain level of revenues that will ensure a reasonable return, given the risk of decline that these revenues may face in the event of a fall in zinc prices, which accounts for 85% of the price of the product sold (WOX).

The Group uses zinc futures contracts at the London Metal Exchange, hedging between 60% and 75% of the estimated sales, so the likelihood of the hedged transaction being executed is almost 100%, given that, due to the nature of the business, the sale of the entire production is assured. Establishing this limit protects the business against reductions in production due to one-off events, such as breakdowns, technical shutdowns or other similar circumstances.

These financial instruments are initially analysed to assess whether they can be treated as hedging instruments and, if so, the accounting rules specific to these instruments may be applied.

Note 16 contains a breakdown of derivative financial instruments arranged on the selling prices of these metals.

b) Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, at FVOCI and at FVPL, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

Regarding cash and cash equivalents, the Group's credit policy is to use only entities that have been given high independent credit ratings. Most of the balances are held in credit institutions located in the eurozone, mainly in Spain and Germany, with their credit risk rated at least BBB or above.

Most receivables and work in progress relate to several customers in various industries and countries. In most cases, the contracts provide for progress billings, billings at the beginning of the provision of service or billings upon delivery of the product.

It is standard practice for the Group to reserve the right to cancel projects in the event of any material breach and, in particular, of default on payment.

Notes to the consolidated financial statements (thousands of euros) continued

4. Financial risk management policy continued

In addition, under most contracts the Group has a firm commitment from several banks for the acquisition, without recourse, of receivables. Under these agreements, the Group pays a fee to the banks for assuming its credit risk, plus interest and a spread on the financing received. In all cases, the Group assumes liability for the validity of the receivables.

In this regard, factored receivables are recognised off the financial statement, provided that all the conditions established in IFRS 9 are met for their derecognition from the consolidated financial statement. An analysis is performed to determine whether the risks and rewards inherent to ownership of the related financial assets have been transferred, comparing the Company's exposure to changes in the amounts and timing of net cash flows from the transferred asset before and after the transfer. Once the exposure of the company factoring the receivables to these changes has been eliminated or substantially reduced, then the financial asset in question is deemed to have been transferred.

In addition, some Group companies work with insurance companies that establish the credit guaranteed, normally insuring around 95% of the risk hedged in case of insolvency. The Finance Department continually seeks to adjust the limits granted to business needs. The Group allows for an acceptable level of commercial risk, which is established based on each specific customer, market and circumstance (history of non-payment, solvency, etc.).

Consequently, as regards the balance of trade and other receivables, the potential effect of trade receivables, for which there are factoring agreements, would have to be excluded, as well as the effect of other trade receivables that can be factored but which have not yet been sent to the factor at the year-end and assets that are covered by credit insurance and that are reflected in this balance. Through this policy, the Group minimises its credit risk exposure in relation to these assets.

Trade and other receivables, other receivables, current financial assets and cash are the Group's main financial assets and represent its maximum exposure to credit risk, in the event that the counterparty does not meet its obligations.

c) Liquidity risk

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

Management monitors the Group's liquidity reserve projections and changes in net borrowings, calculated as follows at 31 December 2020 and 2019:

	2020	2019
Cash and cash equivalents	154,558	125,460
Other current financial assets (Note 9)	64	61
Undrawn credit facilities and unused financing (Note 14)	75,000	75,000
Liquidity reserve	**229,622**	**200,521**
Financial debt (Note 14)	534,231	527,831
Finance lease payables (Note 14)	13,984	14,585
Cash and cash equivalents	(154,558)	(125,460)
Other current financial assets (Note 9)	(64)	(61)
Net debt (Note 2.6)	**393,593**	**416,895**
Less non-current borrowings (Note 14)	(531,462)	(530,223)
Current net financial debt	**(137,869)**	**(113,328)**

Cash and cash equivalents comprise:

	2020	2019
Cash on hand and at banks	154,558	125,460
Total	**154,558**	**125,460**

One of the Group's strategic objectives is the optimisation and most efficient possible use of its assets and resources assigned to the business. Therefore, the Group pays special attention to the net operating working capital invested in it. In this respect, as in previous years, during 2020 and 2019 the Group made significant efforts to control and reduce collection periods with customers and other debtors and to optimise payment terms, thereby unifying policies and conditions across the Group.

The table below presents an analysis of the financial liabilities that will be settled, which are grouped to reflect the term remaining from the financial statements date to contractual maturity. This breakdown does not include long-term provisions (Note 17).

	Within one year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2020				
Bank borrowings and lease liabilities (Note 14)	16,753	4,857	9,184	517,421
Other financial liabilities (Derivatives)	8,842	3,330	–	1,284
Trade and other payables (*)	127,981	125	89	–
Unaccrued interest payable	14,322	14,193	39,592	6,994
At 31 December 2019				
Bank borrowings and lease liabilities (Note 14)	12,193	2,420	2,627	525,176
Other financial liabilities (Derivatives)	–	–	3,174	–
Trade and other payables (*)	127,105	156	214	–
Unaccrued interest payable	11,461	11,111	33,332	16,353

(*) Long-term payables do not include capital grants amounting to €4.7 million and €5.7 million in 2020 and 2019, respectively.

d) Capital risk

The Group manages its equity investments to ensure that its subsidiaries have a guarantee of continuity in terms of their assets and financial position, maximising shareholder return by optimising the structure of equity and liabilities on the liabilities side of the subsidiaries' financial statements.

Capital management is the responsibility of the Group's Management Committee, whose approach focuses on increasing the value of the business in the long-term for shareholders and investors as well as for employees and customers. The objective is to achieve constant, sustained results through organic and, where necessary, inorganic growth. For this purpose, a balance in the businesses is required, with control of financial risks, combined with the necessary financial flexibility to achieve such objectives.

The Group's capital management policy focuses on achieving a financial structure that optimises the cost of capital while maintaining a solid financial position. This policy makes the creation of value for the shareholders compatible, with access to financial markets at a competitive cost in order to cover both debt refinancing requirements and the investment plan financing needs not covered by the funds generated by the business.

Notes to the consolidated financial statements (thousands of euros) continued

4. Financial risk management policy continued

Details of the debt/equity ratios (excluding balances with Group companies) at 31 December 2020 and 2019 are as follows:

	2020	2019
Total bank borrowings (Note 14)	548,215	542,416
Less: Cash and cash equivalents	(154,558)	(125,460)
Other current financial assets (Note 9)	(64)	(61)
Net debt	**393,593**	**416,895**
Total equity	**327,581**	**360,218**
Total capital invested	**721,174**	**777,113**
Borrowing ratio	**54.6%**	**53.6%**

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

4.2 Fair value estimation

IFRS 13 establishes as fair value the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, whether it is observable or has been estimated using a valuation technique. For this purpose, consistent data with features that market participants would consider in the transaction are selected.

IFRS 13 maintains the principles of the other standards while setting the full framework for fair value measurement when it is mandatory under other IFRSs and establishes the additional information to be disclosed about fair value measurements.

The requirements of IFRS 13 are met by the Group in the fair value measurement of assets and liabilities when fair value is required by other IFRSs.

For financial assets and liabilities not valued at fair value, the Group breaks down the possible impacts between the fair value and the amortised cost if the impact is significant (Note 9).

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

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

The table below shows the Group's assets and liabilities that were measured at fair value at 31 December 2020 and 2019:

2020

	Level 2	2020
Assets		
– Derivatives (Note 16)	249	249
Total assets at fair value	**249**	**249**
Liabilities		
– Derivatives (Note 16)	13,456	13,456
Total liabilities at fair value	**13,456**	**13,456**

2019

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

a) Financial instruments Level 2

The fair value of financial instruments not traded in an active market is determined using valuation techniques. The Group employs a variety of methods such as estimated discounted cash flows and uses assumptions based on the market conditions at each financial statement date. If all significant data required to calculate the fair value of an instrument are observable, the instrument is included in Level 2.

Specific techniques for measuring financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of future estimated cash flows.
- The fair value of currency forwards is determined using forward exchange rates quoted in the market at the financial statement date.
- It is assumed that the book value of trade payables and receivables approximates their fair value.
- The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

5. Segment reporting

The Board of Directors is ultimately responsible for making the Group's operational decisions, as the Board functions as the Chief Operating Decision Maker (CODM). The Board of Directors reviews the Group's internal financial information in order to assess its performance and allocate resources to the segments.

The Board of Directors analyses the business based on the segments indicated below:

- Steel Dust Recycling Services ("Steel Dust")
- Aluminium Salt Slags Recycling Services
  - Salt Slags Recycling ("Salt Slags")
  - Secondary Aluminium production ("Secondary Aluminium")

These segments correspond to the Group's principal activities (products and services), the sales of which (fee for the services and/or sale of the recycled waste) determine the Group's revenue.

The Board of Directors assesses the performance of the operating segments, based mainly on operating income before interest and taxes (EBIT), depreciation/amortisation and provisions (EBITDA).

The financial information received by the Board of Directors include finance income and costs, tax aspects, cash flow and net debt only as a consolidated basis because this is the way the Company manages them.

For a detailed definition of EBIT and EBITDA, please refer to Note 2.6.

The accounting policies and measurement bases applied to the information furnished to the Board of Directors are consistent with those applied in the consolidated financial statements.

Notes to the consolidated financial statements (thousands of euros) continued

5. Segment reporting continued

a) Segment reporting

Set out below is the distribution by segment of EBIT and Adjusted EBIT for the year ended 31 December 2020 and for the year ended 31 December 2019 (thousands of euros).

	2020				
	Steel Dust	**Salt Slags**	**Secondary Aluminium**	**Corporate, other minor and eliminations**	**Total**
Revenue	345,762	66,977	223,900	(32,309)	604,330
Income/expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(248,074)	(53,702)	(211,817)	32,751	(480,842)
Amortisation/depreciation, impairment and provisions	(24,216)	(22,711)	(8,285)	(355)	(55,567)
EBIT (Operating profit/(loss))	**73,472**	**(9,436)**	**3,798**	**87**	**67,921**
One-off impairments/provisions (Note 8)	4,739	13,368	–	–	18,107
EBITDA adjustments (Note 8)	–	3,460	–	–	3,460
Adjusted EBIT (Operating profit/(loss))	**78,211**	**7,392**	**3,798**	**87**	**89,488**

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

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

	2020	2019
Adjusted EBIT	**89,488**	**123,975**
– One-off impairments/provisions (Note 8)	(18,107)	–
– EBITDA adjustments (Note 8)	(3,460)	–
EBIT (Operating profit/(loss))	**67,921**	**123,975**
Finance income/(cost)	(9.287)	(20,092)
Corporate income tax	(11.749)	(15,987)
Profit/(loss) attributable to continuing operations	**46,885**	**87,896**
Profit/(loss) attributable to discontinued operations	–	–
Non-controlling interests	723	(5,183)
Profit/(loss) attributed to the Parent Company	**47,608**	**82,713**

Set out below is the distribution by segment of EBITDA and Adjusted EBITDA for the years ended 31 December 2020 and 2019 (thousands of euros):

	2020				
	Steel Dust	Salt Slags	Secondary Aluminium	Corporate, other minor and eliminations	Total
Revenue	345,762	66,977	223,900	(32,309)	604,330
Income/expenses from operations (except revenue, depreciation and amortisation/ depreciation charge and provisions)	(248,074)	(53,702)	(211,817)	32,751	(480,842)
Amortisation/depreciation, impairment and provisions (a)	(24,216)	(22,711)	(8,285)	(355)	(55,567)
EBIT (Operating profit/(loss)) (b)	**73,472**	**(9,436)**	**3,798**	**87**	**67,921**
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (a+b)	**97,688**	**13,275**	**12,083**	**442**	**123,488**
Non recurrent costs/incomes (Note 8)	–	3,460	–	–	3,460
Adjusted EBITDA	**97,688**	**16,735**	**12,083**	**442**	**126,948**

Notes to the consolidated financial statements (thousands of euros) continued

5. Segment reporting continued

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

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

	2020	2019
Adjusted EBITDA	**126,948**	**159,559**
– Non-recurrent costs/incomes	(3,460)	–
Amortisation/depreciation, impairment and provisions	(55,567)	(35,584)
Operating profit/(loss)	**67,921**	**123,975**
Finance income/(cost)	(9,287)	(20,092)
Corporate income tax	(11,749)	(15,987)
Profit/(loss) attributable to continuing operations	**46,885**	**87,896**
Profit/(loss) attributable to discontinued operations	**–**	**–**
Non-controlling interests	723	(5,183)
Profit/(loss) attributed to the Parent Company	**47,608**	**82,713**

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

	2020					2019				
	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)	(17,370)	(7,070)	(6,904)	(85)	(31,429)	(14,861)	(6,653)	(5,752)	(81)	(27,347)
– Intangible assets (Notes 7 and 21)	(339)	(603)	(625)	(71)	(1,638)	(574)	(384)	(866)	(938)	(2,762)
– Right-of-use assets (Notes 10 and 21)	(1,692)	(1,670)	(812)	(200)	(4,374)	(1.735)	(1,439)	(720)	(103)	(3,997)
– Reversal/ (recognition) of impairment losses and other (Note 21)	(4,815)	(13,368)	56	1	(18,126)	(1,321)	–	(157)	–	(1,478)
Total	**(24,216)**	**(22,711)**	**(8,285)**	**(355)**	**(55,567)**	**(18,491)**	**(8,476)**	**(7,495)**	**(1,122)**	**(35,584)**

Details of segment assets and liabilities are as follows:

	2020					2019				
	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	357,661	51,925	13,180	256	423,022	357,638	51,201	13.315	322	422,476
Property, plant and equipment	177,372	50,424	66,842	670	295,308	173,816	61,830	72,323	623	308,592
Right-of-use assets	13,088	5,861	707	745	20,401	10,232	5,353	1,430	394	17,409
Investments in associates and other non-current assets	46,466	41	60,340	(22,814)	84,033	59,852	1,505	42,271	(14,090)	89,538
Current assets	164,771	14,133	49,548	49,183	277,635	174,822	19,816	35,136	48,027	277,801
Total assets	**759,358**	**122,384**	**190,617**	**28,040**	**1,100,399**	**776,360**	**139,705**	**164,475**	**35,276**	**1,115,816**
Equity and liabilities										
Net assets	218,250	34,074	29,828	45,429	327,581	255,243	61,380	14,305	29,290	360,218
Non-current liabilities	435,288	75,968	101,258	6,728	619,242	427,457	63,327	95,796	29,720	616,300
Current liabilities	105,820	12,342	59,531	(24,117)	153,576	93,660	14,998	54,374	(23,734)	139,298
Total equity and liabilities	**759,358**	**122,384**	**190,617**	**28,040**	**1,100,399**	**776,360**	**139,705**	**164,475**	**35,276**	**1,115,816**

Notes to the consolidated financial statements (thousands of euros) continued

5. Segment reporting continued

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

	2020					2019				
	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)	38,252	5,620	5,411	132	49,415	59,524	9,284	10,016	283	79,107
Disposals of non-current assets (Notes 7 and 8)	(5,366)	(41)	(366)	(8,333)	(14,106)	(13,304)	(96)	–	–	(13,400)
Net investments in the year (Notes 7 and 8)	**32,886**	**5,579**	**5,045**	**(8,201)**	**35,309**	**46,220**	**9,188**	**10,016**	**283**	**65,707**

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.

Details of sales by geographical segment for the years ended 31 December 2020 and 2019 are as follows:

Geographical area	2020	%	2019	%
Spain	146,919	24%	167,509	26%
Germany	90,737	15%	102,895	16%
Netherlands	43,266	7%	40,970	6%
Belgium	40,104	7%	39,945	6%
Finland	35,597	6%	35,185	6%
France	19,483	3%	25,697	4%
United Kingdom	8,578	1%	19,597	3%
Italy	18,208	3%	20,969	3%
Rest of European Union	40,150	7%	47,228	7%
Japan	39,743	7%	40,878	6%
Norway	27,065	4%	26,889	4%
South Korea	22,660	4%	30,698	5%
Rest of the world	71,820	12%	49,480	8%
	604,330	**100%**	**647,940**	**100%**

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

	2020	2019
Spain	84,904	80,751
Germany	94,061	98,220
France	31,525	32,504
United Kingdom	109	12,766
Rest of Europe	13,154	14,443
Turkey	17,279	24,305
China	33,990	15,009
South Korea	47,144	53,915
	322,167	**331,913**

b) Information on customers

At 31 December 2020, two customers each represented over 10% of the Group's total revenues, both of them from the Steel Dust segment. The first-largest customer represents approximately 15% of the Group's total revenues (14% in 2019) and the second-largest customer represents approximately 12% of the Group's total revenues (11% in 2019).

6. Goodwill

Details of goodwill on the consolidated statement of financial position as at 31 December 2020 and 2019 (no movements during the years) are as follows:

	Balance at 31/12/20	Balance at 31/12/19
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 licences 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.

The measurement methods indicated in Note 2.4 led to discount rates used to perform the impairment test in a range for each CGU as follow: Steel Dust 6.73% – 15.32% (2019: 5.20% – 8.47%); Salt Slags 6.73% – 7.30% (2019: 5.00% – 7.02%); Secondary Aluminium 6.73% – 7.25% (2019: 5.20% – 7.02%). The discount rates used are net of taxes and reflect the risks specific to the significant CGU segments. The Directors consider that a change in the discount rate used (approximately 50 basis points) would not have a significant impact on these consolidated financial statements.

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

At the end of 2020 and 2019, estimates were made of the recoverable amounts of the CGUs to which goodwill and/or licences with indefinite useful life had been allocated in accordance with Note 3.8 and the methods described above. No impairment has been recognised in 2020 and 2019.

The Group's management carried out a sensitivity analysis of the recoverable amount of goodwill and licences (Note 7) in the event of variations of +/- 5% in key assumptions, and no signs of impairment were identified.

Notes to the consolidated financial statements (thousands of euros) continued

7. Other intangible assets

Movements in "Other intangible assets" in the consolidated statement of financial position as at 31 December 2020 and 2019 are as follows:

	Development expenditure	Licences	Computer software	Administrative concessions and others	Total
Cost:					
Balance at 31/12/19	**10,480**	**81,000**	**16,203**	**1,966**	**109,649**
Additions	1,805	–	201	–	2,006
Disposals	–	–	(8,308)	–	(8,308)
Transfers	29	–	281	(145)	165
Translation differences (net)	–	–	26	–	26
Balance at 31/12/20	**12,314**	**81,000**	**8,403**	**1,821**	**103,538**
Accumulated amortisation					
Balance at 31/12/19	**(6,278)**	**–**	**(14,580)**	**(1,879)**	**(22,737)**
Additions (Note 21.6)	(1,216)	–	(420)	(2)	(1,638)
Disposals	–	–	8,308	–	8,308
Transfers	(29)	–	(31)	60	–
Translation differences (net)	–	–	(13)	–	(13)
Balance at 31/12/20	**(7.523)**	**–**	**(6,736)**	**(1,821)**	**(16,080)**
Other intangible assets, net at 31/12/19	**4,202**	**81,000**	**1,623**	**87**	**86,912**
Other intangible assets, net at 31/12/20	**4,791**	**81,000**	**1,667**	**–**	**87,458**

	Development expenditure	Licences	Computer software	Administrative concessions and others	Total
Cost:					
Balance at 31/12/18	**8,981**	**81,000**	**17,633**	**1,966**	**109,580**
Additions	1,499	–	1,087	82	2,668
Disposals	–	–	(2,529)	–	(2,529)
Transfers	–	–	16	–	16
Translation differences (net)	–	–	(4)	(82)	(86)
Balance at 31/12/19	**10,480**	**81,000**	**16,203**	**1,966**	**109,649**
Accumulated amortisation					
Balance at 31/12/18	**(5,143)**	**–**	**(15,481)**	**(1,852)**	**(22,476)**
Additions (Note 21.6)	(1,135)	–	(1,601)	(26)	(2,762)
Disposals	–	–	2,500	–	2,500
Translation differences (net)	–	–	2	(1)	1
Balance at 31/12/19	**(6,278)**	**–**	**(14,580)**	**(1,879)**	**(22,737)**
Other intangible assets, net at 31/12/18	**3,838**	**81,000**	**2,152**	**114**	**87,104**
Other intangible assets, net at 31/12/19	**4,202**	**81,000**	**1,623**	**87**	**86,912**

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

2020

The most significant additions for the year relate to development expenses capitalised in the "Secondary Aluminium" segment amounting to €1,805 thousand and to ERP implementation in the "Steel Dust" segment, €191 thousand.

The most significant disposal for the year relates to the disposal of the SAP (prior ERP) fully amortised amounting to €7,101 thousand in the subsidiary Befesa Medioambiente, S.L.U..

2019

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

Investment commitments

At 31 December 2020 and 2019, the Group had no significant investment commitments.

Notes to the consolidated financial statements (thousands of euros) continued

8. Property, plant and equipment

Movements in this consolidated statement of financial position as at 31 December 2020 and 2019 are as follows:

2020

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:						
Balance at 31/12/19	**39,006**	**123,705**	**464,109**	**30,272**	**45,235**	**702,327**
Additions	–	702	8,875	1,533	36,299	47,409
Disposals	–	(91)	(1,832)	(234)	(3,641)	(5,798)
Transfers	9	11,988	26,869	440	(41,769)	(2,463)
Translation differences (net)	(227)	(292)	(8.485)	(43)	(1,137)	(10,184)
Balance at 31/12/20	**38,788**	**136,012**	**489,536**	**31,968**	**34,987**	**731,291**
Accumulated depreciation and provisions:						
Balance at 31/12/19	**–**	**(64,308)**	**(296,775)**	**(19,061)**	**–**	**(380,144)**
Additions (Note 21.6)	–	(4,334)	(25,505)	(1,590)	–	(31,429)
Disposals	–	83	1,790	245	–	2,118
Translation differences (net)	–	(13)	1,648	15	–	1,650
Balance at 31/12/20	**–**	**(68,572)**	**(318,842)**	**(20,391)**	**–**	**(407,805)**
Impairment losses at 31/12/19	**–**	**–**	**(12,616)**	**–**	**(975)**	**(13,591)**
Additions (Note 21.6)	–	–	(15,535)	(27)	(2,545)	(18,107)
Disposals	–	–	–	–	3,520	3,520
Impairment losses at 31/12/20	**–**	**–**	**(28,151)**	**(27)**	**–**	**(28,178)**
Carrying amount at 31/12/19	**39,006**	**59,397**	**154,718**	**11,211**	**44,260**	**308,592**
Carrying amount at 31/12/20	**38,788**	**67,440**	**142,543**	**11,550**	**34,987**	**295,308**

2019

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:						
Balance at 31/12/18	**38,835**	**119,128**	**428,491**	**26,979**	**25,148**	**638,581**
Additions	1	1,139	5,549	2,287	67,463	76,439
Disposals	–	(348)	(9,801)	(536)	(186)	(10,871)
Transfers	299	4,014	41,013	1,552	(46,894)	(16)
Translation differences (net)	(128)	(229)	(1,143)	(10)	(296)	(1,806)
Balance at 31/12/19	**39,007**	**123,704**	**464,109**	**30,272**	**45,235**	**702,327**
Accumulated depreciation and provisions:						
Balance at 31/12/18	**–**	**(60,528)**	**(284,151)**	**(18,797)**	**–**	**(363,476)**
Additions (Note 21.6)	–	(4,037)	(21,939)	(1,370)	–	(27,346)
Disposals	–	248	9,299	1,097	–	10,644
Translation differences (net)	–	9	16	9	–	34
Balance at 31/12/19	**–**	**(64,308)**	**(296,775)**	**(19,061)**	**–**	**(380,144)**
Impairment losses at 31/12/18	**–**	**–**	**(12,616)**	**–**	**(975)**	**(13,591)**
Additions	–	–	–	–	–	–
Disposals	–	–	–	–	–	–
Impairment losses at 31/12/19	**–**	**–**	**(12,616)**	**–**	**(975)**	**(13,591)**
Carrying amount at 31/12/18	**38,835**	**58,600**	**131,724**	**8,182**	**24,173**	**261,514**
Carrying amount at 31/12/19	**39,007**	**59,396**	**154,718**	**11,211**	**44,260**	**308,592**

2020
The main additions for the year are related to the construction of the two new plants in China (€20.0 million) and the annual recurrent environmental and maintenance investments made at each plant.

2019
The main additions for the year are related to funding the capacity expansion in Turkey (€19.6 million), the starting of the construction of the two plants in China (€11.7 million), the new WOX washing plant in Korea (€14.6 million), the secondary aluminium furnace upgrade in Barcelona (€10.8 million) and environmental projects and maintenance investments made at each plant.

Impairment losses
As at 31 December 2020, the Company, due to the lower customer demand in light of Brexit, the automotive slowdown, the impact of COVID-19, as well as other industry trends, decided to close the plant located in the UK (Befesa Salt Slags, Ltd.). The Company has registered an impairment loss of €13.3 million and presented an adjustment to the EBITDA of €3.5 million as "non-recurrent charges" related to this closure (costs related to the closure of the plant).

In addition, the Company, as a result of the "impairment review process", has registered an impairment loss of €4.7 million in the plant located in Sweden (Befesa Scandust AB) after estimating the future cash flows generated by the subsidiary would be insufficient to recover the carrying amount of the plant.

In 2019, there were no impairment losses.

Notes to the consolidated financial statements (thousands of euros) continued

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 significant borrowing costs capitalised in 2020 and 2019.

Mortgaged property, plant and equipment
At 31 December 2020 and 2019 there are no significant fixed assets pledged to secure loans.

Investment commitments
At 31 December 2020, the Group had investment commitments amounting to €61.5 million (2019: €36.9 million) mainly due to the expansion project in China.

9. Financial assets by category and class

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

	2020		2019	
	Current	**Non-current**	**Current**	**Non-current**
Financial assets at amortised cost				
Loans				
Variable rate	–	3,410	–	11,621
Impairment	–	(1,537)	–	(8,975)
Trade and other receivables	83,663	–	75,851	–
Security deposits	64	424	61	357
Financial assets measured at fair value				
Hedging derivatives (Note 16)	–	249	24,676	15,504
Total financial assets	**83,727**	**2,546**	**100,588**	**18,507**

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

10. Right-of-use assets and lease liabilities

Details of and movement in classes of right-of-use assets during 2020 and 2019 are as follows:

	Land	Buildings	Plant and machinery	Other property, plant and equipment	Total
Cost:					
Balance at 01/01/19	**8,566**	**3,218**	**2,133**	**859**	**14,776**
Additions	3,163	7	2,868	592	6,630
Balance at 31/12/19	**11,729**	**3,225**	**5,001**	**1,451**	**21,406**
Additions	495	764	2,055	383	3,697
Disposals	–	(123)	–	(32)	(155)
Transfers	3,754	–	–	–	3,754
Balance at 31/12/20	**15,978**	**3,866**	**7,056**	**1,802**	**28,702**
Accumulated amortisation					
Balance at 01/01/19	**–**	**–**	**–**	**–**	**–**
Additions (Note 21.6)	(717)	(807)	(1,991)	(482)	(3,997)
Balance at 31/12/19	**(717)**	**(807)**	**(1,991)**	**(482)**	**(3,997)**
Additions (Note 21.6)	(673)	(852)	(2,338)	(510)	(4,373)
Disposals	–	55	–	14	69
Balance at 31/12/20	**(1,390)**	**(1,604)**	**(4,329)**	**(978)**	**(8,301)**
Right-of-use assets net at 31/12/2019	**11,012**	**2,418**	**3,010**	**969**	**17,409**
Right-of-use assets net at 31/12/2020	**14,588**	**2,262**	**2,727**	**824**	**20,401**

The short-term lease expense for 2020 amounts to €359 thousand (2019: €1,197 thousand).

Details of lease payments and liabilities

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

	2020	2019
Within 1 year	3,124	3,572
Between 1 and 2 years	2,151	2,420
Between 2 and 3 years	1,668	1,427
More than 3 years	7,041	7,166
	13,984	**14,585**

Notes to the consolidated financial statements (thousands of euros) continued

10. Right-of-use assets and lease liabilities continued

The changes in this liability from 1 January 2020 to 31 December 2020 are as follows:

	2020	2019
Balance as at 1 January	14,585	14,914
Increase	3,653	3,465
Lease payments	(4,672)	(4,223)
Interest	418	429
	13,984	**14,585**

11. Inventories

Details of inventories in the accompanying consolidated statement of financial position as at 31 December 2020 and 2019 are as follows:

	2020	2019
Finished goods	15,225	17,860
Goods in progress and semi-finished goods	1,749	10,683
Raw materials	9,376	9,029
Other	13,000	14,181
Total	**39,350**	**51,753**

"Other" at 31 December 2020 and 2019 mainly includes spare parts for the Group's facilities.

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

12. Accounts receivable

The breakdown of accounts receivable in the accompanying consolidated statement of financial position as at 31 December 2020 and 2019 is as follows:

	2020	2019
Contract assets	2,691	721
Trade and other receivables	53,069	43,659
Trade receivables from related companies (Note 24)	1,003	751
Other receivables (Note 20)	16,285	18,557
Public authorities (Note 19)	9,621	10,771
Advances to suppliers	2,532	2,986
Loss–allowance for doubtful debts	(1,538)	(1,594)
Total	**83,663**	**75,851**

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

Changes in the allowances for doubtful debts relating to the Group's trade and other receivables for 2020 and 2019 are as follows:

	2020	2019
Opening balance	**(1,594)**	**(1,884)**
Write-off uncollectible accounts receivable and other transfers	56	290
Closing balance	**(1,538)**	**(1,594)**

The credit quality of trade receivables that have not become impaired can be classified as highly satisfactory, since in substantially all of the cases the risks are accepted and covered by credit risk insurers and/or banks and financial institutions.

The maximum exposure to credit risk at the date of presentation of the financial information is the fair value of each of the accounts receivable disclosed above and, in all cases, taking into consideration the aforementioned credit insurance coverage.

13. Equity

a) Share capital

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

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

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

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

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

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

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

The number of shares as at 31 December 2020 and 2019 is 34,066,705, with a par value of €2.77 each.

The authorised capital of the Company (including, for the avoidance of doubt, the Company's issued share capital) is set at 39,999,998 shares.

Notes to the consolidated financial statements (thousands of euros) continued

13. Equity continued

The shareholder structure as at 31 December 2020 and 2019 is as follows:

	Percentage of ownership	
	2020	**2019**
Free-float (including management)	100%	100%
Total	**100%**	**100%**

b) Share premium and other reserves

Details in the consolidated financial statement are as follows:

	2020	**2019**
Share premium	263,875	263,875
Hedging reserves	(9,509)	26,951
Other reserves	(54,306)	(117,286)
Total	**200,060**	**173,540**

Share premium

The share premium may be used to provide for the payment of any shares that the Parent Company may repurchase from its shareholders, to offset any net realised losses, to make distributions to its shareholders in the form of a dividend, or to allocate funds to the legal reserve.

Other reserves

The Parent Company is required to transfer a minimum of 5% of its net statutory profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance of the legal reserve reaches 10% of the issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net statutory profits must be allocated again toward the reserve. The legal reserve is not available for distribution to the shareholders.

In June 2020, the shareholders at their Annual General Meeting resolved to approve the distribution of a dividend of €14,989 thousand from the net profit of the year 2019.

In November 2020, the Board of Directors resolved to approve an interim dividend of €9,880 thousand.

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

c) Translation differences

The breakdown, by company, of "Translation differences" at 31 December 2020 and 2019 is as follows:

Company or group of companies	**2020**	**2019**
Befesa Zinc Korea, Ltd.	2,012	4,167
Befesa Salt Slags, Ltd.	(1,255)	(786)
Befesa Scandust AB	(1,330)	(2,081)
Befesa Silvermet Iskenderum Celik Tozu Geri Donusumu, A.S.	(12,355)	(5,113)
Befesa Silvermet Dis Ticaret A.S.	(845)	(524)
Befesa Zinc Environmental Protection Technology (Jiangsu) Co. Ltd.	(652)	(162)
Befesa Zinc Environmental Protection Technology (Henan) Co. Ltd.	(327)	(50)
Other	(325)	153
Total	**(15,077)**	**(4,396)**

d) Non-controlling interests

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

	2020	2019
Steel Dust:		
Befesa Silvermet Turkey, S.L. and subsidiaries	10,294	13,785
Total	**10,294**	**13,785**

Summary information on subsidiaries with non-controlling material shareholdings

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

	Befesa Silvermet Turkey, S.L. and its subsidiaries	
	2020	2019
Non-current assets	34,030	43,497
Current assets	11,418	9,204
Non-current liabilities	11,640	15,611
Current liabilities	11,595	7,343
Equity	22,213	29,747
Sales	22,053	7,056
Profit/(loss) before taxes	(1,970)	(1,222)
Profit/(loss) after taxes	(1,561)	11,184

At 31 December 2020 and 2019, the percentages of non-controlling interests of Befesa Silvermet Turkey, S.L. amounted to 46.4%.

e) Capital management

The Group's capital management focuses on achieving a financial structure that optimises the cost of capital while maintaining a solid financial position. This policy reconciles the creation of value for the shareholders with access to financial markets at a competitive cost in order to cover both debt refinancing requirements and investment plan financing needs not covered by the funds generated by the business (Note 4.1.d.).

The Group's management considers that the leverage ratio (Note 2.6) is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2020 and 2019, most of the debts are related to business acquisitions made in prior years.

Notes to the consolidated financial statements (thousands of euros) continued

14. Financial debt

Details of the related line items in the accompanying consolidated statement of financial position as at 31 December 2020 and 2019 are as follows:

	2020		2019	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Bank loans and credit facilities	7,818	520,602	1,777	519,210
Unmatured accrued interest	5,811	–	6,844	–
Finance lease payables	3,124	10,860	3,572	11,013
Total	**16,753**	**531,462**	**12,193**	**530,223**

The fair values of borrowings are not materially different from their carrying amounts, since the interest payable is close to current market rates.

The main terms and conditions of borrowings are as follows:

				2020		2019	
Type	Limit in nominal currency (thousands of currency)	Interest rate	Maturity date	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Facilities Agreement	€636,000	Euribor+2%	2026	5,798	506,350	6,844	519,210
Jiangsu	CNY 220,000	LPR(NBIC)+25pbt	2026	1,246	1,739	–	–
Henan	CNY 260,000	LPR(NBIC)+25pbt	2027	–	12,465	–	–
Other				9,709	10,908	5,349	11,013
				16,753	**531,462**	**12,193**	**530,223**

On 19 October 2017, in order to standardise the financial structure of the Group, the Company as Parent and certain subsidiaries as borrowers and guarantors, entered into a €636,000 thousand Facilities Agreement. This post-IPO agreement is intended to raise financing for the entire Group and cancel the Group's previous current and non-current borrowings in connection with the €300.0 million Zinc Notes, €150.0 million PIK Notes and the €167.5 million Syndicated Loan.

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

On 9 July 2019, the refinancing of the existing capital structure was successfully completed in a leverage neutral transaction that a) extends Befesa's debt maturity up to July 2026 with a seven-year tenor of the covenant-lite Term Loan B (TLB) at attractive interest rates, and b) increases loan baskets to accommodate Befesa's growth roadmap including China.

The Facility Agreement has been signed by the Parent of the Group (Befesa, S.A.) and has been designed to meet the financing needs of all Group companies.

The Facilities Agreement comprises:

- Term Loan B (TLB) Facility Commitment in an amount of €526 million, which is a bullet with a maturity of seven years.
- Revolving Credit Facility (RCF) in an amount of €75 million with a maturity of six years.
- A Guarantee Facility Commitment in an amount of €35 million with a maturity of six years.

Interest on the initial TLB facility was Euribor plus a spread of 2.75%, and 2.50% in the case of the RCF. These spreads could be adjusted downwards to 1.75% in the case of TLB and to 1.25% in the case of the RCF, depending on the ratio of net financial debt/EBITDA.

In November 2018, due to the improvement in the Group's leverage ratio, the spread was reduced by 25 bps from Euribor plus 275 bps to Euribor plus 250 bps in the case of TLB.

In March 2019, the margin applicable to TLB was reduced again by 25 bps to Euribor plus 225 bps due to the decrease on the leverage ratio.

After the refinancing in July 2019, the margin was set to 250 bps for the following nine months.

On 17 February 2020, Befesa repriced its TLB, reducing its interest rate by 50 bps to Euribor plus 200 bps with a floor of 0%. The facility's long-term July 2026 maturity date and all other documentation terms remain without further amendment.

The Group has analysed whether there is a substantial modification of the conditions, having concluded that there is no cancellation of the original liabilities because the only change corresponds to the reduction in the nominal interest rate (repricing) and the discounted present value of the cash flows under the new terms is 3% from the discounted present value of the remaining cash flows of the original financial liability. However, this modification entailed recognising finance income of €15 million as the new future cash flows were discounted at the original effective rate of 2.7%.

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 2020 and 2019, the RCF has not yet been drawn and no financial covenant applies.

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

In 2020, Befesa closes the financing structure for both plants under construction in China (Jiangsu and Henan). The notional and the rest of the conditions signed are shown in the table above. At December 2020 there is pending debt which will be drawn during 2021 as constructions progress.

At 31 December 2020, "Other" mainly includes short-term payables for leases and the short-term financing of Befesa Silvermet Iskenderun in connection with the revamping project (2019 includes short-term payables for leases).

At 31 December 2020 and 2019, an amount of €75 million was undrawn from the syndicated financing arrangement (Note 4.c).

The evolution of net financial debt during the 2020 and 2019 is as follows:

	Cash and cash equivalents (Note 4)	**Other current financial assets (Note 9)**	**Financial debt (Note 14)**	**Total**
Net financial debt as at 31 December 2018	**(150,648)**	**(60)**	**527,498**	**376,790**
Cash flows	25,512	(1)	(2,260)	23,251
Exchange rate adjustments	(324)	–	–	(324)
Other non-monetary movements (*)	–	–	17,178	17,178
Net financial debt as at 31 December 2019	**(125,460)**	**(61)**	**542,416**	**416,895**
Cash flows	(28,702)	(3)	15,705	(13,000)
Exchange rate adjustments	(396)	–	–	(396)
Other non-monetary movements (**)	–	–	(9,906)	(9,906)
Net financial debt as at 31 December 2020	**(154,558)**	**(64)**	**548,215**	**393,593**

(*) Mainly due to the implementation of IFRS 16
(**) Mainly due to the impact of the repricing and the new contract of IFRS 16

Notes to the consolidated financial statements (thousands of euros) continued

15. Other current and non-current payables

	2020		2019	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Payable to non-current asset suppliers	3,806	–	9,211	–
Accounts payable to public authorities (Note 19)	11,432	–	17,033	–
Remuneration payable (Note 17)	13,333	–	7,372	–
Other	706	4,905	1,614	6,091
Total	**29,277**	**4,905**	**35,230**	**6,091**

"Other" mainly includes the capital grants not yet released to income and debts with official bodies amounting to approximately €5.1 million (2019: €7.3 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. Details of the balances that reflect the measurement of derivatives in the accompanying consolidated statement of financial position as at 31 December 2020 and 2019 are as follows:

	2020	2019
Cash flow hedges non-current assets (Note 9)		
SWAP contracts for zinc	249	15,504
	249	**15,504**
Cash flow hedges current assets (Note 9):		
Foreign currency SWAP	–	108
SWAP contracts for zinc	–	24,568
	–	**24,676**
Total assets	**249**	**40,180**
Cash flow hedges non-current liabilities:		
SWAP contracts for zinc	1,025	–
Interest rate SWAP	3,589	3,174
	4,614	**3,174**
Cash flow hedges current liabilities:		
SWAP contracts for zinc	8,775	–
Foreign currency SWAP	67	–
	8,842	**–**
Total liabilities	**13,456**	**3,174**

- Zinc derivative contracts

Details of the tonnes hedged and of the maturity of the related contracts at 31 December 2020 and 2019 are as follows:

	Tonnes			
	31 December 2020		31 December 2019	
	2021	2022 and subsequent years	2020	2021 and subsequent years
Hedge (in tonnes)				
Swap contract for zinc	92,400	123,005	92,400	57,300
	92,400	**123,005**	**92,400**	**57,300**

During 2020, Befesa has extended its zinc hedges until and including July 2023 (2019: September 2021).

Derivatives are designated to hedge highly probable forecast transactions (sales) and the full effect of the hedge is recognised in equity, net of the tax effect, considering its assessment as highly effective hedging instruments. The portion transferred to profit/(loss) each year is recognised under "Revenue" in the income statement at each settlement date.

- Interest rate swaps (floating to fixed)

The Company arranged an interest rate swap during 2017. The notional amounts of the IRSs outstanding at 31 December 2020 and 31 December 2019 totalled €316,000 thousand (Note 4.1), which were classified as highly effective hedging instruments. The fixed interest rate is 0.3580% and the main benchmark floating rate was Euribor. This derivative matures in 2022.

On March 2020, Befesa arranged another interest rate swap in order to fix the interest for the extension period of the refinancing signed on 9 July 2019 (Note 14). The notional amount of the IRSs outstanding at 31 December 2020 totalled €316,000 thousand (Note 4.1), which was classified as a highly effective hedging instrument. The fix interest rate is 0.236%, and the main benchmark floating rate was Euribor. This derivative matures in July 2026.

- Foreign currency cash flow hedges

At 31 December 2020, currency purchase contracts (swaps or forwards) amounted to:

– US dollar sales: USD 25,913 thousand.

– US dollar purchases: USD 9,450 thousand.

At 31 December 2019, currency purchase contracts (swaps or forwards) amounted to:

– US dollar sales: USD 14,926 thousand.

– US dollar purchases: USD 1,185 thousand.

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 2020 and 2019 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 2020 will be transferred to the income statement over the next 12 months.

Notes to the consolidated financial statements (thousands of euros) continued

17. Long-term provisions

Details of long-term provisions on the liability side of the accompanying consolidated financial statements and of movements in 2020 and 2019 are as follows:

	Provisions for litigation, pensions and similar obligations	Other provisions for contingencies and charges	Total long-term provisions
Balance at 31 December 2018	**4,389**	**2,033**	**6,422**
Profit and loss impact	2,196	141	2,337
Balance at 31 December 2019	**6,585**	**2,174**	**8,759**
Profit and loss impact	8,961	–	8,961
Payment (Note 23)	(3,014)	–	(3,014)
Transfers (Note 15)	(4,616)	(122)	(4,738)
Balance at 31 December 2020	**7,916**	**2,052**	**9,968**

Provisions for litigation, pensions and similar obligations
At 31 December 2020, the Group recognised a provision of €5.2 million (2019: €4.0 million) related to the compensation plans described in Note 23. "Transfer" corresponds to the liability payable in 2021, which has been recognised as "Remuneration payable" at 31 December 2020.

In 2020, the profit and loss impacts are also mainly related to the compensations plans described in Note 23.

Other provisions for contingencies and charges
The Group company Befesa Valera, S.A.S. recognises a provision of approximately €1.9 million at 31 December 2020 and 2019 for the present value of the estimated costs of dismantling the concession for the performance of their activities at the Port of Dunkirk (France) following its termination.

In addition, the Group recognised other provisions under "Other provisions for contingencies and charges" to meet liabilities, whether legal or implicit, probable or certain, due to contingencies, ongoing litigations and tax obligations, which arise as the result of past events and are more likely than not to require an outflow of resources embodying economic benefits from the Group to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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; the deferred tax assets and deferred tax liabilities relate to the income taxes levied by the same tax authority. At 31 December 2020 and 2019, 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.

Details of deferred tax assets and deferred tax liabilities in the accompanying consolidated financial statements for 2020 and 2019 are as follows:

	2020	2019
Deferred tax assets arising from:		
Tax loss carry-forwards and tax credits and tax relief	59,320	59,699
Revaluation of derivative financial instruments	3,472	762
Other deferred tax assets	18,577	10,452
Total deferred tax assets	**81,369**	**70,913**
Deferred tax liabilities arising from:		
Asset revaluation	30,532	31,080
Revaluation of derivative financial instruments	–	10,752
Deferred tax liability arising from the tax deductibility of goodwill	32,079	24,743
Other deferred tax liabilities	5,682	1,478
Total deferred tax liabilities	**68,293**	**68,053**

Amounts corresponding to deferred tax assets are as follows:

	2020	2019
Deferred tax assets		
Deferred tax assets recoverable in more than 12 months	73,118	63,535
Deferred tax assets recoverable within 12 months	8,251	7,378
Total deferred tax assets	**81,369**	**70,913**

Movements in deferred tax assets and liabilities in 2020 and 2019 relate to:

2020

		Recognised in		
	Balance at 31/12/19	Income statement	Equity	Balance at 31/12/20
Deferred tax assets				
Tax loss carry-forwards and deductions	59,699	2,992	(3,371)	59,320
Derivatives	762	–	2,710	3,472
Other	10,452	8,083	42	18,577
Total deferred tax assets	**70,913**	**11,075**	**(619)**	**81,369**
Deferred tax liabilities				
Revaluations	31,080	(548)	–	30,532
Derivatives	10,752	(4,405)	(6,347)	–
Goodwill	24,743	7,336	–	32,079
Other (temporary differences)	1,478	4,209	(5)	5,682
Total deferred tax liabilities	**68,053**	**6,592**	**(6,352)**	**68,293**

Notes to the consolidated financial statements (thousands of euros) continued

18. Deferred taxes continued

2019

	Balance at 31/12/18	Recognised in: Income statement	Recognised in: Equity	Balance at 31/12/19
Deferred tax assets				
Tax loss carry-forwards and deductions	45,733	14,209	(243)	59,699
Derivatives	509	–	253	762
Other	11,157	(714)	9	10,452
Total deferred tax assets	**57,399**	**13,495**	**19**	**70,913**
Deferred tax liabilities				
Revaluations	31,627	(547)	–	31,080
Derivatives	15,704	1,821	(6,773)	10,752
Goodwill	16,840	7,903	–	24,743
Other (temporary differences)	1,820	(340)	(2)	1,478
Total deferred tax liabilities	**65,991**	**8,837**	**(6,775)**	**68,053**

The main amounts and changes in deferred tax assets and liabilities in 2020 and 2019, in addition to those arising from the revaluation of derivatives disclosed in Note 18, were as follows:

2020

- The tax depreciation of the goodwill by Befesa Zinc has generated an increase in deferred tax liabilities, amounting to €7.3 million.
- Movements recognised in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 16) and to the impact of conversion difference from deductions recorded in 2019 in Turkey (€3.3 million).
- The increase of "Others" deferred tax assets comes principally from the impairment of intragroup receivable account of Befesa Salt Slags, Ltd. in Befesa Aluminio, S.L.U. (€5.0 million).
- Movement in "Others" deferred tax liabilities is related mainly to the repricing of the Group's TLB on 17 February 2020, amounting €3.3 million (Note 14).

2019

- Movements recognised in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 16).
- The investment made to increase the capacity of the plant in Turkey has generated deductions on investment amounting to €12 million, which has been recognised under deferred tax assets.
- The tax depreciation of the goodwill by Befesa Zinc has generated an increase in deferred tax liabilities amounting to €8 million.

19. Public administrations

Details of tax receivables and tax payables on the asset and liability sides, respectively, of the accompanying consolidated statement of financial position as at 31 December 2020 and 2019 are as follows:

	2020		2019	
	Receivable (Note 12)	Payable (Note 15)	Receivable (Note 12)	Payable (Note 15)
VAT	6,522	3,091	7,242	2,146
Withholdings and interim payments	–	1,072	15	927
Corporate income tax	1,778	5,326	2,079	12,110
Social security	10	1,855	30	1,730
Other	1,311	88	1,405	120
Total	**9,621**	**11,432**	**10,771**	**17,033**

"Accounts payable to public authorities" on the liability side of the accompanying consolidated financial statements includes the liability relating to applicable taxes, mainly personal income tax withholdings, VAT and projected income tax relating to the profit for each year, mainly net of tax withholdings and pre-payments made each year.

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

Befesa Medio Ambiente, S.L.U. heads the fiscal group of companies subject to Biscay tax regulation. That tax Group comprises Befesa Medio Ambiente, S.L.U., MRH Residuos Metálicos, S.L.U., Befesa Aluminio, S.L.U., Befesa Aluminio Comercializadora, S.L.U., Befesa Zinc, S.A.U., Befesa Zinc Comercial, S.A.U., Befesa Zinc Óxido, S.A.U., Befesa Zinc Aser, S.A.U. Befesa Steel R&D, S.L.U. and Befesa Zinc Sur, S.L.U..

The German companies Befesa Zinc Germany GmbH, Befesa Steel Services GmbH, Befesa Zinc Freiberg GmbH and Befesa Zinc Duisburg GmbH file consolidated tax returns under the tax legislation applicable to them in Germany; Befesa Zinc Gravelines, S.A.S. and Befesa Valera S.A.S. file consolidated tax returns under the tax legislation applicable to them in France; and the German companies Befesa Salzschlacke GmbH and Befesa Aluminium Germany GmbH file consolidated tax returns under the tax legislation applicable to them in Germany.

The remaining Group companies file individual income tax returns in accordance with the tax legislation applicable to them.

Group companies subject to Biscay tax legislation, including those which form part of the tax group, generally have the years that have not become statute-barred, from 2016 onwards, which are open for review by the tax authorities for income tax and the last four years for the other main taxes and tax obligations applicable to them, in accordance with current legislation.

On 16 January 2020, Befesa Medio Ambiente, S.L., as successor to the representative of the Basque tax group (i.e. Befesa Medioambiente Holdco, SL), was notified by the Bizkaia's regional taxation authorities of the commencement of inspection proceedings for corporate income tax for the years 2015, 2016, 2017 and 2018. As the inspection proceedings have not been completed, there are no conclusions as to the outcome or potential contingencies that could arise therefrom. The Directors do not consider that there is a risk of tax contingencies arising as a result of the inspection.

Fully consolidated foreign subsidiaries calculate income tax expense and tax charges for the taxes applicable to them in conformity with the legislation of, and at the tax rates in force in, their respective countries (Note 3.17).

Notes to the consolidated financial statements (thousands of euros) continued

19. Public administrations continued

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

	2020	2019
Profit/(loss) before tax from continuing operations	58,634	103,883
Total accounting profit/(loss) before tax	**58,634**	**103,883**
Tax charge at the tax rate in force in each territory	(17,501)	(29,240)
Tax credits generated/(used) in the year and not capitalised	(287)	(924)
Non-deductible expenses and non-computable income	(92)	4,656
Tax deductions generated/(used) in the year	2,100	13,015
Others	4,031	(3,494)
Income tax expense	**(11,749)**	**(15,987)**
– From continuing operations	(11,749)	(15,987)

The unused tax credits recognised by the Group amount to €31.0 million at 31 December 2020 (2019: €31.5 million), corresponding mainly to credits on double tax deductions, export activities, contributions to Company's promotion undertakings and investment incentives. The tax credits not recognised on deductions amounted to €27.7 million at 31 December 2020 (€27.7 million in 2019), being the expiration of all these tax credits as of 2043.

Tax credits on tax loss carry-forwards available for offset recognised in the Group at 31 December 2020 amounted to €28.3 million (31 December 2019: €28.2 million). Unrecognised tax credits on tax loss carry-forwards amounted to €77.7 million at 31 December 2020 (31 December 2019: €73.6 million). The majority of these tax credits (€77.2 million) mature as of 2043 (2019: €73.5 million).

As explained in Note 3.18, the Group's management uses the budget of the year 2021 as the main hypothesis, including 0% growth for the remainding nine years. The Group has performed a sensitivity analysis by stressing the key assumptions by +/- 5% and, in any case, the total of the recognised deferred tax assets will be recovered.

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

20. Guarantee commitments to third parties and contingencies

At 31 December 2020 and 2019, a number of Group companies had provided guarantees for an overall amount of approximately €34.8 million (31 December 2019: €30.6 million) to guarantee their operations vis-à-vis customers, banks, government agencies and other third parties.

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

In December 2016, there was a temporary stoppage at the Scandust plant (Sweden) as a result of action related to the update of the activity licence, initiated by the local country council. The Group's management commissioned several advisors to assess the environmental risk and potential economic effect of the corrective measures and invested in measures required to reopen the plant. 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 2020 recognised €7.9 million (31 December 2019: €7.6 million) under "Other receivables" (Note 12) as the best estimate of the minimum expected outcome on the ongoing litigation, conservatively calculated.

21. Income and expenses

21.1 Revenues

Details of revenues by category for 2020 and 2019 are as follows:

	2020	%	2019	%
Steel Dust	**345,762**	**57%**	**360,076**	**56%**
– Sale of WOX & other metals	284,477	47%	294,977	46%
– Service fees	61,285	10%	65,099	10%
Salt Slags	**66,977**	**11%**	**81,569**	**13%**
– Sale of aluminium concentrates & melting salt	37,968	6%	38,274	6%
– Fees for recycling salt slags & SPL	29,008	5%	43,295	7%
Secondary Aluminium	**223,900**	**37%**	**245,162**	**38%**
– Sale of secondary aluminium alloys	212,670	35%	229,073	35%
– Technology division & others	11,230	2%	16,089	2%
Corporate, other minor eliminations	**(32,309)**		**(38,867)**	
Total	**604,330**		**647,940**	

The Group discloses revenue by reporting segment and geographical area in Note 5.

21.2 Raw materials and consumables

Details of procurements in the consolidated income statements for 2020 and 2019 are as follows:

	2020	2019
Cost of raw materials and other supplies used	250,745	283,593
Changes in goods held for resale, raw materials and other inventories	(1,032)	(2,777)
Total	**249,713**	**280,816**

21.3 Other operating income

Details of other operating income in the consolidated income statements for 2020 and 2019 are as follows:

	2020	2019
In-house work on non-current assets (Note 3.6)	1,506	2,532
Income from income-related grants	2,305	2,196
Services and other operating income	2,012	3,827
Total	**5,823**	**8,555**

21.4 Personnel expenses

Details of personnel expenses in the consolidated income statement for 2020 and 2019 are as follows:

	2020	2019
Wages and salaries	68,118	61,465
Employer´s social security contributions	12,347	12,336
Other welfare costs	2,524	1,820
Total	**82,989**	**75,621**

Of the Group's average headcount in 2020, 103 employees had temporary employment contracts (2019: 110).

Notes to the consolidated financial statements (thousands of euros) continued

21. Income and expenses continued

In 2020, the average number of employees of the joint operations amounted to 47 (2019: 47 employees).

The number of employees at the 2020 and 2019 year-end, by gender, was as follows:

	2020		2019	
	Male	Female	Male	Female
Management	32	6	32	6
Experts	107	38	106	36
Professionals	172	65	162	57
Operators and assistants	666	51	698	50
Total	**977**	**160**	**998**	**149**

21.5 Other operating expenses

	2020	2019
External services	140,814	147,730
Taxes other than income tax	1,975	2,404
Other current operating expenses	5,633	7,073
Total	**148,422**	**157,207**

21.6 Amortisation/depreciation, impairment and provisions

	2020	2019
Amortisation of intangible assets (Note 7)	1,638	2,762
Depreciation of property, plant and equipment (Note 8)	31,429	27,346
Amortisation of right-of-use assets (Note 10)	4,373	3,997
Impairment of fixed assets (Note 8)	18,107	–
Other	20	1,479
Total	**55,567**	**35,584**

22. Finance costs

The breakdown of this balance in the 2020 and 2019 consolidated income statements is as follows:

	2020	2019
Interest expense	15,251	15,723
Other finance costs	7,044	3,768
Total	**22,295**	**19,491**

Interest expense includes swap settlement expenses amounting to €1,150 thousand (2019: €1,147 thousand).

In 2020, other financial costs include €3,946 thousand of finance cost related to the finance impact of compensation plans described in Note 23 (2019: €632 thousand).

23. Remuneration of the Board of Directors

Directors' remuneration and other benefits

In 2020, the members of the Parent's Board of Directors (including Executive Director members of the Board of Directors) earned approximately €6,743 thousand for salaries and attendance fees for discharging their duties in Group companies (2019: €6,064 thousand).

Also, as at 31 December 2020 and 2019 and during the year then ended, the Parent had not granted any loans, advances or other benefits to its former or current Directors.

In addition, the Parent Company did not have any pension or guarantee obligations with any current members of the Board of Directors.

Incentives to executives and other matters

In 2020 and 2019 there were no transactions with senior executives outside the normal course of business.

In January 2018, the Parent Company approved two different compensation plans for certain members of Group management:

- A compensation plan linked to the evolution of the share price consisting of 79,018 shares that can be executed as of three years from the signing of the agreement (November 2017). This agreed remuneration was paid in 2020 for an amount of €3 million.
- A compensation plan linked to the evolution of certain key indicators determined in the agreement (cumulative EBIT and EBITDA, cumulative cash flow, return on inputs of strategic projects and EHS [environmental, health and safety] and governance as strategic initiatives). The plan consists of four tranches of three years each from January 2018 to January 2021 and considers 89,107 shares per tranche. The agreed remuneration plan is conditioned to the continuation of the beneficiaries as senior management and managers of the Group.

The main assumptions correspond to the estimation of the degree of achievement of the key indicators and the fair value of the shares. In this regard, the Group's Directors estimate a degree of achievement of these indicators of 100% and take as reference the market value of Befesa, S.A. shares at 31 December 2020.

In addition, in 2020 the Non-Executive Directors (NEDs) were granted a long-term incentive plan vesting over 2019, 2020 and 2021. This plan consists of 9,975 shares and is linked to the same indicators of the four tranches described before.

24. Balances and transactions with related parties

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

Details of balances and transactions with shareholders and Group and related companies at 31 December 2020 and 2019 are as follows:

2020

	Accounts receivable and other current financial assets (Note 12)	Long-term loans	Accounts payable	Sales and other income	Purchases and other expenses
Recytech, S.A.	344	–	613	1,506	6,475
Befesa Zinc (Thailand) Ltd.	659	–	–	–	–
Other	–	65	–	–	–
Total	**1,003**	**65**	**613**	**1,506**	**6,475**

Notes to the consolidated financial statements (thousands of euros) continued

24. Balances and transactions with related parties continued

2019

	Accounts receivable and other current financial assets (Note 12)	Long-term loans	Accounts payable	Sales and other income	Purchases and other expenses
Recytech, S.A.	238	–	835	1,610	10,037
Befesa Zinc (Thailand) Ltd.	513	–	–	–	–
Other	–	59	–	–	–
Total	**751**	**59**	**835**	**1,610**	**10,037**

The balances and transactions of Group companies relate to sale and purchase transactions and other commercial operations are done on an arm's length basis.

All transactions are commercial and do not accrue interest, except for loans and the above credit facilities with the Group, carried out on an arm's length basis, the maturities of which are ordinary for these types of transactions.

As transactions with related parties are carried out on an arm's length basis, the Parent Company's Directors do not consider that this could give rise to significant liabilities in the future.

25. Information on the environment

The Parent Company and its subsidiaries maintain their production facilities in such a way as to meet the standards established by the environmental legislation of the countries in which the facilities are located.

Property, plant and equipment include investments made in assets intended to minimise the environmental impact and protect and improve the environment. In 2020, no significant environmental investments were made.

In 2020 and 2019, the Group did not incur any significant expenses relating to environmental activities.

26. Auditors' fees

For all financial statements since financial year 2019 KPMG has been the Groups' auditor. The Independent Auditor's Report on the consolidated financial statements for fiscal year 2020 was signed by Stephan Lego-Deiber. He is the responsible audit partner and signed the Independent Auditor's Report for the first time for the year ended 31 December 2019.

For financial year ended 31 December 2020, a global fee of €426 thousand was agreed with the Group's auditors for the audit of the consolidated and annual accounts of the Group. These fees are included in the Group's other operating expenses.

	Thousands of euros	
	2020	**2019**
Audit services	426	389
Other assurance services	21	–
Tax advisory services and others	119	–
	566	**389**

Other auditors have invoiced the Group net fees for professional services during the years ended 31 December 2020 and 2019, as follows:

	Thousands of euros	
	2020	**2019**
Audit services	107	97
Other assurance services	94	–
Tax advisory services	334	207
	535	**304**

27. Earnings per share

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

	2020	2019
From continuing operations attributable to the ordinary equity holders of the Company	1.40	2.43
From discontinued operations	–	–
Total basic earnings/(losses) per share attributable to the ordinary equity holders of the Company	**1.40**	**2.43**

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

As at 31 December 2020 and 2019, there are no differences between basic and diluted earnings/(losses) per share.

c) Reconciliation of earnings used in calculating earnings per share

	Thousands of euros	
	2020	2019
Profit/(loss) for the year from continuing operations	46,885	87,896
Less non-controlling interests from continuing operations	723	(5,183)
Profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company	47,608	82,713
Profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	**47,608**	**82,713**

d) Weighted average number of shares used as the denominator

	Number in thousand	
	2020	2019
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (Note 13)	34,067	34,067

As at 31 December 2020 there are no financial instruments or other contracts that might have a significant dilutive effect on the calculation of earnings per share.

28. Other information

On 11 March 2020, the World Health Organization declared the coronavirus COVID-19 outbreak a pandemic, due to its fast spread around the world, after having an impact on more than 150 countries. Most governments took significant measures to contain the spread, which included isolation, confinement, quarantine and restrictions to the free movement of people, closure of public and private facilities (except for health and essential goods), border closures and substantial reduction of air, sea and land traffic.

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

Notes to the consolidated financial statements (thousands of euros) continued

28. Other information continued

Macro-economic review

The year 2020 has been an unprecedented year in the world because of the COVID-19 global pandemic, which has created an extremely challenging environment not only at economic and business levels, but also in our personal lives.

The main industries in which Befesa develops its activity have been significantly impacted in 2020, although during the fourth quarter there has been a recovery in their level of activity. As such, the production of steel in Europe has decreased by 12% in 2020 compared to the previous year. As in the past, the part of the steel industry that Befesa serves, the electric arc furnace (EAF) steel producers, has performed better than the overall steel industry as demonstrated by Germany, where the blast oxygen furnace (BOF) steel production has decreased by 13% compared to the EAF steel production which decreased by only 3% in 2020. This has contributed to preserving Befesa's volume of steel dust processed during this challenging year.

In 2020, the automotive industry in Europe has seen a decrease of 24% in car sales compared to 2019, although the second half of the year has shown a better performance than the first half. This has affected the volume of aluminium salt slags that Befesa was able to process in 2020.

In 2020, metal prices have suffered great volatility throughout the year and have only recovered during the fourth quarter from the low levels achieved during the second quarter as a consequence of COVID-19.

During H1 2020, market prices of zinc and aluminium followed – like the rest of commodities – a decreasing development, affected by the COVID-19 pandemic. However, this negative trend started to reverse by the middle of the year and led to much higher prices at the end of 2020.

Zinc market prices ended the year at US$2,724 per tonne of zinc as of 31 December 2020, US$431 per tonne or 19% above the price of US$2,293 per tonne of zinc as of 31 December 2019.

Aluminium alloy market prices started 2020 at slightly higher levels of around €1,400 per tonne compared to the approximate €1,330 per tonne seen during H2 2019. The price level of around €1,400 per tonne continued until April when it was primarily affected by the COVID-19 pandemic, decreasing to €1,180 per tonne in July (the lowest point in 2020 and not seen since 2009). During H2 2020, the aluminium alloy market prices reversed and followed a recovering trend until year-end and emphasised especially during the last quarter of 2020. It closed at €1,985 per tonne of aluminium alloy as of 31 December 2020, €590 per tonne or 42% above the price of €1,395 per tonne of aluminium alloy as of 31 December 2019.

COVID-19 at Befesa

The year 2020 has been certainly a challenging one for Befesa; nevertheless, the Company managed to navigate this crisis well.

The Company's management evaluated during the year the impact of COVID-19. The Company's management evaluated the following items:

- Going concern basis of the Company.
- Non-current assets (goodwill; other intangible assets; and property, plant and equipment) to determine whether there is any new indication that they might have undergone and including impairment loss reviews. The Company reviewed its business plan and the discount rates used to perform the impairment tests.
- Financial derivatives valuation.
- Deferred tax assets to determine whether there is any new indication that they might have undergone and impairment loss reviews.
- Contracts with customers to identify any expected credit losses according to IFRS 9, any cancellations, any price changes or any other negative impact.
- Measurement of inventories.
- Provisions to identify if the Group must recognise a provision related to COVID-19.

As at 31 December 2020, the Company, due to the lower customer demand in light of Brexit, the automotive slowdown, the impact of COVID-19, as well as other industry trends, decided to close the plant located in the UK (Befesa Salt Slags, Ltd.). The Company has registered an impairment of €13.3 million and presented an adjustment to the EBITDA of €3.5 million as "non-recurrent charges" related to this closure.

Based on the impacts of COVID-19, Q2 was the weakest quarter of the year, but afterwards a recovery started with Q4 being the strongest quarter of 2020.

The Group has delivered good operating performance in a challenging environment in which all the industries where the Company operates have significantly decreased their activity levels.

In the **Steel Dust Recycling Services**, the EAF steel dust volumes processed in 2020 amounted to 686,981 tonnes, a 3.2% increase YOY (2019: 665,824 tonnes). This resilient development was primarily driven by the expanded operations in Turkey, which was partially offset by the COVID-19-induced demand constraints. Since the low point in Q2 2020, EAF steel dust throughput showed a quarter-over-quarter recovery of 3.3% in Q3 over Q2, and of 15.2% in Q4 over Q3. Befesa's steel dust recycling plants run at a resilient average load factor of 83.0%

In the **Salt Slags subsegment**, salt slags and SPL recycled volumes in 2020 decreased by 9.7% YOY to 444,607 tonnes (2019: 492,603 tonnes). The YOY volume decrease was twofold: first, derived from the lower treated quantities as a result of the UK plant closure; second, operations continued to be impacted by the COVID-19 pandemic, lowering demand especially from the automotive industry, although a moderate recovery trend was seen during the last quarter of 2020. Capacity utilisation levels remained resilient at 84% on average in 2020.

In the **Secondary Aluminium subsegment**, aluminium alloy production volumes in 2020 decreased slightly by 1.3% YOY to 174,334 tonnes (2019: 176,652 tonnes), primarily impacted in Q2 2020 by the COVID-19-related demand constraints in the automotive industry. Production volumes and capacity utilisation levels recovered from the lowest point in Q2 2020 until the end of the year. Overall, plant utilisation remained resilient at 85% on average for the full year 2020.

Despite the negative impact of the lower zinc and aluminium prices, the Group has achieved good financial results, proving once again the resiliency of its business model in which the hedging of the zinc price is a vital element to navigate through challenging periods like 2020.

The Group has generated strong cash flows, which have enabled to preserve a very comfortable level of liquidity, pay a decent dividend, and fund our organic growth projects, while keeping the financial leverage at reasonable levels.

Related to growth projects, mainly the development of EAF steel dust recycling plants in China, the constructions have progressed as scheduled, on budget and on time. The Company also closed the long-term financing with local Chinese financial institutions.

The Company's management will continue to evaluate the impact of the COVID-19 during 2021.

29. Subsequent events

There are no events between the financial statement date (31 December 2020) and the date of the formulation of the accounts (24 March 2021) which would materially affect the Group's assets or the Group's financial and/or earnings position.

Notes to the consolidated financial statements (thousands of euros) continued

Appendix
Subsidiaries and joint operations
2020

Entity	Country	Activity	% Interest	Auditor	Thousands of euros (31/12/2020) Capital	Reserves	Translation differences	Results	Interim dividend
Subsidiaries									
Befesa Management Services GmbH	Germany	Holding	100%	KPMG	25	1,331		263	
Befesa Medio Ambiente, S.L.U.	Spain	Holding	100%	KPMG	150,003	453,978		31,139	
MRH Residuos Metálicos S.L.U.	Spain	Holding	100%	(1)	15,600	11,666	–	(735)	
– Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	3,429	–	1,236	–
– Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	303	–	–	–
– Befesa Aluminio, S.L.U.	Spain	Recovery of metals	100%	KPMG	4,767	74,870	–	(11,969)	–
Befesa Aluminio Comercializadora, S.L.	Spain	Marketing company	100%	(1)	90	21	–	–	–
Befesa Salt Slags, Ltd	UK	Recovery of metals	100%	CURO	27,108	(30,512)	(1,619)	(19,924)	–
Befesa Zinc, S.A.U.	Spain	Holding	100%	KPMG	25,010	48,098	–	19,907	(15,000)
– Befesa Zinc Comercial, S.A., (Sociedad Unipersonal)	Spain	Sale of recycled waste	100%	KPMG	60	10,118	–	1,234	–
– Befesa Zinc Aser, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	4,260	11,503	–	32,803	(30,000)
– Befesa Zinc Sur, S.L., (Sociedad Unipersonal)	Spain	Recovery of metals	100%	(1)	605	242	–	(2)	–
– Befesa Zinc Óxido, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	1,102	5,818	–	(1,008)	–
– Befesa Steel R&D, S.L., (Sociedad Unipersonal)	Spain	Development of projects and technology innovation	100%	(1)	3	2,266	–	271	–
– Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	3,641	–	(2,322)	–
Befesa Zinc Gravelines S,A,S,	France	Waelz oxide treatment	100%	PwC	8,000	4,519	–	581	–
– Befesa ScanDust AB	Sweden	Recovery of metals	100%	KPMG	5,309	3,053	(358)	(5,503)	–

					Thousands of euros (31/12/2020)				
Entity	Country	Activity	% Interest	Auditor	Capital	Reserves	Translation differences	Results	Interim dividend
– Befesa Silvermet Turkey, S.L.	Spain	Holding	53.60%	(1)	9,175	1,102		(1,465)	–
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	2,672	23,540	(10,842)	(1,164)	–
Befesa Silvermet DisTicaret, A,S,	Turkey	Recovery of metals	100%	(1)	1,198	1,492	(1,574)	1,068	–
– Befesa Zinc Germany GmbH	Germany	Holding	100%	KPMG	25	6,569	–	26,382	–
Befesa Steel Services GmbH	Germany	Sales and logistics	100%	KPMG	2,045	67,819	–	23	–
Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	KPMG	5,113	14,922	–	50	–
Befesa Zinc Korea Ltd	South Korea	Recovery of metals	100%	KPMG	17,015	40,796	2,012	555	–
Befesa Pohang Co. Ltd	South Korea	Recovery of metals	100%	KPMG	1,770	7,023	(238)	(2,099)	–
Befesa Zinc Freiberg GmbH & Co, KG	Germany	Recovery of metals	100%	KPMG	1,000	14,518	–	(164)	–
Befesa Zinc Environmental Protection Technology (Jiangsu) Co. Ltd	China	Recovery of metals	100%	PAF	21,407	101	(652)	(319)	–
Befesa (China) Investment Co. Ltd	China	Holding	100%	PAF	17,390	(321)	(70)	(273)	–
Befesa Zinc Environmental Protection Technology (Henan) Co. Ltd	China	Recovery of metals	100%	PAF	13,319	(102)	(327)	(213)	–
Joint operations									
– Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	7,230	–	5,796	–

(1) Companies not subject to statutory audit

Notes to the consolidated financial statements (thousands of euros) continued

Appendix continued

Subsidiaries and joint operations

2019

Entity	Country	Activity	% Interest	Auditor	Thousands of euros (31/12/2019) Capital	Reserves	Translation differences	Results	Interim dividend
Subsidiaries									
Befesa Management Services GmbH	Germany	Holding	100%	KPMG	25	1,025		306	
Befesa Medio Ambiente, S.L.U.	Spain	Holding	100%	KPMG	150,003	362,517		98,777	
MRH Residuos Metálicos S.L.U.	Spain	Holding	100%	(1)	15,600	3,858	–	42,434	(34,626)
– Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	3,119	–	4,056	(3,746)
– Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	KPMG	25	303	–	–	–
– Befesa Aluminio, S.L.U.	Spain	Recovery of metals	100%	KPMG	4,767	66,833	–	8,170	–
Befesa Aluminio Comercializadora, S.L.	Spain	Marketing company	100%	(1)	90	21	–	–	–
Befesa Salt Slags, Ltd	UK	Recovery of metals	100%	CURO	27,108	(24,793)	(2,009)	(375)	–
Befesa Zinc, S.A.U.	Spain	Holding	100%	KPMG	25,010	55,655	–	83,415	(75,000)
– Befesa Zinc Comercial, S.A., (Sociedad Unipersonal)	Spain	Sale of recycled waste	100%	KPMG	60	9,837	–	281	–
– Befesa Zinc Aser, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	4,260	23,539	–	37,138	(33,000)
– Befesa Zinc Sur, S.L., (Sociedad Unipersonal)	Spain	Recovery of metals	100%	(1)	605	244	–	(3)	–
– Befesa Zinc Óxido, S.A. (Sociedad Unipersonal)	Spain	Recovery of metals	100%	KPMG	1,102	5,910	–	(92)	–
– Befesa Steel R&D, S.L., (Sociedad Unipersonal)	Spain	Development of projects and technology innovation	100%	(1)	3	2,028	–	238	–
– Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	2,442	–	1,316	–
Befesa Zinc Gravelines S,A,S,	France	Waelz oxide treatment	100%	PwC	8,000	3,505	–	1,028	–
– Befesa ScanDust AB	Sweden	Recovery of metals	100%	KPMG	5,309	2,663	(423)	(3,227)	–

Entity	Country	Activity	% Interest	Auditor	Thousands of euros (31/12/2019) Capital	Reserves	Translation differences	Results	Interim dividend
– Befesa Silvermet Turkey, S.L.	Spain	Holding	53.60%	(1)	9,175	1,127		(25)	–
Befesa Silvermet Iskenderun Celik Tozu Geri Donusumu, A.S.	Turkey	Recovery of metals	100%	PwC	2,672	12,467	(5,466)	11,074	–
Befesa Silvermet DisTicaret, A,S,	Turkey	Recovery of metals	100%	(1)	1,198	1,358	(977)	135	–
– Befesa Zinc Germany GmbH	Germany	Holding	100%	KPMG	25	1,754	–	42,712	(38,084)
Befesa Steel Services GmbH	Germany	Sales and logistics	100%	KPMG	2,045	67,862	–	(43)	–
Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	KPMG	5,113	20,331	–	(206)	–
Befesa Zinc Korea Ltd	South Korea	Recovery of metals	100%	KPMG	17,015	48,527	4,167	4,883	–
Befesa Pohang Co. Ltd	South Korea	Recovery of metals	100%	(1)	1,770	7,019	37	3	–
Befesa Zinc Freiberg GmbH & Co, KG	Germany	Recovery of metals	100%	KPMG	1,000	25,165	–	(72)	–
Befesa Zinc Environmental Protection Technology (Jiangsu) Co. Ltd	China	Recovery of metals	100%	PAF	14,309	–	(162)	132	–
Befesa (China) Investment Co. Ltd	China	Holding	100%	PAF	5,452	(143)	–	(197)	–
Befesa Zinc Environmental Protection Technology (Henan) Co. Ltd	China	Recovery of metals	100%	PAF	4,584	–	(50)	(98)	–
Joint operations									
– Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	1,854	–	13,376	–

(1) Companies not subject to statutory audit

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 2020 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, 24 March 2021

Javier Molina

Wolf Uwe Lehmann

Independent auditor’s report

KPMG Luxembourg, Société coopérative
39, Avenue John F. Kennedy
L-1855 Luxembourg

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To the Shareholders of
Befesa S.A.
46, boulevard Grande-Duchesse Charlotte
L-1330 Luxembourg
Luxembourg

REPORT OF THE REVISEUR D’ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Befesa S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (“Law of 23 July 2016”) and with International Standards on Auditing (“ISAs”) as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier (“CSSF”). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of the “réviseur d'entreprises agréé” for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (“IESBA Code”) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

T.V.A. LU 27351518
R.C.S. Luxembourg B 149133

KPMG

Recoverability of deferred tax assets

a. Why the matter was considered to be one of the most significant in our audit of the consolidated financial statements of the current period

The consolidated statement of financial position of the Group includes deferred tax assets amounting to EUR 81,369 thousand as at 31 December 2020. This amount includes EUR 59,320 thousand relating to tax loss carryforwards and tax credits and tax relief.

Deferred tax assets may be recognised based on a number of factors, including whether the Group will have sufficient tax profits in future periods against which tax loss carryforwards and tax credits and tax relief can be utilised.

The recognition of deferred tax assets relies on the exercise of significant judgement by the Board of Directors in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated and future reversals of existing taxable temporary differences.

We identified the recognition of deferred tax assets as a key audit matter because of its significance to the consolidated financial statements and because of the significant judgement of the Board of Directors and estimation required in the forecasting future taxable profits which could be subject to error or potential management bias.

b. How the matter was addressed in our audit

Our audit procedures concerning the recoverability of deferred tax assets included, but were not limited to, the following:

- Testing the design and implementation of the key controls on recognition and valuation of deferred tax assets.
- Inspecting management’s assessment of the recoverability of the deferred tax assets by testing the assumptions supporting projected forecasts.
- Challenging the reasonability of the deferred tax assets which are expected to be recovered annually, by reference to the applicable tax legislation.
- Assessing whether the Group’s disclosures in the consolidated financial statements of the application of judgement in estimating recognised and unrecognised deferred tax asset balances appropriately reflect the Group’s deferred tax position with reference to the requirements of the prevailing accounting standards.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated report including the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of the “réviseur d'entreprises agréé” thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the consolidated financial statements

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

The Board of Directors is responsible for presenting and marking up the consolidated financial statements in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format ("ESEF Regulation").

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the réviseur d'entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Our responsibility is to assess whether the consolidated financial statements have been prepared in all material respects with the requirements laid down in the ESEF Regulation.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Independent auditor's report continued

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied,

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Shareholders on 18 June 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is two years.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement is included in the management report. The information required by Article 68ter paragraph (1) letter d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remained independent of the Group in conducting the audit.

We have checked the compliance of the consolidated financial statements of the Group as at 31 December 2020 with relevant statutory requirements set out in the ESEF Regulation that are applicable to consolidated financial statements.

For the Group it relates to:

— Consolidated financial statements prepared in a valid xHTML format;

— The XBRL markup of the consolidated financial statements using the core taxonomy and the common rules on markups specified in the ESEF Regulation.

In our opinion, the consolidated financial statements of Befesa S.A. as at 31 December 2020, identified as LU1704650164-JA-2020-EQ-E-01, have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

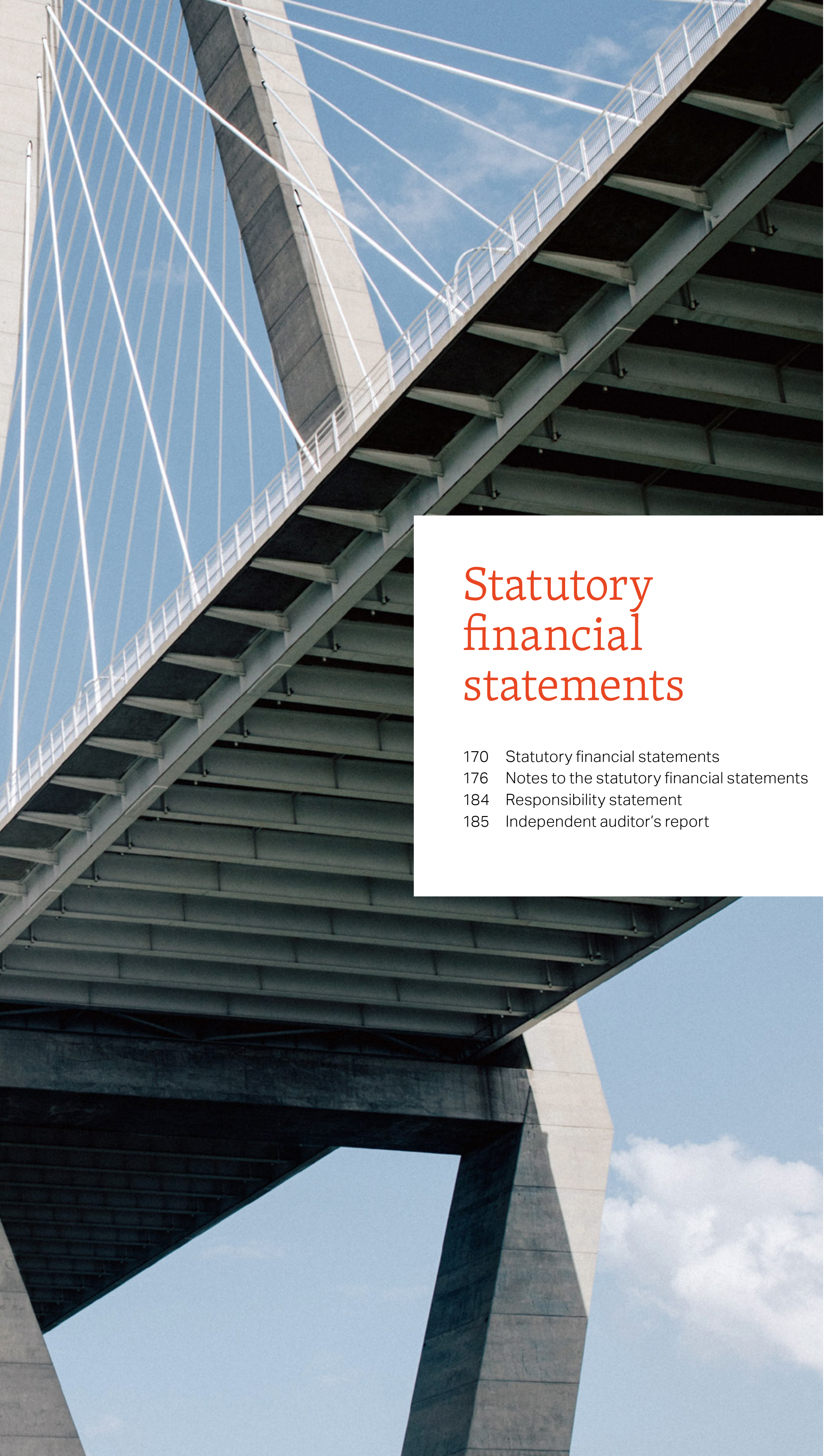
Luxembourg, 24 March 2021

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Stephan Lego-Deiber

04

Reintroduce / the recovered materials into the market



Statutory financial statements

Balance sheet
from 1 January 2020 to 31 December 2020

(Expressed in euros)

	Note(s)	2020	2019
Assets			
A. Subscribed capital unpaid		–	–
I. Subscribed capital not called		–	–
II. Subscribed capital called but unpaid		–	–
B. Formation expenses		–	–
C. Fixed assets		**768,667,511.59**	**768,667,511.59**
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	**768,667,511.59**	**768,667,511.59**
1. Shares in affiliated undertakings		**242,667,511.59**	**242,667,511.59**
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		**21,071,518.05**	**40,371,890.40**
I. Stocks		–	–
1. Raw materials and consumables		–	–
2. Work in progress		–	–
3. Finished goods and goods for resale		–	–
4. Payments on account		–	–

Balance sheet from 1 January 2020 to 31 December 2020 (expressed in euros) continued

	Note(s)	2020	2019
II. Debtors	4	**21,051,202.22**	**40,322,892.08**
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		**21,051,202.22**	**40,194,024.65**
a) becoming due and payable within one year		**12,189,307.60**	**40,194,024.65**
b) becoming due and payable after more than one year		**8,861,894.62**	–
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests		–	–
a) becoming due and payable within one year		–	–
b) becoming due and payable after more than one year		–	–
4. Other debtors		–	**128,867.43**
a) becoming due and payable within one year		–	**128,867.43**
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 on hand		**20,315.83**	**48,998.32**
E. Prepayments	**5**	**6,020,966.01**	**6,789,962.32**
TOTAL (ASSETS)		**795,759,995.65**	**815,829,364.31**

Balance sheet from 1 January 2020 to 31 December 2020 (expressed in euros) continued

	Note(s)	2020	2019
CAPITAL, RESERVES AND LIABILITIES			
A Capital and reserves	**6**	**258,016,079.13**	**276,338,653.57**
I. Subscribed capital		**94,575,646.35**	**94,575,646.35**
II. Share premium account		**263,875,806.27**	**263,875,806.27**
III. Revaluation reserve		–	–
IV. Reserves		**39,436,283.05**	**8,918,029.22**
1. Legal reserve		**9,457,564.64**	**8,918,029.22**
2. Reserve for own shares		–	–
3. Reserves provided for by the articles of association		–	–
4. Other reserves, including the fair value reserve		**29,978,718.41**	–
a) other available reserves		**29,978,718.41**	–
b) other non-available reserves		–	–
V. Profit or loss brought forward		**-136,538,432.30**	**-136,538,432.30**
VI. Profit or loss for the financial year		**6,546,120.21**	**45,507,604.03**
VII. Interim dividends		**-9,879,344.45**	–
VIII. Capital investment subsidies			
B. Provisions	**7**	**438,589.00**	**89,500.00**
1. Provisions for pensions and similar obligations		–	–
2. Provisions for taxation		–	–
3. Other provisions		**438,589.00**	**89,500.00**
C. Creditors	**8**	**531,284,361.51**	**532,636,814.42**
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		**531,189,307.60**	**532,461,494.89**
a) becoming due and payable within one year		**5,189,307.60**	**6,461,494.89**
b) becoming due and payable after more than one year		**526,000,000.00**	**526,000,000.00**
3. Payments received on account of orders in so far as they are not shown separately as deductions from stocks		–	–
a) becoming due and payable within one year		–	–
b) becoming due and payable after more than one year		–	–

	Note(s)	2020	2019
4. Trade creditors		**42,402.52**	**28,156.00**
a) becoming due and payable within one year		**42,402.52**	**28,156.00**
b) becoming due and payable after more than one year		**–**	**–**
5. Bills of exchange payable		**–**	**–**
a) becoming due and payable within one year		**–**	**–**
b) becoming due and payable after more than one year		**–**	**–**
6. Amounts owed to affiliated undertakings		**–**	**–**
a) becoming due and payable within one year		**–**	**–**
b) becoming due and payable after more than one year		**–**	**–**
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		**52,651.39**	**147,163.53**
a) Tax authorities		**40,651.39**	**117,036.81**
b) Social security authorities		**–**	**–**
c) Other creditors		**12,000.00**	**30,126.72**
i) becoming due and payable within one year		**12,000.00**	**30,126.72**
ii) becoming due and payable after more than one year		**–**	**–**
D. Deferred income	**9**	**6,020,966.01**	**6,764,396.32**
TOTAL (CAPITAL, RESERVES AND LIABILITIES)		**795,759,995.65**	**815,829,364.31**

Profit and loss account from 1 January 2020 to 31 December 2020

(Expressed in euros)

		Note(s)	2020	2019
PROFIT AND LOSS ACCOUNT				
1.	**Net turnover**		–	–
2.	**Variation in stocks of finished goods and in work in progress**		–	–
3.	**Work performed by the undertaking for its own purposes and capitalised**		–	–
4.	**Other operating income**	10	**1,097,451.51**	**1,011,936.00**
5.	**Raw materials and consumables and other external expenses**	11	**-730,871.87**	**-451,011.36**
	a) Raw materials and consumables		–	–
	b) Other external expenses		**-730,871.87**	**-451,011.36**
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**		–	–
	a) in respect of formation expenses and of tangible and intangible fixed assets		–	–
	b) in respect of current assets		–	–
8.	**Other operating expenses**	13	**-783,133.30**	**-500,238.26**
9.	**Income from participating interests**	14	**7,000,000.00**	**45,670,779.55**
	a) derived from affiliated undertakings		**7,000,000.00**	**45,670,779.55**
	b) other income from participating interests		–	–
10.	**Income from other investments and loans forming part of the fixed assets**	15	**11,046,032.29**	**12,949,097.21**
	a) derived from affiliated undertakings		**11,046,032.29**	**12,949,097.21**
	b) other income not included under a)		–	–
11.	**Other interest receivable and similar income**	16	**2,577,756.49**	**2,425,182.95**
	a) derived from affiliated undertakings		**2,577,756.49**	–
	b) other interest and similar income		–	**2,425,182.95**

		Note(s)	2020	2019
12.	**Share of profit or loss of undertakings accounted for under the equity method**		**–**	**–**
13.	**Value adjustments in respect of financial assets and of investments held as current assets**		**–**	**–**
14.	**Interest payable and similar expenses**	**17**	**-13,492,759.91**	**-15,456,429.06**
	a) concerning affiliated undertakings		**–**	**–**
	b) other interest and similar expenses		**-13,492,759.91**	**-15,456,429.06**
15.	**Tax on profit or loss**	**18**	**–**	**–**
16.	**Profit or loss after taxation**		**6,714,475.21**	**45,649,317.03**
17.	**Other taxes not shown under items 1 to 16**	**18**	**-168,355.00**	**-141,713.00**
18.	**Profit or loss for the financial year**		**6,546,120.21**	**45,507,604.03**

Notes to the statutory financial statements for the year beginning 1 January 2020 and ending 31 December 2020

(Expressed in euros)

1. General information

Befesa S.A. (the "Company") (formerly Bilbao Midco S.à r.l.) was incorporated in Luxembourg on 31 May 2013 as a *"société à responsabilité limitée"*, subject to the Luxembourg law for an unlimited period of time. On 18 October 2017, the shareholders resolved to convert the Company from its current form of a *"société à responsabilité limitée"* into a *"société anonyme"* without creating a new legal entity or affecting the legal existence or personality of the Company in any manner, and to change the name of the Company into Befesa, S.A.. The registered office of the Company is established at 46, Boulevard Grande-Duchesse Charlotte, L-1330 Luxembourg.

The registered office of the Company is established in Luxembourg and the Company number with the Registre de Commerce is B177697. The financial year of the Company starts on 1 January 2020 and ends on 31 December 2020.

The object of the Company is the acquisition, holding and disposal of interests in Luxembourg and/or in foreign companies and undertakings, as well as the administration, development and management of such interests.

The Company may provide loans and financing in any other kind or form, or grant guarantees or security in any kind or form, for the benefit of the companies and undertakings forming part of the group of which the Company is a member.

The Company may also invest in real estate, in intellectual property rights or any other movable or immovable assets in any kind or form.

The Company may borrow in any kind or form and issue bonds, notes or any other debt instruments as well as warrants or other share subscription rights.

In a general fashion, the Company may carry out any commercial, industrial or financial operation, which it may deem useful in the accomplishment and development of its object.

Following the Initial Public Offer ("IPO") held on 3 November 2017, the Company is listed on the Frankfurt Stock Exchange (ISIN number: LU1704650164).

The Company also prepares consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union ('IFRS'). The consolidated financial statements and the management report are available at the registered office of the Company.

2. Summary of significant accounting policies

2.1 Basis of preparation

The annual accounts of the Company are prepared in accordance with Luxembourg legal and regulatory requirements.

Accounting policies and valuation rules follow the historical cost convention and are, besides the ones laid down by the law of 19 December 2002, as amended on 18 December 2015, determined and applied by the Board of Directors.

The preparation of annual accounts requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the annual accounts in the period in which the assumptions changed. The Board of Directors believes that the underlying assumptions are appropriate and that the annual accounts therefore present the financial position and results fairly.

The Board of Directors makes estimates and assumptions that affect the reported amounts of assets and liabilities in the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

The Company's annual accounts have been prepared on a going concern basis, which assumes that the Company will be able to meet its liabilities as they fall due.

2.2 Foreign currency translation

The Company maintains its books and records in euro ("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.

Notes to the statutory financial statements as at 31 December 2020 (expressed in euros) continued

As a result, realised exchange gains and losses and unrealised exchange losses are recorded in the profit and loss account. Unrealised exchange gains are not recorded.

Specific cases:
Where there is an economic link between an asset and liability, these are valued in total according to the method described above and the net unrealised exchange losses are recorded in the profit or loss accounts whereas the net unrealised exchange gains are not recognized.

2.3 Financial assets

Shares in affiliated undertakings are valued at purchase price including the expenses incidental thereto.

Loans to affiliated undertakings are valued at nominal value including the expenses incidental thereto.

In case of a durable depreciation in value according to the opinion of the Board of Directors, value adjustments are made in respect of financial assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.4 Debtors

Debtors are valued at their nominal value. They are subject to value adjustments where their recovery is compromised. These value adjustments are not continued if the reasons for which the value adjustments were made have ceased to apply.

2.5 Prepayments

This asset item includes expenditure incurred but relating to a subsequent financial year.

2.6 Provisions

Provisions are intended to cover losses or debts of which the nature is clearly defined and which, at the date of the balance sheet, are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

Provisions may also be created in order to cover charges which have their origin in the financial year under review or in a previous financial year, the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or as to the date on which they will arise.

Provision for taxation
Provisions for taxation corresponding to the difference between the tax liability estimated by the Company and the advance payments for the financial years for which the tax return has not yet been filed are recorded under the caption "Provisions".

2.7 Creditors

Creditors are recorded at their reimbursement value. When the amount repayable on account is greater than the amount received, the difference is shown as an asset and is written off over the period of the debt.

2.8 Deferred income

This liability item includes income received but relating to a subsequent financial year.

2.9 Value adjustments

Value adjustments are deducted directly from the related asset.

2.10 Income from dividend

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

2.11 Interest income and charges

Interest income and interest charges are accrued on a timely basis by reference to the principal outstanding and at the nominal interest rate applicable.

Notes to the statutory financial statements as at 31 December 2020 (expressed in euros) continued

3. Financial assets

Financial assets held at cost less impairment – movements gross book value	Gross book value – opening balance	Additions	Disposals	Transfers	Gross book value – closing balance
Shares in affiliated undertakings	242,667,511.59	–	–	–	**242,667,511.59**
Loans to affiliated undertakings	526,000,000.00	–	–	–	**526,000,000.00**
Total	**768,667,511.59**	–	–	–	**768,667,511.59**

Financial assets held at cost less impairment – movements net book value	Net book value opening balance	Additions	Disposals	Transfers	Net book value – closing balance
Shares in affiliated undertakings	**242,667,511.59**	–	–	–	**242,667,511.59**
Loans to affiliated undertakings	**526,000,000.00**	–	–	–	**526,000,000.00**
Total	**768,667,511.59**	–	–	–	**768,667,511.59**

In the opinion of the Board of Directors, no durable depreciation in value has occurred on shares in affiliated undertakings as at 31 December 2020, neither as at 31 December 2019; accordingly, no value adjustment was recorded.

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

				As at 31/12/2019		
Name		**Registered Office**	**% holding**	**Net book value (EUR)**	**Net equity (EUR)**	**Net result (EUR)**
Befesa Management Services GmbH	audited account	Germany	100%	25,000.00	1,050,179.95	306,235.18
Befesa Medio Ambiente, S.L.U.	audited account	Spain	100%	242,642,511.59	399,297,000.00	53,765,000.00

Loans to affiliated undertakings

Counterparty	Currency	Amount	Interest rate	Maturity date
Loan to Befesa Medio Ambiente S.L.U.	EUR	526,000,000.00	2.00%	09.07.2026

The Facility Agreement granted to the Company on 7 December 2017 (Note 8) and the loan granted to Befesa Medio Ambiente, S.L.U. have the same principal economic terms.

The refinancing of the existing capital structure was successfully completed on 9 July 2019 in a transaction that extends Befesa's debt maturity up to June 2026 with a seven-year TLB.

On February 2020, the Company repriced the loan granted to Befesa Medio Ambiente, S.L.U., reducing its interest rate, in order to have the same principal economic terms as the Facility Agreement granted to the Company (Note 8).

As at 31 December 2020, the nominal amount of this loan is €526,000,000.00 (2019: €526,000,000.00) and accrued interest amount to €5,113,888.91 (2019: €6,392,361.11) (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 2020, neither as at 31 December 2019; accordingly, no value adjustment was recorded.

4. Debtors

Debtors by category	Within one year	More than one year	As at 31/12/2020	As at 31/12/2019
Amounts owed by affiliated undertakings	12,189,307.60	8,861,894.62	**21,051,202.22**	40,194,024.65
Other debtors	–	–	–	128,867.43
Total	12,189,307.60	8,861,894.62	**21,051,202.22**	40,322,892.08

4.1 Debtors – becoming due and payable within one year

The detail of debtors is the following:

Becoming due and payable within one year	As at 31/12/2020 Amount EUR	As at 31/12/2019 Amount EUR
Dividend receivable from Befesa Medio Ambiente S.L.U.	**7,000,000.00**	33,500,000.00
Accrued Interest – Interest Rate Swap Befesa Medio Ambiente S.L.U.	**75,418.69**	69,133.78
Accrued Interest Loan Befesa Medio Ambiente S.L.U.	**5,113,888.91**	6,392,361.11
Receivable from Befesa Medio Ambiente S.L.U.	–	232,529.76
Other debtors	–	128,867.43
Total	**12,189,307.60**	40,322,892.08

4.2 Debtors – becoming due and payable within more than one year

Becoming due and payable within more than one year	As at 31/12/2020 Amount	As at 31/12/2019 Amount
Receivable from Befesa Medio Ambiente S.L.U.	**8,861,894.62**	–
Total	**8,861,894.62**	–

As at 1 December 2020, the Company signed a "Reciprocal Credit Agreement" with Befesa Medio Ambiente, S.L.U. The interest is Euribor plus a margin of 0.50% and the maturity is indefinite.

As at 31 December 2020 the "Reciprocal Credit Agreement" amounts €8,861,894.62 (2019: €0.00).

In the opinion of the Board of Directors, the recovery of debtors is not compromised as at 31 December 2020; accordingly, no value adjustment was recorded.

5. Prepayments

Prepayments	As at 31/12/2020	As at 31/12/2019
Transaction costs	**6,020,966.01**	6,764,396.32
Other prepaid expenses	**0.00**	25,566.00
Total	**6,020,966.01**	6,789,962.32

Transaction costs of €9,984,661.35 were paid in relation to the Facility Agreement granted to the Company (Note 8). These transactions costs have been recognized and are amortised all along the length of the facility.

As at 31 December 2020, the accumulated prorated amortisation amounts to €3,963,695.34 (2019: €2,877,649.25).

Notes to the statutory financial statements as at 31 December 2020 (expressed in euros) continued

6. Capital and reserves

Movements in capital and reserves	Balance as at 31/12/2019	Allocation of preceding result	Result for current year	Interim dividend	Balance as at 31/12/2020
Subscribed capital	94,575,646.35	–	–	–	**94,575,646.35**
Share premium account	263,875,806.27	–	–	–	**263,875,806.27**
Legal reserve	8,918,029.22	539,535.42	–	–	**9,457,564.64**
Other available reserves	0.00	29,978,718.41	–	–	**29,978,718.41**
Profit or loss brought forward	-136,538,432.30	–	–	–	**-136,538,432.30**
Profit or loss for the financial year	45,507,604.03	-45,507,604.03	6,546,120.21	–	**6,546,120.21**
Interim dividends	–	–	–	-9,879,344.45	**-9,879,344.45**
Dividend	–	14,989,350.20	–	–	
Total	276,338,653.57	–	6,546,120.21	-9,879,344.45	**258,016,079.13**

The allocation of preceding year result corresponds to the decision taken by the Annual General Meeting of the shareholders of the Company held on 18 June 2020. The shareholders approved the distribution of a dividend in an amount of €0.44 gross per share resulting in an aggregate dividend distribution of €14,989,350.20 gross.

The Board of Directors resolved to approve as at 25 November 2020 the payment to the shareholders of the Company of an interim dividend in the amount of €0.29 gross per share equal to a total gross amount of €9,879,344.45.

As at 31 December 2020, the subscribed capital is fully paid up and represented by 34,066,705 ordinary shares without nominal value, representing a total amount of €94,575,646.35.

The authorised capital of the Company is set at €111,047,595.14, divided into 39,999,998 shares.

Legal reserve

In accordance with Luxembourg relevant law, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. If the legal reserve later falls below the 10% threshold, at least 5% of net profits must be allocated again toward the reserve. The legal reserve is not available for distribution to the shareholders.

7. Provisions

Provisions	As at 31/12/2020	As at 31/12/2019
Other provisions	**87,502.00**	89,500.00
Long term provision	**351,087.00**	–
Total	**438,589.00**	89,500.00

Other provisions

As at 31 December 2020 and 31 December 2019, the other provisions consist mainly of provision for other operating expenses not yet invoiced.

Long-term provision

As at 31 December 2020, long-term provision relate to "Multi-year variable compensation (long-term incentive plan)" for the Non-Executive Directors.

8. Creditors

Creditors by category	Within one year	More than one year	More than five years	As at 31/12/2020	As at 31/12/2019
Amounts owed to credit institutions	5,189,307.60	526,000,000.00	–	**531,189,307.60**	532,461,494.89
Trade creditors	42,402.52	–	–	**42,402.52**	28,156.00
Other creditors	52,651.39	–	–	**52,651.39**	147,163.53
Total	5,284,361.51	526,000,000.00	–	**531,284,361.51**	532,636,814.42

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. The fair value of this IRS is €-2,305,326.63 as at 31 December 2020 (2019: €-3,173,630.59).

On 9 July 2019, the Group successfully completed the refinancing of the €636 million Facilities Agreement. The new Facilities Agreement comprises:

- Term Loan B ("facility") in an amount of €526 million, which is a bullet with a maturity date of seven years.
- Revolving Credit Facility (RCF) in an amount of €75 million with a maturity of six years.
- A guarantee Facility Commitment in an amount of €35 million with a maturity of six years.

On 17 February 2020, Befesa successfully repriced its term loan B, reducing its interest rate by 50 bps to Euribor + 200 bps.

The facility's maturity date and all other terms remain in place without further amendment.

On March 2020, Befesa arranged an interest rate swap in order to fix the interest for the extension period of the refinancing signed on 9 July 2019. The fix interest rate is 0.236% and the notional on the amount totalled €316,000,000.00. The fair value of this IRS is €-1,284,056.98 as at 31 December 2020.

As at 31 December 2020, interest on the Facility is Euribor plus a margin of 2.00% and 2.25% in the case of RCF, these margins can be adjusted downwards up to 1.25% in the case of term loan B and up to 1.25% in the case of RCF depending on the ratio of net financial debt/EBITDA.

As at 31 December 2020, the amounts becoming due and payable within one year are composed of €5,113,888.91 (2019: €6,392,361.11) accrued interest on the facility, and of €75,418.69 (2019: €69,133.78) accrued interest on the IRS.

9. Deferred income

Deferred income	As at 31/12/2020	As at 31/12/2019
Deferred Income – Transaction costs	**6,020,966.01**	6,764,396.32
Total	**6,020,966.01**	6,764,396.32

The Facility Agreement granted to the Company (Note 8) and the loan granted to Befesa Medio Ambiente, S.L.U. (Note 3) have the same principal economic terms. The transaction costs of €9,984,661.35 on the Facility (Note 5) have been accounted for equally on the loan granted to Befesa Medio Ambiente, S.L.U..

10. Other operating income

The other operating income consists of the management fee for the costs the Company recharged to its subsidiary Befesa Medio Ambiente, S.L.U..

Notes to the statutory financial statements as at 31 December 2020 (expressed in euros) continued

11. Raw materials and consumables and other external expenses

Other external expenses	As at 31/12/2020	As at 31/12/2019
Accounting, auditing and domiciliation fees	**86,489.00**	45,232.90
Banking and similar services	**768.49**	997.47
Legal fees	**198,102.84**	136,454.41
Other commissions and professional fees	**438,938.47**	257,460.60
Miscellaneous	**6,573.07**	10,865.98
Total	**730,871.87**	451,011.36

12. Staff costs
The average number of employees for the year 2020 was nil (2019: nil).

13. Other operating expenses
The other operating expenses consists mainly of Directors' fees.

14. Income from participating interests
The income from participating interests derived from affiliated undertakings consists of dividend received: €7,000,000.00 from Befesa Medio Ambiente S.L.U. (2019: 34,702,625.35 from Befesa Medio Ambiente S.L.U. and €16,707,230.55 from Befesa Holding S.à r.l. offset by a realised loss of €5,739,076.35 on its dissolution).

15. Income from other investments and loans forming part of the fixed assets
As at 31 December 2020 the interest income of the loan of €526,000,000.00 to Befesa Medio Ambiente, S.L.U. amounts to €11,046,000.02 (2019: €12,949,097.21) (Note 3).

16. Other interest receivable and similar income
The interest and similar income consist of the costs the Company recharged to its subsidiary Befesa Medio Ambiente, S.L.U.

	As at 31/12/2020	As at 31/12/2019
Amortisation costs	**1,086,046.09**	1,278,190.73
Cost of IRS	**1,150,134.67**	1,146,992.22
Invoices for management of financing activities recharged to affiliated undertakings	**341,575.73**	–
Total	**2,577,756.49**	2,425,182.95

17. Interest payable and similar expenses
As at 31 December 2020 the €13,492,759.91 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 31/12/2020	As at 31/12/2019
Interest cost	**11,046,000.02**	12,949,097.21
Cost of IRS	**1,150,134.67**	1,146,992.22
Amortisation costs	**1,086,046.09**	1,278,190.73
Other expenses	**210,579.13**	82,148.90
Total	**13,492,759.91**	15,456,429.06

18. Taxation

The Company is subject to the general tax regulation applicable in Luxembourg.

19. Off balance sheet commitments and transactions

On 19 October 2017, the Company entered into a Facility agreement of €636.000.000,00 (Note 8). In this context, the Company pledged the shares of Befesa Medio Ambiente, S.L.U..

20. Related party transactions

There were no direct nor indirect transactions with main shareholders and members of its administrative, management and supervisory bodies that would be material and not concluded under normal market conditions unless previously disclosed.

21. Advances and loans granted to the members of the managing and supervisory bodies

There are no advances, loans or commitments given on their behalf by way of guarantee of any kind granted to the members of the management and supervisory bodies during the financial year (2019: nil).

22. Subsequent events

There are no events between the balance sheet date (31 December 2020) and the date of the formulation of the accounts (24 March 2021) which would materially affect the Company's assets or the Company's financial and/or earnings position.

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 2020 statutory annual accounts of Befesa S.A. presented in this Annual Report, which have been prepared in accordance with Luxembourg legal and regulatory requirements, give a true and fair view of the assets, liabilities, financial position and profit or loss of Befesa S.A.; and
- the management report on the annual accounts included in this Annual Report, which has been combined with the management report on the consolidated financial statements included in this Annual Report, gives a fair review of the development and performance of the business and the position of Befesa S.A., or Befesa S.A. and its consolidated subsidiaries, taken as a whole, as applicable, together with a description of the principal risks and uncertainties that they face.

Luxembourg, 24 March 2021

Javier Molina | **Wolf Uwe Lehmann**

KPMG

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To the Shareholders of
Befesa S.A.
46, boulevard Grande-Duchesse Charlotte
L-1330 Luxembourg
Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the annual accounts

Opinion

We have audited the annual accounts of Befesa S.A. (the "Company"), which comprise the balance sheet as at 31 December 2020, and the profit and loss account for the year then ended, and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of the Company as at 31 December 2020 and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Basis for opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibilities under the EU Regulation N° 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of the "réviseur d'entreprises agréé" for the audit of the annual accounts » section of our report. We are also independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of the audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

T.V.A. LU 27351518
R.C.S. Luxembourg B 149133

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the annual report including the management report and the Corporate Governance Statement but does not include the annual accounts and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and Those Charged with Governance for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

The Board of Directors is responsible for presenting the annual accounts in compliance with the requirements set out in the Delegated Regulation 2019/815 on European Single Electronic Format ("ESEF Regulation").

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Responsibilities of the réviseur d'entreprises agréé for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

Our responsibility is to assess whether the annual accounts have been prepared in all material respects with the requirements laid down in the ESEF Regulation.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as "réviseur d'entreprises agréé" by the Shareholders on 18 June 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is two years.

The management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

Independent auditor's report continued

The Corporate Governance Statement is included in the management report. The information required by Article 68ter paragraph (1) letter d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We confirm that the audit opinion is consistent with the additional report to the audit committee or equivalent.

We confirm that the prohibited non-audit services referred to in the EU Regulation N° 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

We have checked the compliance of the annual accounts of the Group as at 31 December 2020 with relevant statutory requirements set out in the ESEF Regulation that are applicable to annual accounts.

For the Company it relates to:

— Annual accounts prepared in a valid xHTML format.

In our opinion, the annual accounts of Befesa S.A. as at 31 December 2020, identified as LU1704650164-JA-2020-EQ-E-01 have been prepared, in all material respects, in compliance with the requirements laid down in the ESEF Regulation.

Luxembourg, 24 March 2021

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Stephan Lego-Deiber

05

Additional information

Glossary

Aluminium alloy	A mixture of two or more elements in which aluminium is the predominant metal
Aluminium concentrate	Secondary aluminium residue generated during the recycling process of salt slags and SPL, which can either be landfilled or sold to various industries as an input material for further production cycles
Aluminium residue	Aluminium scrap and other residues mainly containing aluminium, such as drosses, shavings and cuttings, that can be recycled
Aluminium scrap	Material from various goods that have reached completion of their useful lives, that mainly contains aluminium and can be recycled
Basic oxygen furnace (BOF)	A type of metallurgical furnace which uses iron ore as its base raw material to produce steel
Coke	An input material used in the steel residue recycling processes
Electric arc furnace (EAF)	A furnace used by mini-mills to melt scrap steel using electric arc technology
EAF steel dust	Hazardous waste resulting from the production of crude steel by mini-mills
Galvanised steel	Steel with a protective coating containing zinc that protects against corrosion
Leaching	A hydrometallurgical process that increases the zinc content of Waelz oxide (WOX) by removing impurities like fluorides and chlorines
Lime	An input material used in the steel dust recycling process
Mini-mill	Steel production facility for the production of steel by melting the recycled scrap steel in EAF, as opposed to directly from iron ore (which is the primary iron resource used in traditional BOF steel factories)
Rotary furnace	A tube-shaped furnace that rotates around a central axis while materials are being treated

Salt slags	A hazardous waste generated by the production of secondary aluminium
Scrap steel	Recycled steel that serves as an input material for steel manufacturers using mini-mill facilities
Spent pot linings (SPL)	Spent pot linings of aluminium electrolysis cells are hazardous waste materials generated in the production process of primary aluminium
Stainless-steel residue	A hazardous residue resulting from the stainless-steel production from scrap stainless steel
Steel residue	Electric arc furnace steel dust and stainless-steel residue
Tolling fee	In the Steel Dust segment, it refers to the fee charged to stainless steel manufacturers to collect and treat stainless steel residue and return to them metals (mainly nickel, chromium and molybdenum) recovered in the process. In the Secondary Aluminium subsegment of Aluminium Salt Slags Recycling Services, it refers to the service fee charged for collecting, treating aluminium residues and returning the recovered aluminium to customers.
Valorisation	The recovery of valuable materials from waste
Waelz kiln	A kiln used for processing crude steel dust by mixing crude steel dust, coke and lime in the kiln containing a rotating furnace, which primarily vaporizes the zinc and lead components contained in the crude steel dust and produces Waelz oxide (WOX)
Waelz oxide (WOX)	A product with a high concentration of zinc that is generated in the crude steel dust recycling process and that is used in the production of zinc
Zinc smelter	A type of industrial plant or establishment that engages in zinc smelting, i.e. the conversion of zinc ore concentrates and WOX into zinc metal

Financial calendar

Q1 2021 Statement & Conference Call	Tuesday, 27 April 2021
Annual General Meeting	Wednesday, 23 June 2021
H1 2021 Interim Report & Conference Call	Thursday, 29 July 2021
Q3 2021 Statement & Conference Call	Thursday, 28 October 2021

Note
Befesa cannot rule out changes of dates and recommends checking them at the Investor Relations / Investor's Agenda section of Befesa's website www.befesa.com

IR contact

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