

BEFESA

Annual Report 2017

Long-term growth through
sustainable services

“ During 2017 we achieved the operational, strategic and financial milestones needed to place Befesa in an excellent position to continue its journey of profitable growth.

Javier Molina, CEO

”



Content

Befesa achieves record results in 2017

Revenue increased to €725 million (up +18% y-o-y), adjusted EBITDA of €172 million (up +30% y-o-y), adjusted EBIT of €144 million (up +39% y-o-y), and leverage reduced to x2.4 with €118 million of cash on hand.

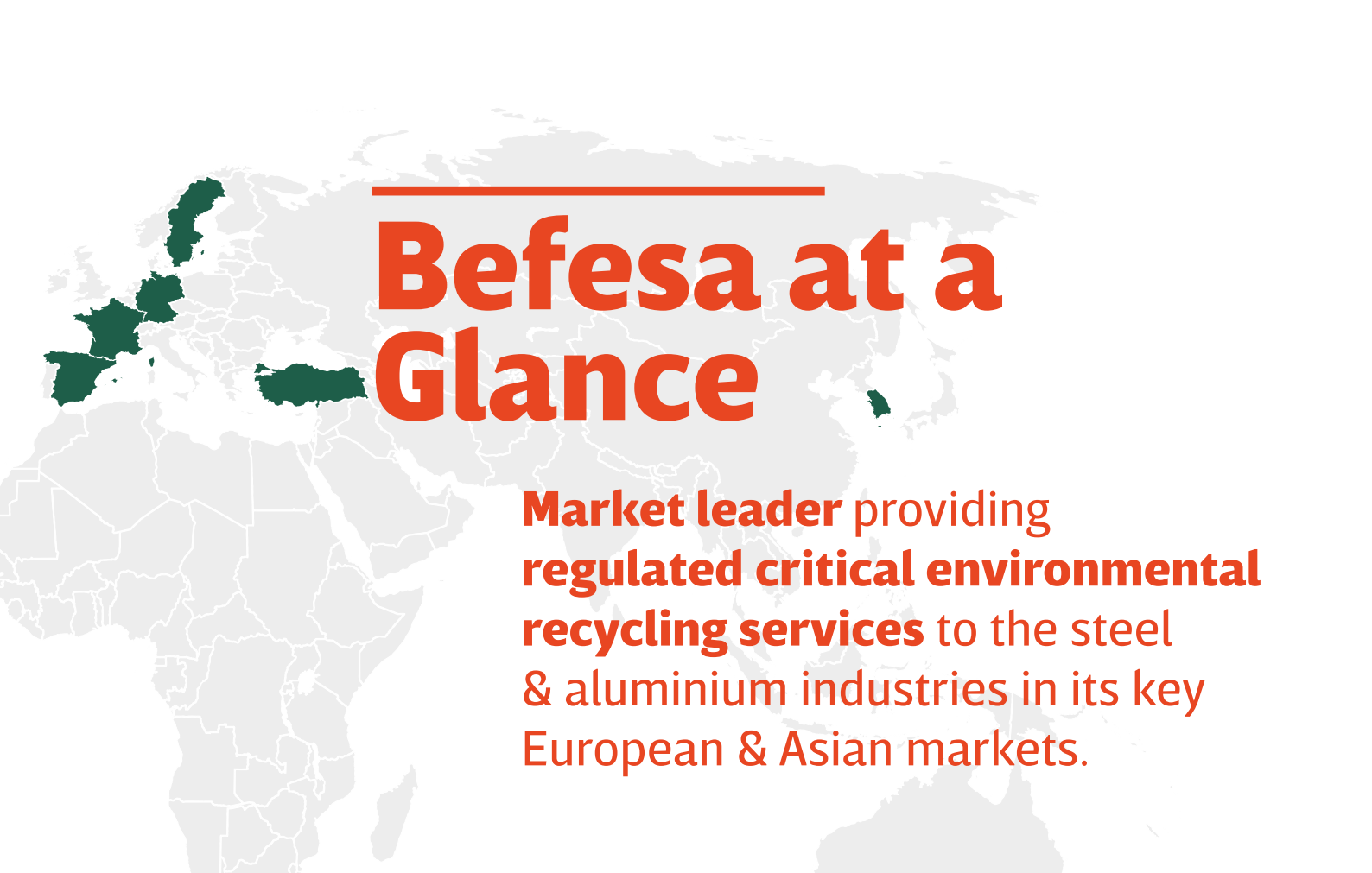
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Befesa in the Capital Markets

On November 3 2017 Befesa S.A. (Befesa) listed on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

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Befesa at a Glance

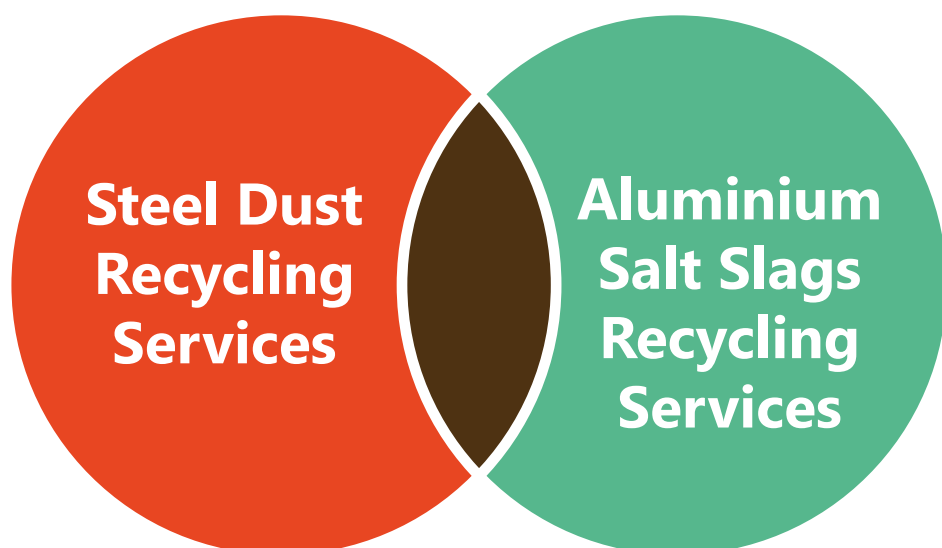
Market leader providing **regulated critical environmental recycling services** to the steel & aluminium industries in its key European & Asian markets.

17 Recycling plants close to long-term customers

7 Countries in Europe & Asia

~1,100 Employees at year-end 2017 – stable headcount

(Figures as of December 31, 2017; Volume data presented in thousand tons, financial data in € million)

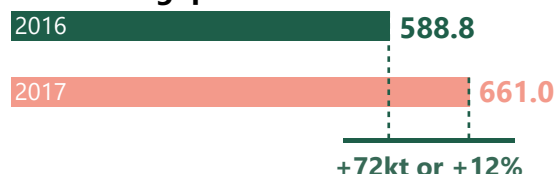


2 Business segments

Performance Highlights

Volumes at new record levels in both core segments

Electric Arc Furnace (EAF) dust throughput



Salt slags & Spent Pot Linings (SPL) volume

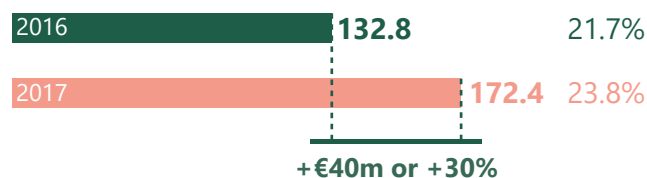


Record results with significant double-digit growth

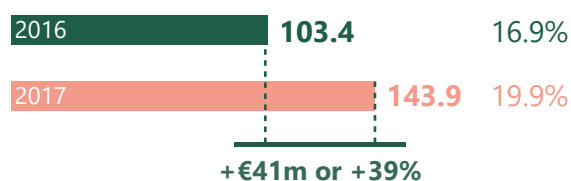
Total revenue



Adjusted EBITDA & margin of revenue



Adjusted EBIT & margin of revenue



Leverage further improved



Leverage ratio = Net Debt / Adjusted EBITDA

To our Shareholders



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**Letter from the Chief
Executive Officer**

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**Befesa S.A. in the
Capital Markets**

Letter from our CEO



Javier Molina

Dear Shareholders,

In numerous ways, 2017 has been an exciting year for Befesa. From continued and accelerated growth across both our segments to the successful listing on the Frankfurt Stock Exchange in November, we have taken significant steps to move our company forward.

IPO

Frankfurt Stock Exchange

+18%

increase in revenue

+30%

adjusted EBITDA increase

+39%

adjusted EBIT increase

Befesa continues to be the European leader in steel dust and salt slags recycling services, two niche markets where we enjoy a strong market position.

During 2017 we achieved the operational, strategic and financial milestones needed to place Befesa in an excellent position to continue its journey of profitable growth.

Operationally, 2017 was a record year for Befesa. We collected and serviced more than 1,170 thousand tons of steel dust and salt slags, representing an increase of 8% compared to the previous year. This means that we had an average utilization of around 85% in our Steel Dust Recycling Services and approximately 96% in our Aluminium Salt Slags Recycling Services plants. This volume, combined with the positive commodity price dynamics that we saw in 2017, led to an 18% increase in revenues to €725 million and our adjusted EBITDA by +30% to €172 million. The

adjusted EBIT amounted to €144 million, up +39% from 2016. The profitability of our business was 24% and 20% in terms of adjusted EBITDA and EBIT margins respectively, and we have generated €56 million of cash. 2017 was a profitable and productive year for Befesa.

Strategically, we completed the divestments of the non-core business Industrial Environmental Solutions (IES), which we started in 2016. These divestments have had a positive impact on the company's debt reduction and leverage ratio, and have created value for our shareholders.

The strategic move to divest non-core businesses is enabling Befesa to focus on high margin niche recycling services for steel dust and aluminium salt slags. These transactions have represented a fundamental step in Befesa's strategy, and will allow us to better focus on our core service activities.

We further consolidated our leading position in the markets where we operate during 2017. In Europe, we have continued to utilize our steel dust and aluminium salt slags plants at almost full capacity, and our new secondary aluminium plant in Bernburg (in the eastern part of Germany) completed its ramp-up phase and is now operating at full capacity.

In South Korea – where we are also the market leader in steel dust recycling – we have continued to increase the volume of the second kiln of our plant, taking advantage of the recovery of the domestic steel industry, as well as complementing this with steel dust

services from customers in nearby markets in South East Asia such as Thailand, Taiwan, Malaysia and Vietnam.

An important part of our strategy is to hedge the price of the commodities we are exposed to, especially zinc. It is a fundamental element in our service business model since it provides earnings stability and visibility in the short and medium term, and enables service reliability to our customers. 2017 saw the continuation of our hedging program with an increase in the volume of tonnage hedged as well as the length of the hedges. At present, we have hedged approximately 70% of our zinc equivalent output until the end of 2020 at attractive prices.

As well as our operational achievements and strategic development, we also delivered significant improvements to our financial results and capital structure. 2017 was a very intense and exciting year. We also rejoined the capital markets as a listed company and refinanced our capital structure.

On November 3 2017 Befesa was listed on the Frankfurt Stock Exchange via an Initial Public Offering (IPO). This great milestone has provided us with better access to the capital markets – which will support our future growth. In preparation for the IPO, we had the opportunity to meet and explain our business to many investors. The positive development of our shares since the listing proves that investors from different geographical locations believe in the long-term value creation potential of our business.

Letter from our CEO continued

In December we refinanced our capital structure with a new facility that will provide Befesa with significantly lower financing cost as well as a greater deal of flexibility.

Befesa benefited from, and capitalized on several factors in 2017.

The economic environment in Europe remained positive with GDP growth at 2.5%. The European steel industry saw steel production increase by 4% compared to the previous year, producing

Additionally, both the South Korean and Turkish markets developed positively in 2017.

South Korea's GDP grew by 3%, partially due to its recovering steel industry. More than 71 million tons of crude steel were produced last year. From which, around 34% used EAF technology.

The steel industry in Turkey experienced 13% growth in 2017 and the country grew its GDP by 6.5%.

From a steel dust sourcing perspective, our business is predominantly regional. This means we typically collect steel dust from the areas and regions in which our recycling plants are located. Nevertheless, the zinc containing Waelz oxide that we produce from recycling steel dust is commercialized and shipped globally. As in previous years, the demand for our Waelz oxide has been very strong. This is due to the operating benefits that it provides to zinc smelters in addition to being a source of zinc.

In 2017 the global zinc industry produced a total of 13.7 million tons. From a pricing perspective, the favorable supply and demand dynamics are reflected in positive price developments. The average zinc price on the LME market was approximately €2,572 per ton in 2017, representing an increase of 29% over the previous year.

Our aluminium salt slags recycling and secondary aluminium businesses are

“2017 was a very intense and exciting year. We rejoined the capital markets as a listed company and refinanced our capital structure.”

169 million tons of crude steel. More specifically, the volume of steel produced using the Electric Arc Furnace (EAF) technology and scrap metal as raw material increased 6% year on year, reaching a total production of 75 million tons.

This level of EAF steel production – the steel dust generated – has been sufficient to operate our plants close to full capacity.

influenced by the automotive industry in Europe. The industry has enjoyed a positive year with more than 21.8 million cars produced throughout the period. At Befesa, we aspire to become the global leader in the two niche markets we operate in – steel dust and aluminium salt slags recycling services. In order to achieve this ambitious goal, we have a clear strategy that will enable us to increase our earnings significantly over the next years.

Firstly, we will further strengthen our market position in the key markets where we run our operations. To do this we are executing an organic growth plan consisting of several projects of capacity expansion and debottlenecking. These projects will be executed in 2018 and 2019 across the three markets where we are present today: Europe, Turkey and South Korea. The projects will create attractive value for our shareholders, have a low execution risk and will be fully funded with the cash on the balance sheet at the end of the year.

Secondly, we will continue with our hedging strategy, which is a key pillar of our business model. We have strengthened our hedging program until the end of 2020 securing the price of around 70% of our zinc output at very attractive prices.

Finally, the third aspect of our growth strategy will be to develop our business in new geographic locations. This could be achieved via greenfield projects, or via opportunistic targeted acquisitions. In any of these cases we will continue with the same rigor and discipline in our capital allocation and investment process that

we have demonstrated in the past. The high cash conversion, together with the new capital structure and the hedging program in place, will enable us to generate considerable amounts of cash over the next years. In turn, this will allow us to fund our growth plans while we pay an attractive dividend to our shareholders. In conclusion, 2018 will be another exciting year for Befesa. We expect single digit earnings growth and our focus will be on executing our organic growth projection in our core markets – on time and on budget.

Yours sincerely,



Javier Molina
CEO

Befesa in the Capital Markets

Initial Public Offering on Nov 3, 2017

On November 3, 2017, Befesa S.A. (Befesa) became a listed company on the regulated market (Prime Standard) of the Frankfurt Stock Exchange.

Shares of the company were offered in an initial public offering (IPO) in Germany and an international private placement to institutional buyers.

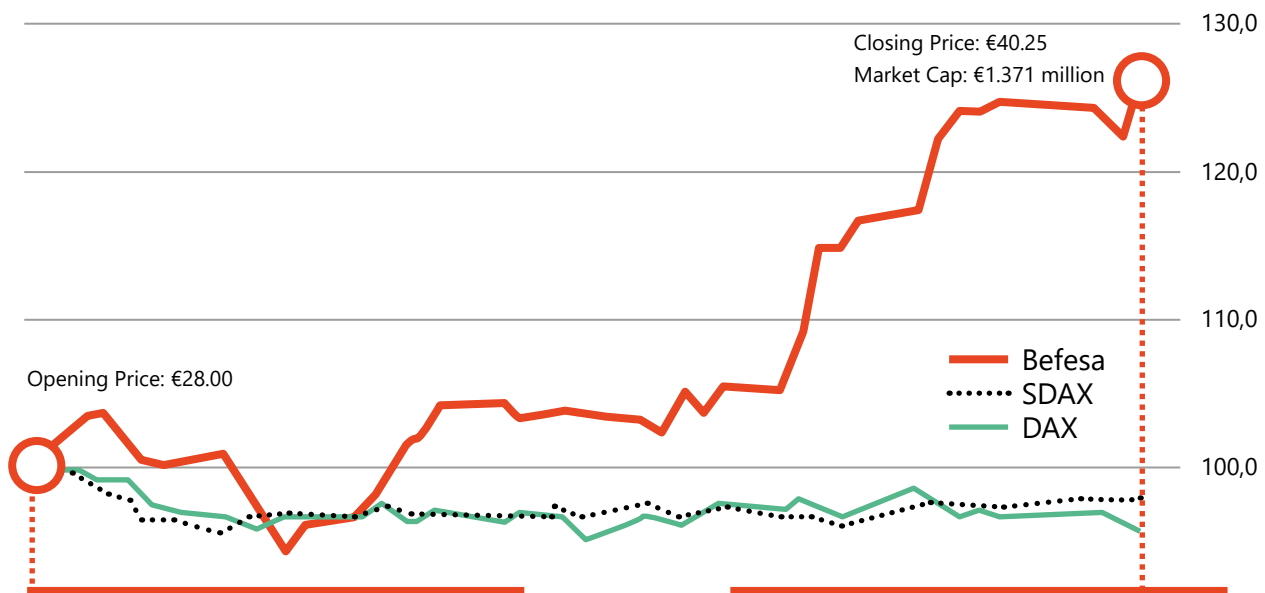
A total of 14.3 million ordinary shares from Triton were offered as base offer, with 2.1 million additional shares to cover potential over-allotment.

The price range was set between €28.0 and €38.0 per share, with a final offer price set at €28.0 per share. The successful IPO has provided Befesa with better access to the capital markets, allowing for increased flexibility to continue its growth.

IPO General Data

Ticker symbol	BFSA
ISIN	LU1704650164
German securities code (WKN)	A2H5Z1
Stock exchange	Frankfurt Stock Exchange
Market segment	Prime Standard
Type of issue	IPO of secondary shares. A public offering in Germany and an international private placement to institutional investors
Price range	€28.0 - €38.0
Subscription price	€28.0
First trading day	November 3, 2017
First closing price	€ 31.8
Issue volume (number of shares)	i) Base Offer of 14,308,000 ordinary shares and additionally, ii) up to 2,146,200 ordinary shares to cover potential over-allotment "Greenshoe"
Underwriter	Berenberg; Citigroup; Commerzbank; Goldman Sachs; JP Morgan; Santander; Stifel
Free float after IPO	48.3% (considering base offer and full exercise of Greenshoe)
Lock-up	i) Triton: 6 months; ii) Management: 12 months

Performance of Befesa share versus market



November 3, 2017

Over the course of the first day of trading, the share price rose more than 13%, closing at €31.77.

December 29, 2017

As of December 29, 2017, the share price amounted to €40.25. This is an increase of 43.8% since November 3, 2017, compared to the issue price.

path going forward. Over the course of the first day of trading the share price rose more than 13%, closing at €31.77.

Share Performance

Since then, the Befesa share has developed positively, closing the year at €40.25 – up by 44% compared to the issue price. Befesa shares outperformed the benchmark stock market indices DAX as well as SDAX since IPO. Total market cap amounted to €1,371 million as of December 29, 2017.

Shareholder Structure

As of December 29, 2017, the free float amounted to 47.5%, representing 16,180,231 shares out of a total of 34,066,705 outstanding shares.

The remaining 52.5% was distributed between the former owner, Triton, and the management team – amounting to 49.3% and 3.2%, respectively. These shares are subject to a lock-up period of six months post-listing for Triton and twelve months post-listing for the management team.

Proposed Dividend

In 2018 Befesa plans to distribute dividends at an approximate level of 40% to 50% of net profits for the fiscal year 2017.

Analysts' Coverage

Befesa maintains a regular and active dialogue with analysts. Around seven equity analysts publish reports and recommendations on Befesa shares.

Befesa in the Capital Markets continued

After the IPO, Befesa maintained an overall “buy” recommendation and price targets were above the share price development as recorded as of December 29, 2017.

Research Coverage

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

Moody's and S&P's Credit Ratings

On December 13, 2017, Moody's Investors Service (“Moody's”) assigned a Ba3 (outlook positive) corporate family rating (CFR) to Befesa S.A.

On the same day Standard and Poor's Global Rating (“S&P”) assigned Befesa S.A. a BB- long-term corporate credit rating (outlook stable).

Investor Relations Activities

Befesa keeps regular and open communication with investors and analysts in order to provide an adequate flow of information.

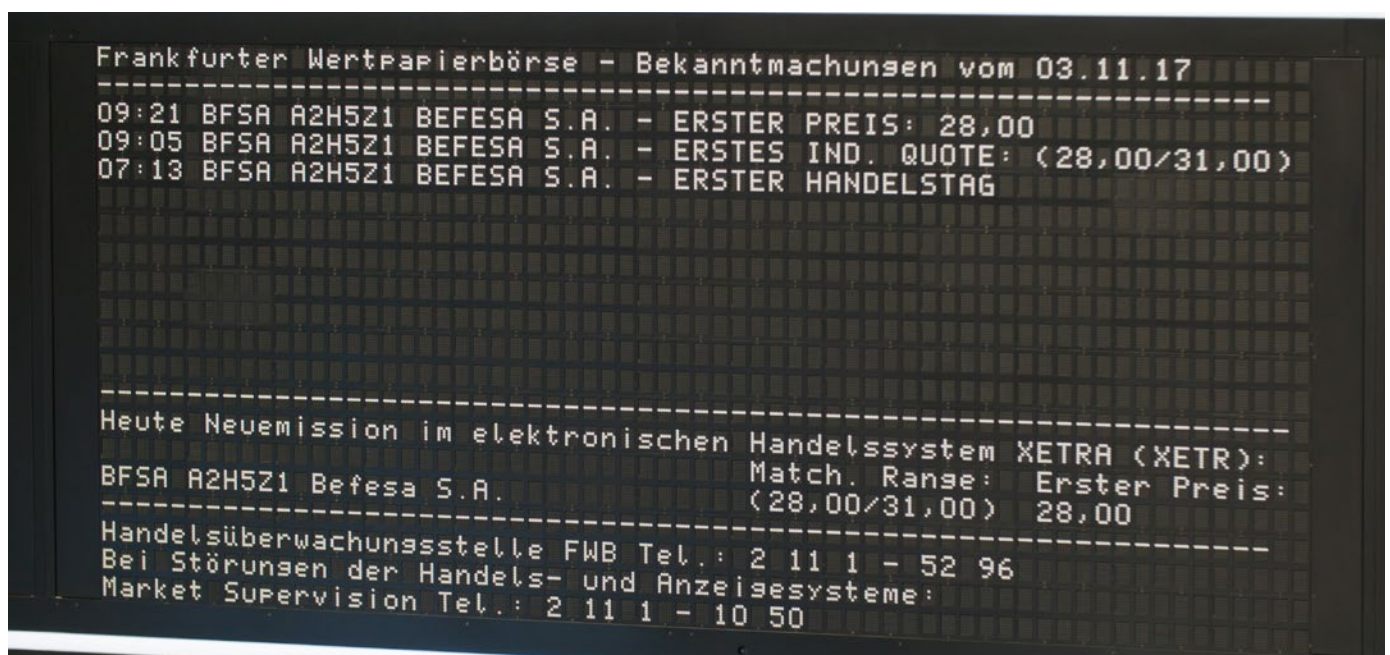
To ensure this objective, the management team conducted roadshows in major financial centers, both in Europe and the

USA. These roadshows have taken place both since and prior to the IPO.

In January 2018 Befesa attended the German Investment Seminar hosted by Commerzbank in New York City, USA. On March 8, 2018, Befesa participated at the Global Resource Conference, hosted by Citibank in London. At both venues we experienced great interest in Befesa.

In 2018 Befesa plans to attend the following investor conferences (subject to change):

- March 16, Citibank, London, Pan-European Business Services Conference
- June 6-8, Deutsche Bank, Berlin, dbAccess Conference
- June 11-13, Stifel, Boston, 2018 Cross Sector Insight Conference
- September 11-13, J.P. Morgan, London, Small and Mid-Caps Europe
- September 24-26, Berenberg & Goldman Sachs, Munich, German Corporate Conference



Management Report



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The Befesa Group

General Information

Befesa S.A. is a public limited company (*société anonyme*) incorporated in Luxembourg and governed by Luxembourg law. The registered office is 46, Boulevard Grande-Duchesse Charlotte L-1330, Luxembourg, Grand Duchy of Luxembourg. Befesa S.A. is the parent company of the Befesa Group. Befesa is a leading international

provider of regulated critical environmental recycling services to niche hazardous waste markets in the steel and aluminium industries, specializing in the recycling of steel dust, salt slags and aluminium residues, as well as other related industrial services and logistics. Befesa's financial year starts on January 1 and ends on December 31.

Our Mission

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

Our Values

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

Befesa focuses on the following values:



Organization of the Group

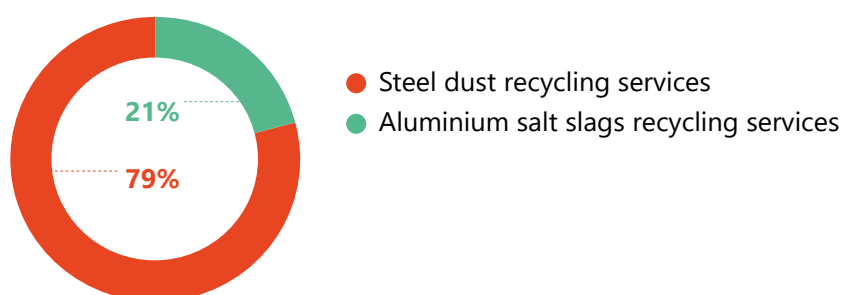
Befesa organizes its activities into two business segments: "Steel Dust Recycling Services" and "Aluminium Salt Slags Recycling Services", the latter being divided into two sub-segments: "Salt Slags" and "Secondary Aluminium". After the sale of the Industrial Environmental Solutions (IES) business through a series of transactions ending in August 2017, the former IES business segment is reported as a discontinued operation.

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

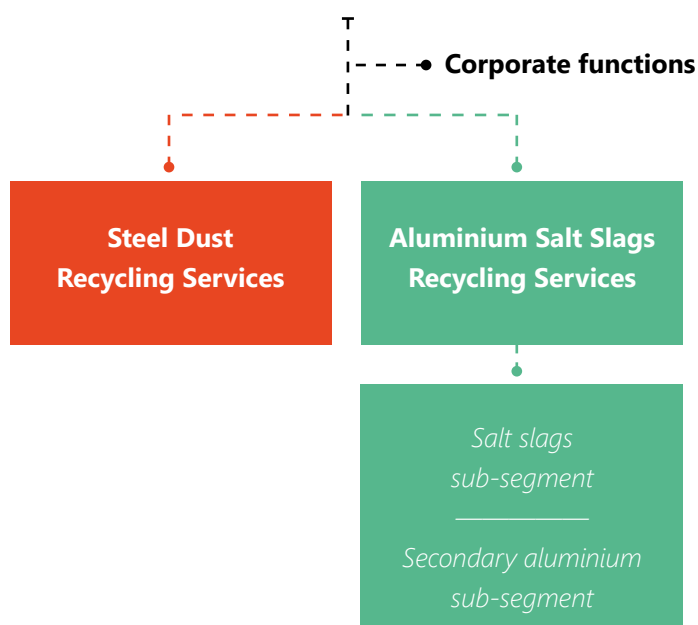
In 2017, the Steel Dust Recycling Services segment represented approximately 79% of Befesa's total adjusted EBITDA, while the remaining 21% was contributed by the Aluminium Salt Slags Recycling Services segment.

Adjusted EBITDA by Segment

(%, as of Total Adjusted EBITDA 2017)



BEFESA



The Befesa Group continued

- Crude Steel Dust Recycling Services
- Stainless Steel Dust Recycling Services
- Oxide
- Leaching



Steel Dust Recycling Plants

Markets and Sites

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

In the Steel Dust Recycling Services segment, the company operates eleven recycling plants in six countries (Germany, Spain, France and Sweden, in Europe; South Korea and Turkey, in Asia) with a total installed capacity to process approximately 950,000 tons of steel dust annually (crude and stainless).

Additionally, Befesa operates a Waelz oxide leaching facility in France with a total installed capacity of 100,000 tons per annum, as well as two recycling plants in

the North of Spain to process galvanized steel residues with a combined installed capacity of recycling of approximately 16,000 tons.

In the Aluminium Salt Slags Recycling Services segment, Befesa operates four salt slags recycling plants located across Europe in Germany, Spain and the United Kingdom, as well as three secondary aluminium production plants located in Spain and Germany.

The total installed capacity amounts to approximately 530,000 tons of processed salt slags and Spent Pot Linings (SPL) annually, and approximately 205,000 tons of installed capacity to produce secondary aluminium alloys.



Aluminium Salt Slags Recycling Plants

The Befesa Group continued

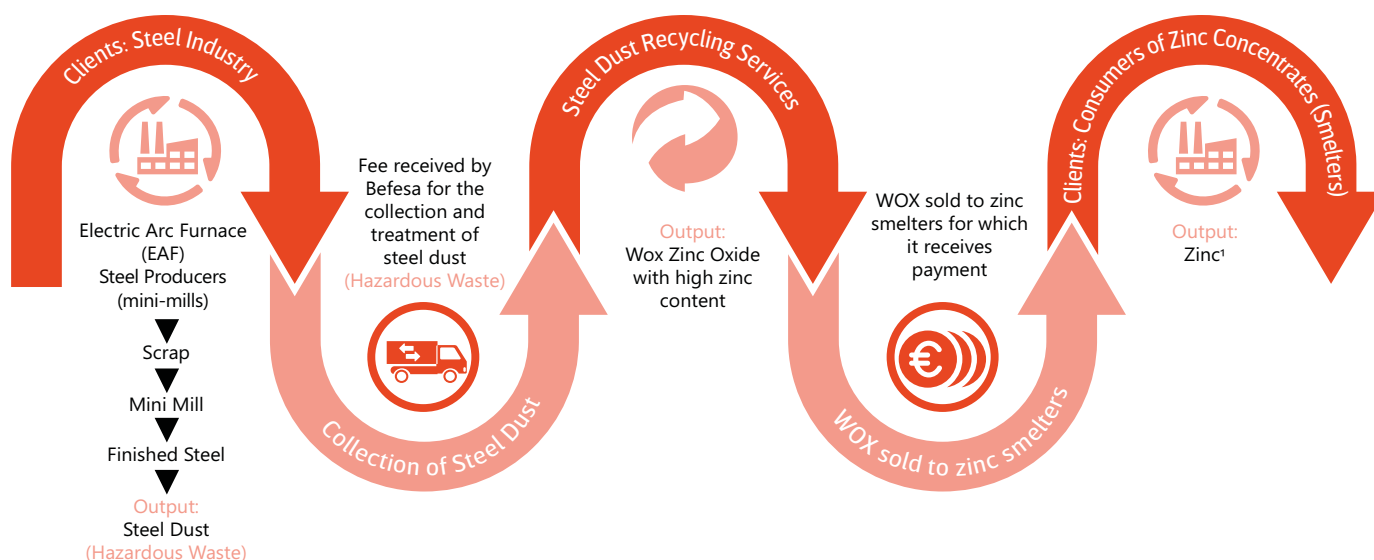
Business Model

Befesa's business model is based on a full-service approach to offering waste management solutions to its customers from the steel and aluminium industries. The services cover the timely and efficient collection and treatment of hazardous waste – mainly steel dust and salt slags – from the customers' facilities. This is critical in enabling them to manage their environmental liability and legal or regulatory obligations to recycle the hazardous waste generated by our customers operations.

In the **Steel Dust Recycling Services** segment, Befesa collects and recycles steel dust and other steel residues generated in the production of crude, stainless and galvanized steel. The

majority of revenues generated in the Steel Dust Recycling Services segment come from service fees charged for the collection and treatment of crude steel dust and by selling the Waelz oxide (WOX) produced from the recycling of crude steel dust to zinc smelters. Additionally, a small portion of revenue is generated by tolling fees. These fees consist of a service fee charged for collecting and treating stainless steel residues and a fee for returning the metals – mainly nickel, chromium and molybdenum – recovered in the recycling process, as well as from selling such recovered metals on the market.

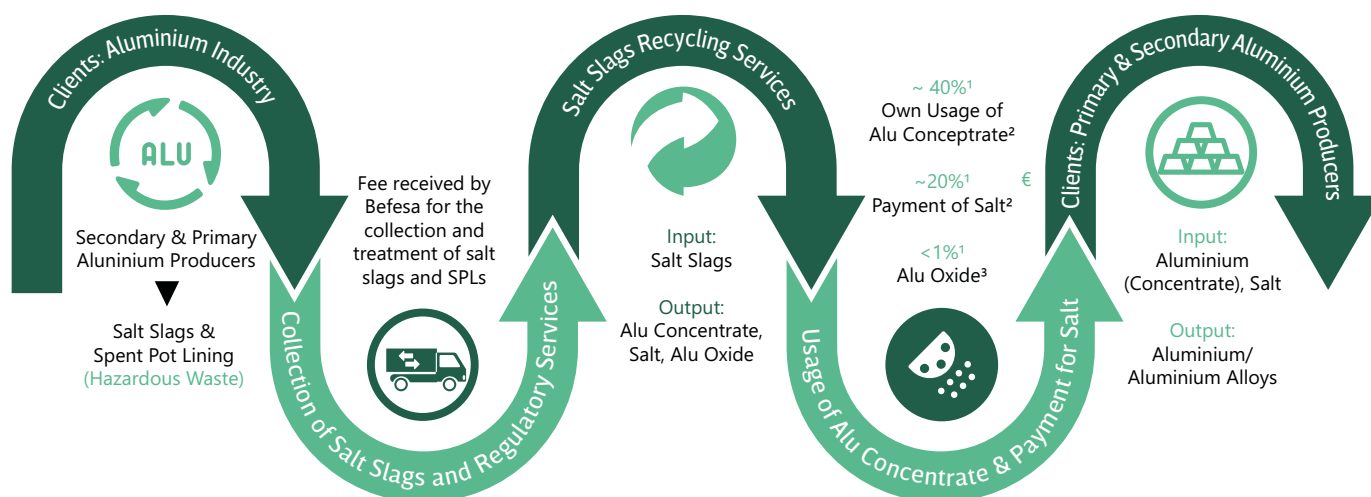
In the **Salt Slags** operations of our Aluminium Salt Slags Recycling Services segment, Befesa recycles salt slags that



1. Ultimately again used for steel production

are collected from customers for a service fee. Further salt slags are generated during the production of secondary aluminium at Befesa plants. Additionally, Befesa recycles spent pot linings (SPL) generated by primary aluminium producers. In the course of the recycling process, salt, aluminium concentrate and aluminium oxides are recovered. Revenues from the Salt Slags operations are mainly derived from fees charged for recycling salt slags and SPL, and from the sales of aluminium concentrates and salt obtained from recycling salt slags and SPL. A large amount of the recovered aluminium concentrates are sold and used within the Group for the production of aluminium alloys.

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



1. % of total salt slags segment revenues; 2. Used in secondary aluminium plants; 3. low value by-product

Market Environment

Favorable Global Macro Trends

- **Growing global population**
- **Increasing environmentally conscious middle class**
- **Advancing industrialization**

The recycling markets for steel dust, salt slags and SPL are particularly influenced by the industrial markets for steel and aluminium production in general. Thus, Befesa's business is influenced by several megatrends in the steel and aluminium industry. These industries currently enjoy a stable and growing outlook, which reflects positively for Befesa as a recycling service provider.

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

The overall population is expected to grow at a compound annual growth rate ("CAGR") of 1.0% from 2015 to 2025 (source: McKinsey). Moreover, the environmentally conscious middle class is expected to grow from 48% of the total population in 2015 to 63% of the total population in 2025 (CAGR of 3.5%) and is likely to become a driver of demand for products requiring steel and aluminium – such as vehicles – ultimately driving the demand for recycling services (source: McKinsey).

Increased industrialization, and particularly the increased use of higher quality steel and galvanized materials carrying a higher zinc content, also supports the industry and potentially allows recyclers to compete with landfills in markets where regulation is unenforced or does not yet exist.

Increasing Steel and Aluminium Production Demand

- **Growing global steel demand**
- **Growing global secondary aluminium production**

Overall, steel production has increased significantly in non-OECD countries over the last decades, whilst it has been relatively stable in OECD countries. Worldwide demand for steel is expected to grow from approximately 1,500 million tons in 2017 to 1,621 million tons in 2025, with Europe contributing approximately 161 million tons in 2017 and 173 million tons in 2025, respectively (source: McKinsey). In Europe, this expectation is based on the anticipated demand of the main end markets for steel, especially within the construction industry, followed by engineering, transport and utilities.

Across Europe, aluminium production – which is driven primarily by the

automotive end market – keeps pace with increased demand from the automotive industry. On the back of expanded production of light vehicles in the European automotive industry and in an effort to meet legislative requirements for improved vehicle emissions and fuel efficiency, secondary aluminium production in Western Europe is expected to grow at 4.6% CAGR until 2021 (source: McKinsey). This estimate is based on the assumption that the number of vehicles produced in Europe will grow at 1.3% CAGR between 2016 and 2021 and the aluminium content per vehicle will increase from 179 kg of aluminium per light vehicle in 2016 to 222 kg in 2021 (source: McKinsey).

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

Befesa's business is influenced by several megatrends in the steel and aluminium industry.

The expanding population, growing middle class, and increased industrialization are all expected to drive growth.

Worldwide demand for steel is expected to grow from approximately 1,500 million tons in 2017 to 1,621 million tons in 2025.

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

Market Environment continued

Favorable Industry Trends

- **Increased galvanization of steel leading to increased global zinc demand and higher zinc content in scrap material**
- **Higher usage of aluminium in vehicles together with positive trend in European automotive market driving higher aluminium demand and scrap availability**

As seen in previous years, the increased galvanization of steel is expected to lead to a higher zinc demand and higher zinc content in scrap material. This will lead to higher zinc content in the steel dust collected, which will enable the company to utilize its plants more efficiently in the medium term.

In the aluminium salt slags recycling business, the positive trend of using higher quantities of aluminium in the construction of light vehicles is also expected to continue into the future – driving higher demand of aluminium and increasing the availability of scrap.

Trend Towards Recycling

In Europe, Befesa's primary market, both EAF steel dust and salt slags are categorized as hazardous waste by the regulatory bodies with strict rules and procedures for its handling, transport and treatment in implementation. This level of regulation and its enforcement across geographical locations supports the need for Befesa's recycling services. Driven by these regulations and increasing landfill costs, landfilled waste volumes

in OECD countries have decreased over the past decade. OECD countries have also seen increases of recycled waste volumes, especially hazardous waste containing valuable metals, supported mainly by favorable and strictly enforced environmental regulations.

In contrast to developed regions like Europe, 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 industrialized and environmentally conscious.

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

Development of Commodity Prices

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

In 2017 market prices of zinc continued to climb, rising significantly compared to the prior year. The average daily price per ton quoted on the London Metal Exchange (LME cash seller prices) for 2017

was US\$2,896 per ton of zinc (up US\$801, or +38% compared to US\$2,095 during the prior year), and US\$3,309 per ton of zinc as of December 31, 2017 (up US\$746 per ton, or +29% compared to US\$2,563 as of December 31, 2016). Applying the US Dollar/Euro exchange rates for the respective periods, the average daily price in 2017 was €2,572 per ton of zinc (up €679 per ton, or +36% compared to €1,893 during the prior year) and €2,759 per ton of zinc as of December 31, 2017 (up €326 per ton, or +13% compared to €2,432 as of December 31, 2016).

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

In 2017 Befesa witnessed a rise in the market price of aluminium alloys when compared to previous year levels – although those increases were more moderate compared to those observed in zinc. The average daily price per ton for 2017 referenced by the Metal Bulletin FM (average independent quotation based on prices provided by the major secondary aluminium players in the European market) was €1,766 per ton of aluminium alloy (compared to €1,618 in 2016), and €1,785 per ton as of December 31, 2017 (compared to €1,655 as of December 31, 2016).

“ Positive sustainability and recycling trends – combined with favorable and strictly enforced environmental regulations – are expected to further enhance the global demand for steel and aluminium recycling services. ”

Strategy

Our strategic objective is to maintain and further expand Befesa's leadership position in steel dust and salt slag recycling services across its key markets.

Befesa will focus on securing the volumes in its plants; maintaining resilient and solid margin levels, and; focusing on the strong cash flow generation by managing capital expenditures (CapEx), working capital and operating earnings with the same rigor demonstrated over the last few years. This will allow us to pay an attractive dividend to Befesa's shareholders, continue to offer best-in-class services to our customers, and fund expansion projects in existing and new markets to grow our operations. We will also continue to focus on the Environmental, Health & Safety performance across Befesa's global operations as well as continue to strengthen our culture of operational excellence.

Organic Growth Projects

Befesa continues to execute its organic growth project pipeline and focuses on growing its core environmental service activities that are benefiting from the positive underlying macro trends.

In the Steel Dust Recycling Services business, Befesa will fund two organic growth projects in Turkey and South Korea during 2018 and 2019. Firstly, Befesa will increase the capacity of its Turkish plant from 65,000 tons per year at present to 110,000 tons per year, building on the increased demand for steel dust services. Secondly, Befesa will build a washing plant in South Korea to be able to offer washed Waelz oxide to its customers, similar to its European operations. The construction phase of

both projects is expected to start by the end of 2018, with operations expected to commence during the second half of 2019.

In the Secondary Aluminium sub-segment, Befesa is funding two operational excellence projects. Both projects apply the best in class furnace technology proven at Befesa's Bernburg plant to its other secondary aluminium production plants in Spain (close to Bilbao and Barcelona). These projects will result in efficiencies and free up capacity to meet additional demand for external salt slags services. Both projects started during 2017 and will be completed during 2018 and 2019 respectively.

In the Salt Slags sub-segment, Befesa will fund the capacity increase of its existing salt slag recycling plant in Hannover (Germany) by 40,000 tons in 2018 and 2019. The improved capacity will help to meet the increase in existing, and new customer demand. The construction phase of this project is

expected to start in 2019, with operations expected to commence in 2020.

Hedging Strategy

Befesa pursues a prudent hedging strategy to manage the zinc price volatility.

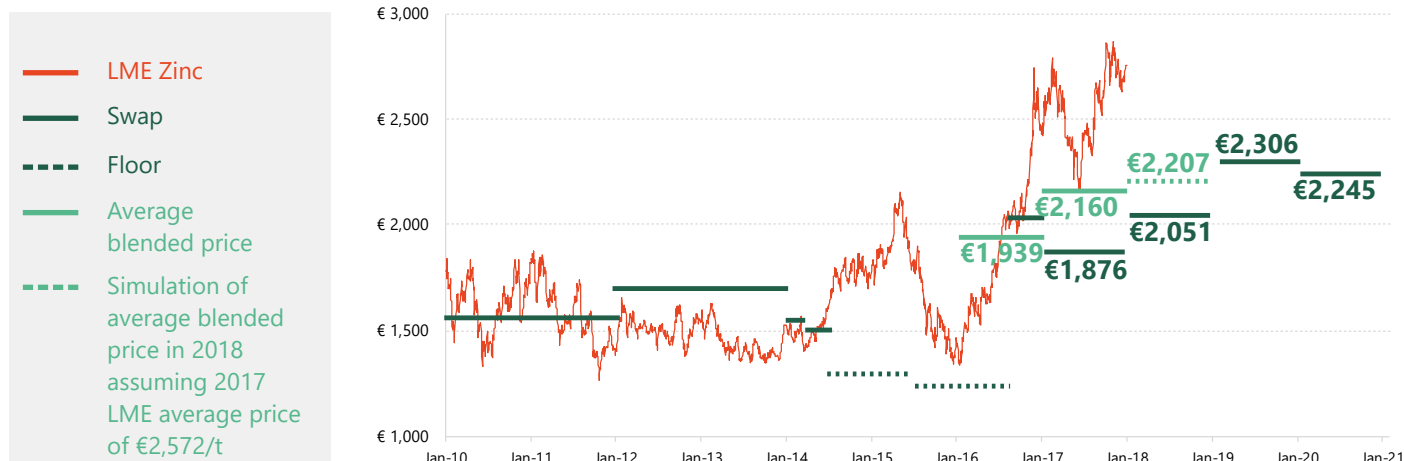
During the month of October 2017, the company successfully extended its zinc hedges for the years 2018, 2019 and mid-2020, at a volume of approximately 92,400 tons per year or approximately 7,700 tons per month. During the month of January 2018 Befesa further extended its hedging program by another six months to fully cover 2020. Average hedged prices for each of the periods are as follows:

Period	Average hedged price (Euro / ton)	Zinc content hedged (tons)
2017	1,876	73,200
2018	2,051	92,400
2019	2,306	92,400
2020	2,245	92,400

Strategy continued

Market Zinc Price vs. Zinc Hedge

(€ per ton)



The current hedging in place provides Befesa with improved pricing visibility through 2020. The company entered these hedges to maintain mid-term visibility on its output prices – expanding on its proven hedging strategy.

Befesa will continue its prudent hedging policy, targeting stability even if foregoing short term upside from higher zinc prices. Options will be constantly monitored and re-evaluated when closing existing hedges in light of the current zinc market environment. We are committed to hedge approximately 60 to 75% of the expected volume of zinc to be extracted from the Waelz oxide for a period of 2-4 years going forward.

Using the 2017 average LME market price of €2,572 per ton for 2018 for the unhedged expected volumes (approximately 30%), the blended average zinc price in

2018 would translate to approximately €2,207 per ton. In 2017 the average blended price was €2,160 per ton.

Safety, Health, Environmental, & Quality Management as an integral part of the way we do business

Safety, Health, Environment and Quality (SHEQ) management is an inseparable and integral part of the way we do business in all areas of operation and activities.

Making SHEQ an integral part of business decisions contributes to satisfy the needs of stakeholders: customers, employees, community and shareholders, whilst supporting operational excellence.

For detailed information on SHEQ management please refer to the section "Management Report / Environmental, Health & Safety" (page 42 of this Annual Report).

Results of Operations

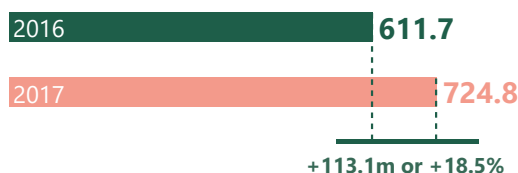
This section includes consolidated financial information of Befesa S.A. from its existing operations, Steel Dust Recycling Services and Aluminium Salt Slags Recycling Services.

After the sale of the Industrial Environmental Solutions (IES) business through a series of transactions ending in August 2017, the former IES business segment is reported as discontinued operations.

For more detailed information on the Consolidated Financial Statements, please refer to pages 74 to 173 of this Annual Report.

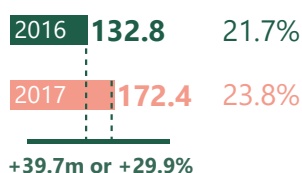
The strong increase in the consolidated revenue from continuing operations (+18.5% or up +€113.1 million year-on-year, to €724.8 million as of year-end 2017) was primarily due to increased revenues from Waelz oxide (WOX) sales, and stronger revenues from aluminium production. Principally the reason for the growth is attributed to the increased volume, higher prices for both zinc and aluminium alloys, and favorable treatment charges.

Revenue from Continuing Operations¹ (€ million)



¹Revenue figure of 2016 is pro-forma and adjusted for the divestitures of the companies part of the former IES business

Adjusted EBITDA and Adjusted EBITDA Margin (€ million, % margin of Revenue)



Results of Operations continued

Adjusted EBIT and Adjusted EBIT Margin

(€ million, % margin of Revenue)

2016 103.4 16.9%

2017 143.9 19.9%

+40.5m or +39.2%

The significant increase in the Group's earnings year-on-year (+29.9% or up +€39.7 million to €172.4 million consolidated adjusted EBITDA, and +39.2% or up +€40.5 million to €143.9 million consolidated adjusted EBIT, both as of year-end 2017) is driven mainly by: higher volumes in the two core businesses of Steel Dust Recycling Services and Aluminium Salt Slags Recycling Services; increased zinc and aluminium alloy market prices; and the continued implementation of operational excellence initiatives across the entire organization.

In 2017, earnings were negatively impacted by the effect of hedging zinc prices by approximately €51.9 million (or approximately €36.3 million after tax) due to the difference between the average hedged zinc price (approximately €1,876 per ton for approximately 59% of the zinc payable output) and the average market (LME) zinc price during the period (approximately €2,572 per ton on average during 2017).

The margin improvement (+2.1 p.p. to 23.8% adjusted EBITDA margin, and +3.0 p.p. to 19.9% adjusted EBIT margin) reflects the positive operating

performance mentioned above, as well as the efficiency and restructuring measures executed as part of the operational excellence plan.

For a reconciliation of EBITDA, adjusted EBITDA, and adjusted EBIT to the IFRS operating result (EBIT) please refer to the section "Consolidated Financial Statements" pages 74 to 173 of this Annual Report.

Financial Result and Net Income

The consolidated **financial result** was €(48.2) million for the year ended December 31, 2017 compared with €(49.8) million for the year ended December 31, 2016. This represents a minor improvement of 3.2% (or €1.6 million). Main drivers were the €7.4 million decrease in financial expenses during 2017 when compared to 2016, partially offset by a €3.7 million reduction in financial income due to the divestiture of entities of the Industrial Environmental Solutions (IES), and a €2.1 million decrease in net exchange differences during 2017 when compared to 2016.

The financial result for 2017 is still mainly based on the old capital structure. The new financing facility, which has been in place since December 7, 2017, allows Befesa to considerably reduce its financial expenses by approximately 60%. For detailed information on the new financing facility please refer to page 141 of this Annual Report.

Consolidated **net income** was €49.3

million for the year ended December 31, 2017 compared with a loss of €(52.9) million for the comparable period ended December 31, 2016. This represents an increase of €102.2 million. The net income of €49.3 million as of year-end 2017 was impacted by both the old capital structure with its higher interest cost, and approximately €21.5 million of non-recurring items.

€(48.2)

Financial result (million)

€49.3

Net income (million)

Financial Position and Liquidity

Financial indebtedness decreased by €2.6 million (compared to December 31, 2016) to €524.2 million. **Net debt** declined by €59.7 million (compared to December 31, 2016) to €406.4 million. Non-current financial indebtedness of €497.6 million as of December 31, 2016

has been reduced by approximately €21.6 million due to net proceeds from the one-time divestiture of the IES business. During 2017 the approximately €300 million High Yield Bond (HYB) – due May 2018 – was reclassified from non-current to current financial indebtedness.

Net debt

(€ million)

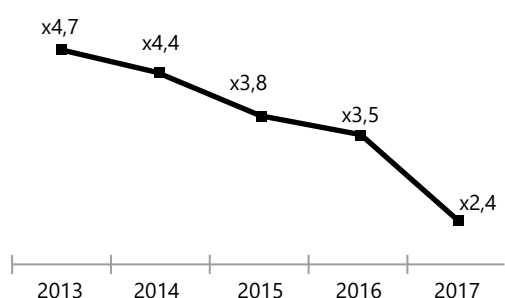
	Dec. 31, 2017	Dec. 31, 2016
Non-current financial indebtedness (*)	519.2	497.6
+ Current financial indebtedness	5.1	29.3
Financial indebtedness	524.2	526.9
- Cash and cash equivalents	(117.6)	(59.1)
- Other current financial assets	(0.3)	(1.8)
Net debt	406.4	466.1
Adjusted EBITDA	172.4	132.8
Leverage ratio	2.4x	3.5x

(*) 2016 financial indebtedness is adjusted for IES divestiture proceeds.

During 2017, the Group has delivered **solid cash flow performance**. After paying €20.8 million in taxes, €49.7 million in interest, and €25.7 million in funding maintenance and productivity CapEx, Befesa still increased its cash on hand by €55.6 million year-on-year. The Group ended December 31, 2017 with €117.6 million in cash on hand.

Leverage ratio evolution

(Net debt / Adjusted EBITDA)



During 2017 Befesa continued to **further improve its leverage**, showing strong earnings to cash conversion. Over the last four years the leverage was reduced from more than 5x in the second half of 2013, down to 3.5x at the end of 2016, further down to the current leverage of **2.4x adjusted EBITDA** of the year ended December 31, 2017. Befesa continues to be **compliant with all debt covenants**.

As a result, the **credit ratings assigned to Befesa have improved to Ba3 (Moody's) and BB- (S&P)**, notching up from B2 / B, respectively. For further information on the credit ratings assigned to Befesa, please refer to the section "To Our Shareholders / Befesa S.A. in the Capital Markets" (page 14 of this Annual Report).

€2.6

Financial indebtedness decreased (million)

€59.7

Net debt declined (million)

2.4x

Adjusted EBITDA

Segment Information

Befesa organizes its activities into two business segments: "Steel Dust Recycling Services" and "Aluminium Salt Slags Recycling Services", the latter being divided into two sub-segments: "Salt Slags" and "Secondary Aluminium".

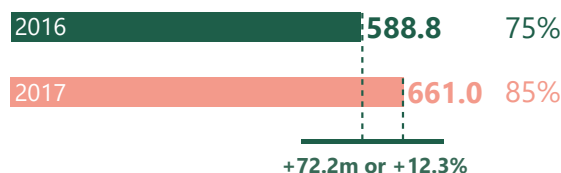
Steel Dust Recycling Services

Crude steel dust volumes processed

during 2017 amounted to 661,044 tons, representing a new record throughput and an increase by more than 72,000 tons when compared to 2016 (+12.3%). This was primarily driven by an increase in volumes of steel dust recycled in the plants in Turkey and South Korea, as well as our plants in Europe. In South Korea, we successfully expanded our steel dust collection services to neighboring South East Asian countries such as Thailand and Taiwan. Favorable volume growth in Europe further contributed to the throughput increase. With these volumes, crude steel dust recycling plants have been running at a load factor of approximately 84.7% compared to approximately 75.3% during 2016. As a result, the volume of Waelz oxide (WOX) sold has increased from 203,443 tons in 2016 to 217,761 tons in 2017, representing an increase of 7.0% – a new record level of WOX volumes.

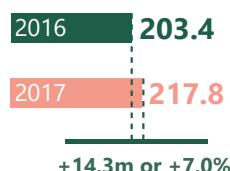
EAF Dust Throughput & Load Factor

(Thousand tons, % of annual capacity)



Waelz Oxide Sold

(Thousand tons)



Blended Zinc Average Price

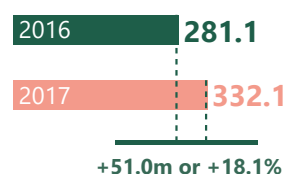
(Euro / ton)



The significant revenue increase from Steel Dust Recycling Services (+18.1% or +€51.0 million year-on-year, to €332.1 million as of year-end 2017) was primarily due to the approximately 14,300 tons year-on-year increase in Waelz oxide (WOX) volumes sold and higher average effective zinc prices (blended rate between hedged volume and non-hedged volume) of €2,160/ton during 2017 versus €1,939/ton during 2016. The increase was partially offset by an impact from lower fees due to strong emerging markets growth and lower volumes of stainless steel dust treated.

Revenue - Steel Dust Recycling Service segment

(€ million)

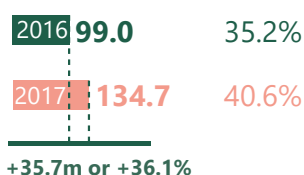


Adjusted EBITDA was €134.7 million for the year ended December 31, 2017 compared with €99.0 million for the comparable period ended December 31, 2016, representing a significant increase of +36.1% (or +€35.7 million). **Adjusted EBITDA margins** (adjusted EBITDA divided by revenue) improved from 35.2% to 40.6%. Similarly, **Adjusted EBIT** increased by +45.7% (or +€37.2 million) to €118.5 million as of December 31, 2017, and the **Adjusted EBIT margins**

(adjusted EBIT divided by revenue) also improved from 28.9% to 35.7%. The improvement of earnings in the Steel Dust Services segment was primarily due to the positive volume leverage and higher zinc prices – including lower treatment charges.

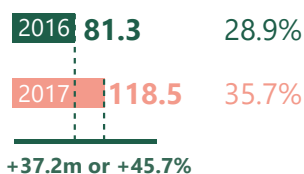
Adjusted EBITDA & Margin - Steel Dust

(€ million, % margin of Revenue)



Adjusted EBIT & Margin - Steel Dust

(€ million, % margin of Revenue)



Aluminium Salt Slags Recycling Services

Salt Slags Sub-Segment

Salt slags and SPL recycled volumes

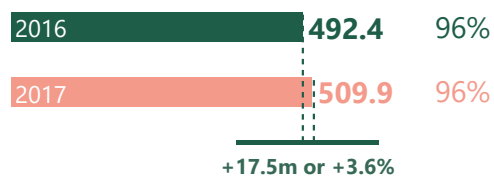
during 2017 amounted to 509,907 tons, representing an increase of +3.6% or a plus of more than 17,500 tons year-on-year showing that – similar to Steel Dust Recycling Services – our growth initiatives delivered. This volume performance means a new record level for Befesa. Our salt slags recycling plants have run at near

Segment Information continued

full capacity on average. Befesa increased its installed capacity from 609,000 to 630,000 tons to meet increased customer demand, while utilization rates remained at approximately 96%.

Salt Slags & SPL Volume & Load Factor

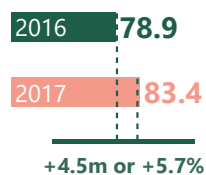
(Thousand tons recycled, % of annual capacity)



The revenue increase in the Salt Slags sub-segment (+5.7% or up +€4.5 million year-on-year, to €83.4 million as of year-end 2017) was primarily supported by the aforementioned +3.6% volume increase in 2017.

Revenue - Salt slags sub-segment

(€ million)

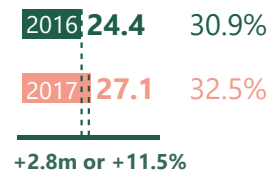


Adjusted EBITDA in the Salt Slags sub-segment was €27.1 million for the year ended December 31, 2017 compared with €24.4 million for the prior year period, representing an increase of +11.5% (or +€2.8 million). **Adjusted EBITDA margins** (adjusted EBITDA divided by revenue) improved from 30.9% to 32.5%.

Similarly, **adjusted EBIT** increased by +9.6% (or +€1.7 million) to €19.7 million as of December 31, 2017, and the **adjusted EBIT margins** (adjusted EBIT divided by revenue) also improved from 22.8% to 23.6%. The improvement of earnings in the Salt Slags sub-segment was mainly driven by volume leverage, the efficiency improvements obtained from debottlenecking, and cost saving programs within selected plants.

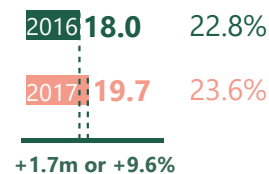
Adjusted EBITDA & Margin - Salt Slags sub-segment

(€ million)



Adjusted EBIT & Margin - Salt Slags sub-segment

(€ million)



Secondary Aluminium Sub-Segment

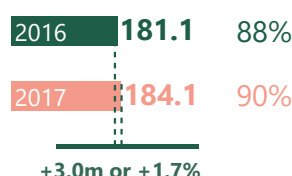
Aluminium alloy production volumes

during 2017 amounted to 184,114 tons, representing an increase of +1.7% year-on-year or approximately +3,000 tons. With these volumes, secondary aluminium production plants have been running at an average load factor of approximately

90% compared to approximately 88% during 2016. The ramp-up phase of the new state-of-the-art secondary aluminium production plant located in Bernburg, Germany, has been completed.

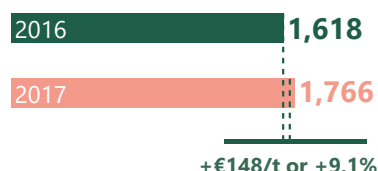
Secondary Aluminium Alloy Volume & Load Factor

(Thousand tons produced, % of annual capacity)



Aluminium Alloy Average Market Price

(Euro / ton)



The strong revenue increase in the Secondary Aluminium sub-segment (+23.8% or up +€68.0 million year-on-year, to €353.5 million as of year-end 2017) was primarily due to higher average market prices for aluminium alloy – aluminium alloy Metal Bulletin Free Market average prices were €1,766 per ton during 2017 compared with €1,618 per ton during 2016, representing a +9.1% increased year-on-year – plus the increased volumes of aluminium alloys produced (181,124 tons in 2017 compared with 184,114 tons in 2016).

Revenue - 2nd Aluminium sub-segment

(€ million)

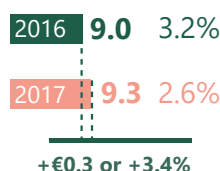


Adjusted EBITDA in the Secondary

Aluminium sub-segment was €9.3 million for the year ended December 31, 2017 compared with €9.0 million during the prior period, representing a +3.4% increase. **Adjusted EBITDA margins** (adjusted EBITDA divided by revenue) stayed flat at 3%.

Adjusted EBITDA & Margin - 2nd Aluminium sub-segment

(€ million)



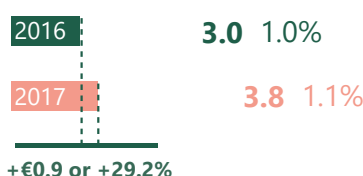
Adjusted EBIT of the Secondary

Aluminium Sub-Segment was €3.8 million as of year-end 2017 compared with €3.0 million of prior year 2016, representing an increase of approximately +29.2%.

Adjusted EBIT margins (adjusted EBIT divided by revenue) remained at prior-year levels of approximately 1%.

Adjusted EBIT & Margin - 2nd Aluminium sub-segment

(€ million)



Employees

Befesa strives to be a leading global recycling services company. To achieve this goal, we rely on a large team of highly qualified employees worldwide.

As of December 31, 2017, Befesa employed 1,107 people.

Befesa concentrates its services into two business units, which are supported by a corporate team. Approximately 76% of all staff focus their day-to-day work on O&M (Operations and Maintenance), a figure that demonstrates the productive

nature of the company. The stability of our staff remains one of our priorities.

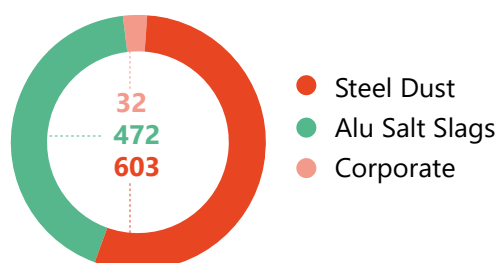
Befesa continues to have above 85% of employees with permanent/full-time contracts.

Number of employees by category and gender

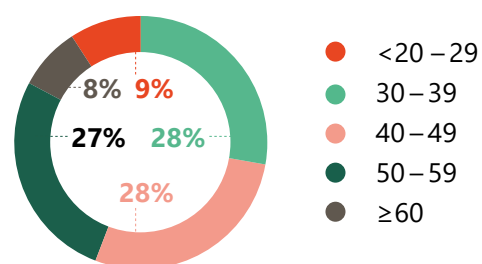
	Female		Male		Total	
Employees	135	32%	292	68%	427	39%
Operators	5	1%	675	99%	680	61%
	140	13%	967	87%	1,107	

Befesa encourages and promotes diversity in its workforce. Our age charts gives a clear picture of how the generational handover will follow a natural rhythm. Our workforce is qualified and experienced – on average, seniority was 13 years and the average employee is 44 years old (as of December 31, 2017).

Number of employees by business unit



Number of employees by age group



Befesa encourages individuals to start or expand their professional career at the company. We collaborate with different training entities including universities and business schools. During 2017, 38 people participated in traineeships or internships at Befesa.

Although facing a competitive labor market, Befesa managed to maintain a stable and low turnover rate in 2017 – a result primarily due to voluntary resignations of 1.89% globally (1.53% in Europe).

We place a high value on training programmes – to ensure an up-to-date knowledge base – and have invested over 24,500 training hours, with approximately 50% of these being spent on health and safety training.

Environmental, Health & Safety

Safety, health, environment, and quality are integral parts of the way we do business.

We are committed to continuous improvement of our safety, health environmental and quality performance. We are convinced that this focus is contributing to achieving operational excellence.

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

Our goal is to establish Befesa as a company in which others should model themselves on for safety, health, environment and quality.

Policies

The Befesa integrated safety, health, environmental and quality policy was reviewed on April 28, 2016. Several cascade events across the organization were executed to ensure the full understanding and engagement of management, and employees, in order to make the policy the driving force of continuous improvement in this area in the company.

In summer 2016, more than 50 top managers from all worldwide sites in Befesa met for two days to align on the strategies to implement those policies.

Principles

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

1

Management, from senior to all line management, leads by example, is committed and accountable for safety, health, environment and quality

2

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

3

We never put the production or economic benefit before people's safety or health

4

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

5

It is necessary to thoroughly train all employees to work safely

6

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

7

All process conditions can, and must be controlled

8

Safety is a condition of career and employment

9

We have a constructive ZERO tolerance approach to unsafe behavior

10

Audits inspection and observations must be conducted with employee's participation

11

We ensure compliance with legal requirements and best industry practices

12

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

Environmental, Health and Safety continued

Be Safe at Befesa Project

In 2014 Befesa conducted a safety benchmark with similar companies and associations of its kind, and other industrial sectors. The conclusion of this benchmark was the initial step to launch a corporate multiyear program to improve safety and health to the next level of excellence.

In 2015 Befesa launched the “Be Safe” project with the support of an external service provider, DuPont Safety Solutions. The goal was to drive improvement in safety and health in the company.

The project structure was based upon:

- Senior management leadership of the safety program
- Evaluation of safety culture and Process Safety Management (PSM) on sites
- Development of an improvement and culture reinforcement action plan (Road Map).

The deployment of the Be Safe project is followed closely in board meetings.

a) Be Safe project cultural and PSM elements

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

Be Safe Project Cultural Elements

Strong leadership:

- Visible demonstrated commitment
- Clear, meaningful policies and principles

- Challenging goals and plans
- High standards of performance

Appropriate structure:

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

Focused processes and actions:

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

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

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

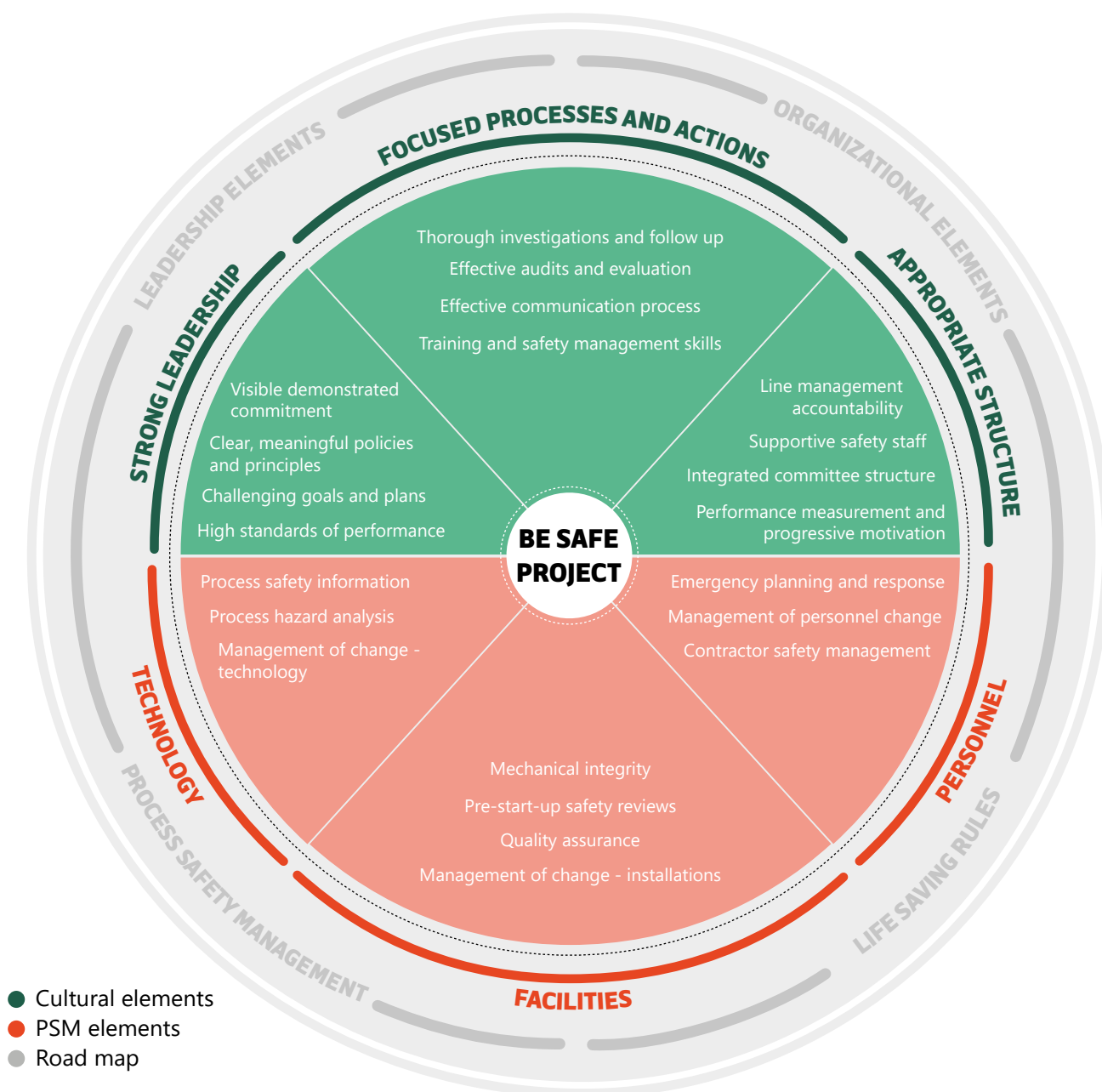
The main PSM elements being addressed are:

Technology:

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

Facilities:

- Mechanical integrity
- Pre-start-up safety reviews



- Quality assurance
- Management of change - installations

Personnel:

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

Befesa's focus in 2016 and 2017 has been on contractor safety management.

b) Be Safe Project cultural evaluation and Road Map

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

Environmental, Health and Safety continued

The common action plan, internally referred to as the “Be Safe Project Road Map”, consists of 144 actions covering four different workstreams:

Workstream; Contents

- Leadership elements
- Organizational elements
- Process Safety Management
- Life Saving Rules

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

Sharing Learning Lessons

Every incident or near miss is reported and investigated in a team approach involving, amongst others, operators, to ensure learnings are obtained and spread across the organization. In 2017 a total of 437 incidents were reported and investigated, prioritizing them based on the potential for causing an accident.

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

For the most relevant incidents and accidents where lessons can be drawn for the rest of the organization to prevent similar cases, a single page document is generated with key learnings. Over the last two years, 237 learning lessons

have been distributed at corporate level reaching all management and shop floor level.

Preventive Safety Observations

A corporate standard was published and implemented in 2016 for Preventive Safety Observations. This behavioral safety program is intended to detect and correct unsafe acts and conditions before they result in accidents and incidents, and enhance safety culture, employee awareness and commitment through line management field presence to address safety issues.

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

Life Saving Rules

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

Serious injury and fatalities prevention is managed at Befesa by means of what is called the “Life Saving Rules”. These are a selection of the most frequent causes of fatalities in our industry based on a detailed risk evaluation.

The Be Safe team analyzed and prioritized this list of most frequent causes of fatalities and generated the Befesa Life Saving Rules to prevent these. Notable

inclusions being: lack of proper safety leadership; isolate and lock energy sources; driving motor vehicles; works at height; confined space entry; electrical works; hot works; first break of pipes and equipment; amongst others up to 13 rules.

Safety and Health Performance

Between 2016 and 2017, over the course of two years, Befesa has reduced its Lost Time Injury rate – measured as number of accidents causing lost time per million hours of work – by more than 45%.

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

Reduction of injuries

2016 – 2017

Not only the number, but also the severity of lost time accidents – measured as the number of days the injured individual was away from work as result of these injuries per thousand hours of work – reduced by 60%.

As a reference, no injury during this period represented life threatening

risks, no case required long term hospitalization and all injured people recovered fully and resumed their normal duties.

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

Environmental Management

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

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

a) Key Performance Indicators (KPI)

Over the last four years, Befesa has developed KPIs which measure ESG performance. KPIs are collected on a quarterly basis and reported internally.



Environmental, Health and Safety continued

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

Indicators and their evolution are analyzed both at the EHS managers quarterly conferences and at the corporate EHS committee. The analysis includes the necessary actions to ensure improvement of these parameters and achievement of the company goals.

b) Investments

Befesa analyzes the needs for improvement of its plants to fulfill incoming legislation or to attain efficiency improvement and includes these investments into its capital expenditures (CapEx) budget. A list of CapEx projects is developed, prioritized and funded by the board according to approval procedure.

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

c) Air protection

Air emissions generated from metal

recycling could impact human health and the environment, and may be subject to regulation and permitting.

Befesa regularly engages with industry bodies to stay aware of forthcoming regulations and environmental legislation. During the last years, a detailed work has been done to ensure compliance with IED regulations. In addition, the implementation of ISO 14.001 and the EU Eco Management Auditing Scheme (EMAS) ensures that Befesa proactively reviews regulations which may be applicable to each site.

We have updated our plants with equipment according to the Best Available Technologies (BAT) to minimize impact on the air and ensure compliance with current and incoming legislation.

d) Soil protection

Metal production residues processing has the potential to cause soil damage and contamination if not managed with the right installations and procedures.

Befesa's installations are designed and maintained with solid protection through concrete and paved operating surfaces, rainwater collection systems and other engineering solutions to protect soil. Proper soil and underground water monitoring is provided where required, and according to local legislation, to ensure soil is maintained uncontaminated.

e) Water consumption and effluents

Metal processing can require substantial

quantities of water, which can be a potential risk to production as well as the local environment, particularly in regions of water scarcity.

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

f) Waste reduction efforts

Befesa's inherent business of recycling and reusing hazardous waste from metal processing prevents those wastes from reaching landfill. Befesa's process for the treatment of aluminium foundry salt slags offers an example of leading technology in recovering all components of the slags and converting them in reusable materials. The recovery level of 100% results in minimal potential risk of contamination or environmental impact through disposal or landfilling of these slags.

KPIs related to waste generation, including both hazardous and non-hazardous wastes – disposed of or recycled – are reported bi-annually at group level on site.

g) Greenhouse emissions

Steel production and metal recycling generates significant direct greenhouse gases (GHG) emissions, primarily of carbon dioxide and methane from production processes, smelting activities and on-site fuel combustion. GHG emissions contribute to climate change and create risks for companies as regulations are developed and implemented on regional and global scales.

Befesa's primary business is to recycle hazardous materials from the metals industry and extract or recycle the valuable content of those hazardous wastes. By reusing and recycling hazardous wastes, such as steel dust or aluminium residues, Befesa contributes to the overall reduction of GHG emissions which would otherwise be released if these materials were obtained from primary sources.

All facilities are ISO 14.064 certified for green house gas emissions monitoring, with 41% also having ISO 50.001 certification. Through these management systems we measure and analyze CO₂ and other GHG emissions annually, and improvement projects are implemented following this analysis.

To minimize the GHG emitted by Befesa's operations, the company applies BAT and looks for efficiency opportunities as part of its operational excellence program.

EHS Certifications

All Befesa's sites are ISO 14.001 certified, an internationally recognized environmental management system. In addition, 41% of the sites are ISO 50.001 certified, which develops an energy management system. Non-certified sites are working towards certification.

As of 2015 all of Befesa's facilities are certified to ISO 14.064 for management of GHG emissions.

More than 50% of the plants located within the European Union are registered according to EMAS, one of the most demanding environmental management

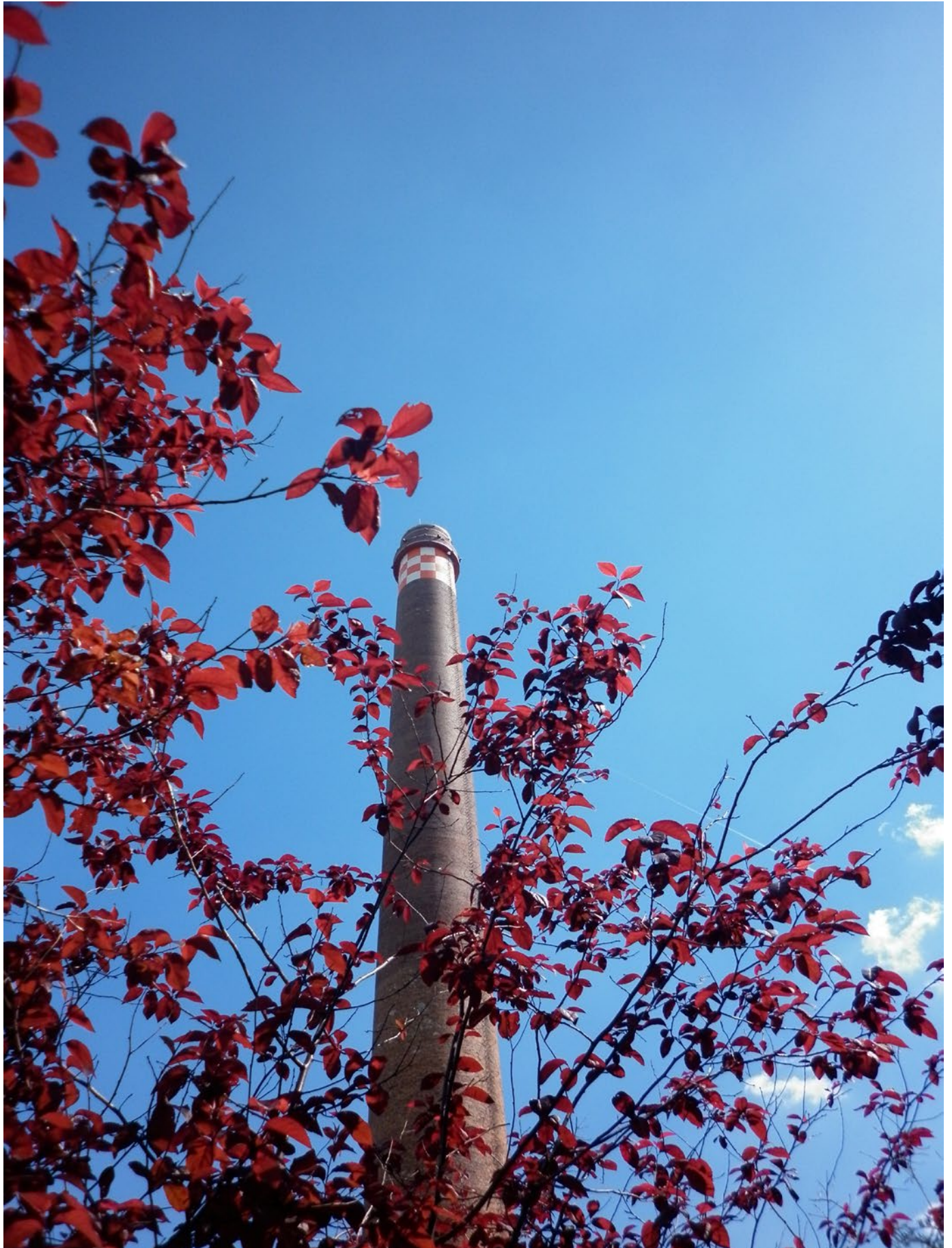
Environmental, Health and Safety continued

systems that includes the need for public communication, transparency and recognition by environmental authorities. All Befesa units are also certified according to the OHSAS 18.001 occupational health and safety norm.

EHS Auditing

Internal and third party external auditing processes are conducted as part of the ISO 14.001, 50.000 and 14.064 certification processes and to comply with the OHSAS18001.

During 2017 all certifications were maintained and the audits did not result in any major non-conformance. In the case of minor non-conformances and observations, these were analyzed to identify the root causes and define the necessary improvements.



Sustainability & Social Responsibility

Befesa manages more than 1,300 thousand tons of residues annually, with a production of more than 600 thousand tons of new materials. Befesa re-introduces these new materials into the market, reducing the consumption of natural resources.

Sustainability

Metal recycling is one of the most significant processes in the circular economy. It enables multiple lives for the materials and reduces the consumption of natural resources.

Through the recycling of materials and re-introduction of the product into the market the long term value added to waste material is high and sustainable.

The Steel Dust Recycling Services segment provides services to recover zinc that is reintroduced in the market for galvanization and other processes and that can be reused almost endlessly. Similar processes allow recovery of nickel, chromium and other metals.

Additionally, the Aluminium Salt Slags Recycling Services segment contributes by recycling and reintroducing close to 100% of the aluminium smelting residues (salt slags) into the production chain.

Sustainability is at the heart of the Befesa business model. Research, development and innovation is continuously focused on looking for new processes and services that can help customers make their businesses more sustainable. For detailed information on R&D and innovation please refer to the section "Management Report / R&D and Innovation" (page 54 of this Annual Report).

Social Responsibility

Beyond its own activities Befesa is committed to contributing to improve

local communities and the society. We consider the needs and interests of local communities and the consequences of the company's actions on the social system as an essential business obligation. In light of this, we are developing different projects within the fields of environment, culture and sports.

Befesa is aware that success in this area is related to sharing experiences that promote a better future. For this reason these projects are close to site locations. Examples of projects include sponsoring sport teams at schools, social associations, giving donations towards several support organizations in education, and participating in nature improvement programs.

During 2017 Befesa carried out 29 social responsibility activities in Germany, UK, Spain and South Korea, such as:

- Supporting the education of children with special needs
- Financial encouragement of hospice work (hospice patients)
- Conservation and improvement of the area of the Meres and Mosses, which is important for nature, flood prevention, carbon storage and the wider environment (National Nature Reserve)
- Collaboration with "Asociación de Autismo de Sevilla", an NGO for children with special skills.

A vital goal of Befesa is to keep building an excellent neighborhood network where we are present.

In 2017 we received two awards for socially responsible behavior in Spain and South Korea.

The "Ciudadanos" award in Granada (Spain) was received in recognition of Befesa's track record, its values, the commitment of the company to preventing labor risks, its protection of the environment and the excellence of its operations.

Befesa's Korean operations were recognized during the 4th Gyeongju Environment Service Award ceremony with the "Grand Prize" honor as the best environmental enterprise in Gyeongju (South Korea) for its commitment to clean, green business under the ecofriendly management philosophy, especially recognized as a role model of resource recycling business.

R&D & Innovation

Our R&D strategy is designed to create value by developing sustainable improvements to existing technologies, optimize our operations and product quality, develop new processes for achieving higher recycling efficiency, reduce cost, and improve environmental conditions. All of this contributes to a sustainable development and enhanced customer service.

Strategic focus and approach

Our R&D strategic plan aims to be a technologically competitive reference in providing sustainable environmental services for the recycling of hazardous residues of the steel and aluminium industry, with a core focus on steel dust, salt slags and SPL.

Our R&D activities are organized in two teams in order to develop new technological and sustainable environmental service solutions adapted to the technological processes of each of our businesses. These two teams meet on a regular basis to exchange

their respective achievements, findings, knowledge, and developments within their respective projects.

Employees in R&D

Our R&D and innovation strength is based on our teams' experience and qualifications across various specializations. In 2017 a total of 11 employees were fully dedicated to research and development activities. Of these, seven were part of the Steel Dust Recycling Services segment and four were part of the Aluminium Salt Slags Recycling Services segment.

Expenses on R&D

Total expense on research and development activities amounted to €1.7 million – up from the previous years' level of €1.5 million.

In our Steel Dust Recycling Services the expense on research and development activities amounted to €443 thousand in the year ended December 31, 2017 – up from the previous years' spend of €347 thousand.

In our aluminium residues recycling research and development activities, we spent approximately €1.3 million in the year ended December 31, 2017, slightly above the previous years' level of €1.2 million.

Network of collaborations

One of the pillars of our R&D strategy is external collaboration. This is primarily executed via research groups and institutions, public research centers, universities and other industrial enterprises, with whom we frequently collaborate with in our research and development projects.

Befesa is a founding partner of the Basque Innovation Agency, which seeks to coordinate and promote innovation in the Basque Country. Befesa is also a member of the Labein Tecnalia Foundation, a private technology center with significant business involvement that creates partnerships within their markets to develop innovative capacity using technology as a tool to increase competitiveness. Befesa has also developed projects in collaboration with institutions such as Acciona Infraestructuras R&D, Edertek Fagor

Ederlan, ICM-CSIC, in Spain, and the NTNU (Norway).

Befesa is also undertaking projects in collaboration with universities such as the University of the Basque Country, University of Valladolid, or University of Oviedo, in Spain, and the University of Leoben (Austria).

Main achievements and projects in 2017

In the Steel Dust Recycling Services segment, Befesa is:

- in the process of installing advanced off-gas cleaning systems (regenerative post-combustion) on the EU Waelz sites in order to comply with future emission levels, required by the new Best Available Techniques Reference Document (BREF) for non-ferrous metals
- continuously developing significant improvements in Waelz Oxide (WOX) quality for advanced and improved usability in downstream applications by reduction of impurities
- optimizing the Waelz process regarding availability, recovery and energy savings by improved process control
- investigating and evaluating new potential recycling processes and residues for the extension of Befesa's process value chain

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

- upscaling (pre-industrial scale) of the hydrometallurgical process to remove impurities of oxides to be used in the refractory industry
- developing fireproof rubber pieces in the railway sector using oxides as a fire retardant

R&D and Innovation continued

- developing oxides specifications to be used as a raw material in the electrolysis of the alumina to produce aluminium
- developing oxides specifications to be used in the ceramic industry; use of the oxides as a source of alumina for designing new formulations to improve ceramic products
- developing the roadmap to use oxides as alternative raw material to corundum in its application in the abrasive industry
- developing oxides specification: particle size, impurities, color, etcetera to be used as inorganic filler in rubber materials

In the Secondary Aluminium sub-segment of the Aluminium Salt Slags Recycling Services segment Befesa currently researches:

- the optimization of the aluminium alloys production process, introducing improvements and technologies to increase the energetic efficiency such as waste hot stream use, new rotary furnace component design; and temperature control
- the development of a new aluminium alloy composition to improve properties and allow the increase of the High Pressure Die Casting (HPDC) molds end life in the manufacturing of aluminium motor blocks and disc brakes.

Projects in research pipeline

Amongst the major R&D projects in our pipeline we highlight the following:

In the Steel Dust Recycling segment, projects in 2018 are the continuation of projects launched in 2017 and new projects for:

- Investigation of new potentials residues for the stainless steel dust recycling process
- Reduction of waste streams and improvements of environmental conditions

In the Aluminium Salt Slags Recycling segment:

Artigal: Elastic joints with fire-resistant properties by introducing recycled flame retardants from the aluminum industry for use in the railway industry

Bauxal II: Valorization towards a circular economy of aluminium by-products from the salt slags recycling process, to produce refractory materials as alternative to calcined bauxite

Facoe: Use of waste gases to improve the energy efficiency of the second aluminum fusion processes

Coral: Demonstration of the technical-economic and environmental viability of Paval® (trademark used in Spain to commercialize the aluminium oxide recovered from the salt slags recycling process) for obtaining corundum for its use in the manufacture of abrasives

Alurec: Obtaining corundum from Paval® for the development of primary aluminum of recycled origin

FISSAC: Fostering industrial symbiosis for a sustainable resource intensive industry across the extended construction value change.

Risk & Opportunities

Risk management is a vital component of the overall management and control system. We aim to successfully safeguard the company's assets.

Risk Management and Financial Controls / Reporting

We operate within a risk management framework to achieve targeted results at an acceptable level of risk. The Board of Befesa reviews the results and forecasts on a regular basis, including the corresponding risks and mitigating actions. Risk Management at Befesa incorporates operations, financials, environmental health & safety, compliance, legal and its insurance program. Befesa's consolidated, selected sub groups, and single entities financials are subject to external independent audits in addition to Befesa's internal financial routines and controls. The Board regularly reviews the operational and financial results as well as risks and opportunities.

Financial Controls and Reporting

Befesa's internal control system, financial reviews and reporting are key components of the risk management framework. The purpose of our internal control and accounting system is to ensure all transactions are adequately accounted for and that the financial reports present the company's financial status fairly. Our internal control system ensures compliance with legal regulations and that accounting follows statutory and International Financial Reporting Standards (IFRS). A defined calendar ensures that financial reports and statements are produced in a timely manner. Regular reviews of a group, as well as segment level, ensure that potential errors are detected and corrected promptly. Board and audit committee reviews occur on a regular basis and are also part of the control framework. Befesa's accounting team monitors changes to

Risk and Opportunities continued

the accounting standards and advisers from external specialized parties notify the company of changes as well as on complex accounting matters to avoid misstatements.

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

Risks and Opportunities relating to our industry and business

Befesa is exposed to risks and opportunities related to the level of activity of the global economy – in particular to the level of economic activity in the jurisdictions of the markets we serve in Europe and Asia. Our business is dependent on the availability of the materials to which our services relate and which we recycle – in particular steel dust in our Steel Dust Recycling Services segment, and salt slags and aluminium residues in our Aluminium Salt Slags Recycling Services segment. In periods of slowing economic growth, the industrial recycling industry has been affected, resulting in a reduction of demand for our services and products. One important

initiative to address slower economic growth has been to expand Befesa's operations in emerging markets such as Korea, South East Asia and Turkey.

Zinc smelters, which are significant consumers of the Waelz oxide we produce in our Steel Dust Recycling Services segment, typically experience variation in demand for their products due to a change in the level of activity in the automotive and construction industries. For our Aluminium Salt Slags Recycling Services segment we receive most of our salt slags and aluminium residues from companies operating in the automotive and construction industries in Europe. As such, the demand for and pricing of our services and products is directly and indirectly dependent on the developments in the automotive and construction industries.

Commodity Price Risk

Befesa has appropriate risk and review routines and controls in place. An integral part of Befesa's risk management framework is to monitor and manage its risk related to commodity price fluctuation. Befesa's main risk management tool is its zinc hedging program which requires hedging approximately two to four years forward and at a volume level of 60% to 75% of zinc payable output tonnage. At the end of December 2017 Befesa had hedges until and including July 2020. At the end of January 2018, we expanded the coverage of up to and including January 2021, at a volume level of 92,400 tons

per year which represents around 70% of the current annual zinc payable output of Befesa globally. For 2019 Befesa's average hedged zinc forward price is €2,306 per ton, and for 2020 is €2,245 per ton.

Risks and Opportunities relating to our Capital Structure

Befesa's new capital structure became effective on December 7, 2017 and has a maturity of five years. Befesa achieved reductions in net debt over adjusted EBITDA ratio, or leverage ratio, from year end 2016 of x3.5 to year end 2017 of x2.4. The interest cost and debt service of the new capital structure is approximately 60% lower when compared to the previous structure. A €75 million revolving credit facility is part of the capital structure and is undrawn at year end 2017 as Befesa has €118 million cash on hand.

Befesa swapped 60% of the €526 million notional term loan B the underlying variable interest rate of three months Euribor "0" floor to a fixed interest rate to minimize the risk of an interest rate rapid increase. Nevertheless, we face potential liquidity risks if the demand for our services and products decreases significantly as this would reduce our cash from operating activities and could deplete our current cash resources – leading to insufficient funds to meet future cash needs. A general economic downturn or crisis could also affect our suppliers and customers. This could adversely tighten or lengthen respectively the payment terms in place with Befesa.

Befesa has established adequate short, medium and long-term liquidity processes that form part of our 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 our capital structure and liquidity. Befesa complied with its debt covenants in 2017 and based on the financial planning for 2018 foresees to once more be fully compliant.

Interest Rate Risk

Befesa reviews the interest rate risk on a regular basis including the opportunity to hedge interest rates forward. Based on this, in December 13, 2017 Befesa closed interest rate swaps on 60% of the €526 million notional term loan B, from variable Euribor 3 months "0" floor +2.75% to a fix interest rate of 2.96% (subject to potential improvement depending on the Group's leverage) over the 5-year maturity of the term loan B.

Foreign Exchange Risk

Befesa has adequate review and risk management processes in place in regard to foreign exchange rate risk. One of several tools Befesa uses is the hedging of zinc prices forward and transacting those hedges Euro-based versus the LME prices being quoted in USD. In 2017 Befesa hedged 73,200 tons of zinc payable output through Euro-denominated zinc forwards which represents the majority of the output of Befesa's largest segment, Steel Dust Recycling Services.

Subsequent Events & Outlook

Subsequent events

As of March 15, 2018, there were no further events or developments that could have materially affected the measurement and presentation of Befesa's assets and liabilities as of December 31, 2017.

Outlook

2018 will be another consecutive growth year for Befesa. This growth will be less rapid when compared to 2017 as Befesa has no new capacity scheduled to be introduced in 2018. We will focus on implementing the next set of organic growth initiatives that will enable us to continue with our development into 2019, and beyond.

In the **Steel Dust Recycling Services** segment we expect to increase the utilization of our South Korean plant by increasing the volume of steel dust collected both internally, and from imports. Additionally, we expect to increase the capacity of our plant in Turkey, and further expand our footprint in Asia with a washing plant for the Waelz oxide in South Korea. We expect the European steel industry to maintain the same levels of activity that it has shown in 2017. Therefore, we expect

similar, or slightly higher volumes in Europe.

From a pricing perspective, the hedging program provides us with a high level of visibility until the end of 2020. For 2018, we have around 70% of our zinc volume hedged at an average price of €2,053 per ton.

Earnings in the Steel Dust Recycling Services segment are expected to increase gradually in the medium-term, driven by higher utilization rates and higher volume from the new capacities coming on stream, as well as higher prices on the hedging program.

In the **Aluminium Salt Slags Recycling Services** segment, we will focus 2018 on upgrading the furnaces at our plants located close to Barcelona and Bilbao during 2018, as well as expanding the capacity of the Hannover plant.

Small growth rates are expected in the recycled volumes of residues during 2018. This is on the back of a continued need for light weight solutions in the transportation industry and due to the solid state of the European economy. Earnings in the Aluminium Salt Slags

Recycling Services business are also expected to benefit from higher volumes and utilization rates – which should translate into improved margins.

Finally, given the new capital structure of Befesa and the high cash generative business, we expect net income and cash flow for 2018 to be significantly higher than in 2017.



Corporate Governance



From the top left:

Manuel Soto

Member of the Board of Befesa S.A.

Johannes Maret

Member of the Board of Befesa S.A.

Birke Fuchs

Secretary of the Board of Befesa S.A.

Frauke Heistermann

Member of the Board of Befesa S.A.

Santiago Zaldumbide

Member of the Board of Befesa S.A.

Georg Graf Waldersee

Member of the Board of Befesa S.A.

Roland Oelschläger

Member of the Board of Befesa S.A.

Javier Molina

Chief Executive Officer of Befesa S.A.

Romeo Kreinberg

Chairman of the Board of Befesa S.A.

Wolf Uwe Lehmann

Chief Financial Officer of Befesa S.A.

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Corporate Governance Report

Corporate Governance Report

The company is a société anonyme organized under the laws of Luxembourg. As a Luxembourg société anonyme – whose shares are exclusively listed on a regulated market in Germany – the company is not required to adhere to the Luxembourg corporate governance regime applicable to companies that are traded in Luxembourg, or to the German corporate governance regime applicable to stock corporations organized in Germany.

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

Board of Directors

On December 31, 2017, the Board of Directors had nine members: two executive directors, Javier Molina Montes (CEO) and Wolf Lehmann (CFO); and seven non-executive directors: Romeo Kreinberg (Chairman of the Board of Directors), Georg Graf Waldersee, Frauke Heistermann, Johannes Maret,

Roland Oelschläger, Manuel Soto and Santiago Zaldumbide. All directors were appointed on October 18, 2017 and their term of office will expire at the end of the Ordinary General Meeting of Shareholders ruling on the 2017 accounts. Four of the non-executive directors – Georg Graf Waldersee, Frauke Heistermann, Manuel Soto and Santiago Zaldumbide – are independent of the company and other outside interests that might interfere with their independent judgement. The Board of Directors is vested with the broadest powers to perform all acts necessary or useful to accomplish the company's objectives. The chairperson shall have no casting vote in case of a tie. Abstention and nil votes will not be taken into account.

The seven non-executive directors will each receive an annual remuneration of €60,000. The chairman of the Board of Directors will receive additional compensation in the amount of €90,000 for his service in this capacity. The two executive directors receive no salary as directors of the company but receive compensation according to their Service Agreement.

On October 30, 2017 the Board

appointed an audit committee, a nomination and remuneration committee, and an operations committee. On December 5, 2017 the Board of Directors of the company established a market-disclosure committee. All committees meet at least twice a year.

a) Audit Committee

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

b) Nomination and Remuneration Committee

The Nominations and Remuneration Committee is responsible for human resources related matters. These include implementation of policies, appointments and releases of senior management of the company, and proposing to the General Shareholders' Meeting suitable candidates for recommendation for election as members of the Board of Directors. Romeo Kreinberg (Chairman), Georg Graf Waldersee, Johannes Maret, Roland Oelschläger and Santiago Zaldumbide form part of this committee.

c) Operations Committee

The Operations Committee is responsible for the implementation and oversight of operational efficiency measures, operational efficiency monitoring, capital expenditure planning and further

operational measures. The committee consists of Romeo Kreinberg (Chairman), Frauke Heistermann, Johannes Maret, Manuel Soto and Santiago Zaldumbide.

d) Market-Disclosure Committee

The Market-Disclosure Committee is formed by Georg Graf Waldersee (Chairman) and the CEO and CFO of the company and is in charge of overseeing the disclosure of ad-hoc announcements by the company.

Senior Management

The day-to-day operations of the company are managed by the Senior Management of the Group. Senior Management is currently composed of four members – the CEO, CFO and the Vice Presidents of the Steel Dust Recycling and Aluminium Salt Slags Recycling business units.

The total aggregate compensation (mainly wages and social security) paid to the four members of Senior Management – Javier Molina Montes, Wolf Lehmann, Asier Zarraonandia Ayo and Federico Barredo Ardanza – in the year ended December 31, 2017 amounted to €2.71 million. The total estimated value of all non-cash benefits received by the four members of Senior Management in the same year was €36,315.

The Services Agreement of the Senior Management established the right of a global exit payment of €4.07 million.

On October 17, 2017 the Board of Directors of Befesa S.A. has decided to grant the Senior Management members – to reward their loyalty to the company – with the delivery of 79,018 Ordinary Shares of Befesa S.A.

Corporate Governance continued

The granted Stock Rights will vest at the end of November 2, 2020. After vesting, the company has the following two options for settling the vested Stock Rights:

- a) Transfer of Befesa S.A. Ordinary Shares to the Senior account, or
- b) Cash payout of the value of the Befesa S.A. Ordinary Shares

The Senior Management together with other 14 managers of Befesa have been selected to participate in the Befesa S.A. Long-Term Performance Stock Plan consisting of four Plan Tranches.

A total of 89,107 Performance Stock have been granted for each of the four Plan Tranches. The Performance Period of each Plan Tranche is three years (Tranche I 2018-2020, Tranche II 2019-2021, Tranche III 2020-2022, Tranche IV 2021-2023).

For each Plan Tranche, three Performance Targets will be determined, giving every Performance Target an individual weighting. The Performance Targets will be determined and measured over a three years period (e.g. Tranche I: January 1, 2018 until December 31, 2020).

For each Performance Target, the determination of values of 80%, 100% and 160% of target achievement is required. Once a Performance Period has ended, the definitive number of Performance Stocks is derived by multiplying the number of Performance Stocks granted by the total target achievement, rounded to nearest integer.

Shareholders

Each share entitles the holder thereof to attend all general meetings of the shareholders, either in person or by proxy, to address the general meeting of the shareholders and to exercise voting rights. Each share entitles the holder to one vote at a general meeting of the shareholders. There is no minimum shareholding required to be able to attend or vote at a general meeting of the shareholders.

Shareholders holding – individually or collectively – at least five per cent of the issued share capital of the company (i) have the right to put items on the agenda of the General Meeting; and (ii) have the right to table drafts resolutions for items included or to be included on the agenda of the General Meeting.

An Annual General Meeting shall be held within six months of the preceding financial year in. The Articles of Association of the company require General Meetings (in addition to the annual General Meeting) to be convened if shareholders representing at least ten per cent of the company's share capital so require.

The Annual General Meeting shall be held on April 26, 2018 in Luxembourg. Luxembourg law distinguishes between ordinary resolutions and extraordinary resolutions. Extraordinary resolutions relate to proposed amendments to the articles of incorporation and certain other limited matters. All other

resolutions are generally ordinary resolutions.

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

- a) an increase or decrease of the authorized or issued capital
- b) a limitation or exclusion of pre-emptive rights
- c) approval of a statutory merger or de-merger (scission) or certain other restructurings
- d) dissolution of the company, and e) an amendment to the Articles of Association

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

Independent Auditors

In accordance with the Luxembourg law on commercial companies, the company's annual and consolidated accounts are certified by an approved statutory auditor (*réviseur d'entreprises agréé*) appointed by the shareholders at the Annual General Meeting. The Annual General Meeting held on October 18, 2017 approved the appointment of PricewaterhouseCoopers, Société coopérative as approved statutory auditor (*réviseur d'entreprises agréé*).

Luxembourg Law on Takeover Bids

The following disclosures are made in accordance with article 11 of the Luxembourg Law on Takeover Bids of May 19, 2006.

a) Share capital structure

Befesa S.A. has issued one class of shares which is admitted to trading on the Frankfurt Stock Exchange. No other securities have been issued. The issued share capital as at December 31, 2017 amounts to EUR 94,575,646.35 represented by 34,066,705 ordinary shares, each fully paid-up.

b) Transfer restrictions

At the date of the annual report, Befesa S.A. shares are freely transferable but shall be subject to the provisions of the applicable insider dealing and market manipulation laws. Befesa's Securities Dealing Code contains restrictions on dealings by the directors, the Management, and certain employees of the Company and its subsidiaries.

c) Major shareholding

The majority shareholder of Befesa S.A. as at December 31, 2017 is Bilbao LuxCo S.A. holding directly 45.36% of the share capital.

d) Special control rights

All the issued and outstanding shares have equal voting rights. The Company has not issued any securities granting any special control rights to their holders.

e) Control system in employee share scheme

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 May 19, 2006.

f) Voting rights

Each issued share of Befesa S.A. entitles one vote. The Articles of Association of Befesa S.A. do not contain any restriction

Corporate Governance continued

on voting rights. In accordance with the Articles of Association, a record date for admission to a general meeting of shareholders is set, and supporting documents for the shareholdings and proxies shall be received by Befesa S.A. by the fourteenth (14th) day before the relevant date at twenty-four (24:00) hours Luxembourg time.

g) Shareholder's agreements with transfer restrictions

Befesa S.A.'s Board of Directors has no information about any agreements between shareholders which may result in restrictions on the transfers of shares of the Company, except for the transfer restrictions disclosed in section 4.9 (Market Protection Agreement (Lock-Up)) of the prospectus of Befesa S.A., the shares issued by Befesa S.A. are freely transferable in accordance with legal requirements for shares in dematerialized form.

h) Appointment of Board members, amendments of the Articles of Association

Rules governing the appointment and replacement of members of the Board of Directors and changes to the Articles of Association are contained in Article 11 and 32 of the Articles of Association of Befesa S.A.. The document is available at www.befesa.com/web/en/informacion_inversores/gobierno-corporativo/index.html

In particular, the following applies:

- The members of the Board of Directors

are appointed by the General Meeting of shareholders for a period not exceeding six years. They may be removed with, or without cause, and/or 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 re-convened to a second meeting. No quorum is required in respect of such second meetings and the resolutions are adopted by two-thirds of the votes validly cast.

Appointments of new board members are made taking into account diversity of skills, professional and educational background, knowledge, experience, geographic location, nationality and gender to find the most suitable candidate for the vacant or new position in order to ensure an effective management of the Company's business.

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. and in Section 1 of the Corporate governance section of the 2017 Annual Report. The Articles of Association are available at www.befesa.com/web/en/informacion_inversores/gobierno-corporativo/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.A.'s object.
- The Board of Directors may delegate the daily management of Befesa S.A. and the representation of Befesa S.A. for that daily management to one or more persons or committees specifying the limits of such delegated powers and the manner 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 authorized, up to the maximum amount of the authorized 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 authorized capital under the terms and conditions of warrants, convertible bonds, notes or similar instruments; (iii) determine the place and date of the issue or successive issues, the issue price, the terms and conditions of the subscription of and paying up on the new shares and instruments; (iv) remove or limit the statutory preferential subscription right of the shareholders.

j) Significant agreements

With exception to the senior facility agreement (IPO refinancing) there are no significant agreements to which Befesa S.A. is party and which take effect, alter or terminate upon a change of control of Befesa S.A. following a takeover bid.

k) Agreements with Directors and employees

As of December 31, 2017 there are no agreements in place between Befesa S.A. and its directors or employees providing for compensation if these directors or employees resign, or are made redundant without valid reason, or if their employment ceases because of a takeover bid.

Compliance

Befesa has enacted a Code of Conduct which is binding for all employees and which is the cornerstone of our Compliance Management System (CMS). The Code of Conduct is available under the Investor Relations / Corporate Governance / Compliance section of the Company's website (www.befesa.com). According to our Code of Conduct we respect and support the protection of internationally proclaimed human rights in line with the United Nations Universal Declaration of Human Rights. We have also established other complimentary compliance policies; such as anticorruption, antitrust, conflict of interest, anti-money laundering, international sanctions, environmental, social and corporate (ESG), health & safety and IT. The Group has a training program in place to ensure that all employees are fully aware of the Code of Conduct and of our other compliance policies.

Corporate Governance continued

After the IPO, Befesa has established a Group Securities Dealing Code designed to ensure compliance with the disclosure obligations and closed period rules that apply to our Company in accordance with the Market Abuse Regulation (EU) 596/2014 (MAR) since the listing on the Frankfurter Stock Exchange, which imposes a range of obligations related to the handling of inside information and other related areas. This Group Securities Dealing Code applies to all employees and directors of Befesa S.A. and its fully consolidated subsidiaries and joint ventures.

The Group has a Compliance Officer and a Compliance Committee in charge of monitoring compliance with the Group's compliance policies. Compliance activities are also supplemented by the work of the internal audit department and the establishment of a whistle-blowing channel.

The detailed Compliance Policy is available for all the employees within the intranet of the company.

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Consolidated Balance Sheet as at 31 December 2017 (Thousand euro)

Assets	Note(s)	2017	2016
Non-current assets:			
Intangible assets			
Goodwill	6	335,564	339,034
Other intangible assets, net	7	88,162	91,152
		423,726	430,186
Property, plant and equipment, net	8		
Property, plant and equipment in use		229,996	237,983
Property, plant and equipment under construction		18,195	12,352
		248,191	250,335
Non-current financial assets	10		
Investments in subsidiaries and associates		150	1,309
Other non-current financial assets		5,088	20,523
		5,238	21,832
Deferred tax assets	19	94,975	93,626
Total non-current assets		772,130	795,979
Current assets:			
Assets classified as held for sale	27.2	–	57,591
Inventories	11	45,192	30,410
Trade and other receivables	12	52,109	62,113
Trade receivables from related companies	12 – 25	795	916
Accounts receivable from public authorities	12 – 20	10,266	10,358
Other receivables	12	11,734	10,576
Other current financial assets	13	300	1,758
Cash and cash equivalents	4	117,582	59,054
Total current assets		237,978	232,776
Total assets		1,010,108	1,028,755

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated financial statements.

Consolidated Balance Sheet as at 31 December 2017 (Thousand euro)

Equity and liabilities	Note(s)	2017	2016
Equity:			
Parent Company	14		
Share capital		94,576	64,093
Share premium		288,744	233,087
Hedging and revaluation reserves		(57,013)	(47,163)
Reserves of consolidated companies		(205,836)	(45,449)
Translation differences		(562)	(2,400)
Net profit/(loss) for the period		49,251	(52,914)
		169,160	149,254
Non-controlling interests	14	10,567	8,931
Total equity		179,727	158,185
Non-current liabilities:			
Long-term provisions	18	4,908	5,245
Financial debt	15	519,154	552,577
Deferred tax liabilities	19	55,596	59,180
Other non-current liabilities	16	32,679	49,820
Total non-current liabilities		612,337	666,822
Current liabilities:			
Liabilities related to assets held for sale	27.2	–	7,209
Financial debt	15	5,083	29,307
Trade payables to related companies	25	1,497	1,604
Trade and other payables		113,358	98,052
Short-term provisions		690	2,971
Other payables			
Accounts payable to Public Administrations	16–20	14,976	14,720
Other current liabilities	16	82,440	49,885
		97,416	64,605
Total current liabilities		218,044	203,748
Total equity and liabilities		1,010,108	1,028,755

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated financial statements.

Consolidated Income Statement for the year ended 31 December 2017 (Thousand euro)

	Note(s)	2017	2016
Continuing operations:			
Revenue	5	724,789	611,687
+/- Changes in stocks of finished products and work in progress		14,775	(3,595)
Procurements	22	(388,214)	(297,163)
Other operating income	22	9,475	9,344
Staff costs	22	(72,789)	(72,136)
Other operating expenses	22	(135,059)	(119,334)
Amortisation/depreciation, impairment and provisions	22	(30,535)	(44,496)
Operating profit		122,442	84,307
Financial income		2,589	6,335
Financial expenses	23	(50,696)	(58,123)
Net exchange differences		(136)	1,960
Finance income/(loss)		(48,243)	(49,828)
Profit/(loss) before tax		74,199	34,479
Corporate income tax	20	(23,017)	(13,736)
Profit/(loss) for the year from continuing operations		51,182	20,743
Profit/(loss) for the year from discontinued operations	27.1	3,779	(71,795)
Profit/(loss) for the year		54,961	(51,052)
Attributable to:			
Parent company owners		49,251	(52,914)
Non-controlling interests		5,710	1,862
Earnings(losses) per share from continuing and discontinued operations attributable to owners of the parent (expressed in euro per share)			
Basic earnings per share			
– From continuing operations	29	0.87	(2.44)
– From discontinued operations	29	0.15	(3.38)
		1.02	(5.82)
Diluted earnings per share			
– From continuing operations	29	0.87	(2.25)
– From discontinued operations	29	0.15	(3.11)
		1.02	(5.36)

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2017 (Thousand euro)

	Note(s)	2017	2016
Consolidated profit/(loss) for the year		54,961	(51,052)
Other comprehensive income from continuing operations:			
Items that may subsequently be reclassified to income statement:			
Income and expense recognized directly in equity		(41,390)	(56,915)
– Cash-flow hedges	17	(65,246)	(75,413)
– Translation differences		4,785	(4,045)
– Tax effect	19	19,071	22,543
Transfers to the income statement		36,325	6,213
– Cash-flow hedges	17	51,893	8,855
– Tax effect	19	(15,568)	(2,642)
Other comprehensive income/(loss) for the year net of tax from continuing operations		(5,065)	(50,702)
Other comprehensive income/(loss) from discontinued operations:			
Items that may subsequently be reclassified to results:			
– Exchange differences on translation of foreign operations		(3,926)	1,637
Other comprehensive income/(loss) for the year net of tax from discontinued operations		(3,926)	1,637
Other comprehensive income/(loss) for the year, net of tax		(8,991)	(49,065)
Total comprehensive income/(loss) for the year		45,970	(100,117)
Attributable to:			
Parent company owners		41,239	(101,126)
Non-controlling interests		4,731	1,009
Total comprehensive income/(loss) attributable to the parent company's owners resulting from:			
Continuing operations		37,460	(31,536)
Discontinued operations		3,779	(69,590)

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2017 (Thousand euro)

	Attributable to owners of the parent							Non-controlling interests (Note 14)	Total equity
	Share capital (Note 14)	Share premium (Note 14)	Hedging and revaluation reserves (Note 14)	Other shareholder contributions (Note 14)	Other reserves (Note 14)	Translation differences (Note 14)	Net profit (loss) for the period (Note 14)		
Balances at 31 December 2015	55,090	222,090	(506)	9,027	(7,130)	(845)	(35,394)	16,929	259,261
Net profit/(loss) for 2016	–	–	–	–	–	–	(52,914)	–	(52,914)
Profit for the year attributable to non-controlling interests	–	–	–	–	–	–	–	1,862	1,862
Transfer of hedges to profit or loss (Note 17)	–	–	6,213	–	–	–	–	–	6,213
Changes in valuation of hedges (Note 17)	–	–	(52,870)	–	–	–	–	–	(52,870)
Translation differences	–	–	–	–	–	(1,555)	–	(853)	(2,408)
Total comprehensive income for 2016	–	–	(46,657)	–	–	(1,555)	(52,914)	1,009	(100,117)
Distribution profit/(loss) of 2015	–	–	–	–	(35,394)	–	35,394	–	–
Capital increase (Note 14)	9,003	10,997	–	(9,027)	(10,973)	–	–	–	–
Other operations with shareholders	–	–	–	200	–	–	–	–	200
Other changes	–	–	–	–	(222)	–	–	–	(222)
Changes in the scope of consolidation (Note 2.5)	–	–	–	–	8,070	–	–	(9,007)	(937)
Balances at 31 December 2016	64,093	233,087	(47,163)	200	(45,649)	(2,400)	(52,914)	8,931	158,185
Net profit/(loss) for 2017	–	–	–	–	–	–	49,251	–	49,251
Profit for the year attributable to non-controlling interests	–	–	–	–	–	–	–	5,710	5,710
Transfer of hedges to profit or loss (Note 17)	–	–	36,325	–	–	–	–	–	36,325
Changes in valuation of hedges (Note 17)	–	–	(46,175)	–	–	–	–	–	(46,175)
Translation differences	–	–	–	–	–	1,838	–	(979)	859
Total comprehensive income for 2017	–	–	(9,850)	–	–	1,838	49,251	4,731	45,970
Distribution profit/(loss) of 2016	–	–	–	–	(52,914)	–	52,914	–	–
Interim dividend (Note 14)	–	(16,830)	–	–	–	–	–	–	(16,830)
Capital increase (Note 14)	30,483	72,287	–	–	(102,770)	–	–	–	–
Other changes	–	200	–	(200)	(4,503)	–	–	(2,738)	(7,241)
Changes in the scope of consolidation (Note 2.5)	–	–	–	–	–	–	–	(357)	(357)
Balances at 31 December 2017	94,576	288,744	(57,013)	–	(205,836)	(562)	49,251	10,567	179,727

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated financial statements.

Consolidated Cash Flow Statements for the year ended 31 December 2017 (Thousand euro)

	2017	2016
Cash flows from operating activities:		
Continuing operations	74,199	34,479
Discontinued operations	2,051	(67,082)
Profit/(loss) for the year before tax including discontinued operations	76,250	(32,603)
Adjustments for:		
Depreciation and amortisation charge (Notes 7 and 8)	30,535	40,533
Impairment losses	–	19,248
(Profit)/loss from disposals (note 27)	(2,944)	54,986
Changes in provisions	213	2,896
(Profit)/loss from associates	–	(163)
Interest income	(2,589)	(2,090)
Finance costs	50,696	60,765
Other profit and loss	(1,147)	(1,133)
Exchange differences	136	(1,731)
Changes in working capital		
Trade receivables and other current assets	6,362	(16,424)
Inventories	(14,782)	3,474
Trade payables	22,244	2,950
Other cash flows from operating activities:		
Interest paid	(49,656)	(55,722)
Other payments	(2,977)	(83)
Taxes paid	(20,792)	(18,833)
Net cash flows from operating activities	91,549	56,070
Cash flows from investing activities:		
Investments in Group and associated companies	(1,868)	(3,160)
Investments in intangible assets	(1,308)	(2,262)
Investments in property, plant and equipment (Note 8)	(24,383)	(30,208)
Other financial assets (Note 10)	–	1,118
Collections from disposals of Group and associated companies, net of cash (Note 27)	52,366	752
Collections from sale of property, plant and equipment	–	205
Investments in other current financial assets	(446)	–
Dividends received	–	174
Interest received	241	209
Net cash flows from investing activities	24,602	(33,172)
Cash flows from financing activities:		
Cash bank inflows from bank borrowings and other liabilities	520,802	5,142
Cash bank outflows from bank borrowings and other liabilities	(576,518)	(15,852)
Transactions involving non-controlling interests	–	(6,756)
Dividends paid to holders of redeemable preferred shares	(3,075)	–
Net cash flows from financing activities	(58,791)	(17,466)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,787)	(868)
Net increase in cash and cash equivalents	55,573	4,566
Cash and cash equivalents at the beginning of year	62,009	57,443
Cash and cash equivalents at the year end from continuing operations	117,582	59,054
Cash and cash equivalents at the year-end classified as assets held for sale	–	2,955

The accompanying Notes 1 to 30 and the Appendix are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements as at 31 December 2017 (Thousand euro)

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 Company's registered office is at 46 Boulevard Grande-Duchesse Charlotte, L-1330 Luxembourg. On 1 March 2018, the registered office of the Company was transferred to 46, Boulevard Greande-Duchesse Charlotte, L-1330, Luxembourg.

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

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

The Company may also invest in real estate, in intellectual property rights or 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.

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

On 15 July 2013, the Company closed the acquisition of 100% of Befesa Medio Ambiente, S.L. and its subsidiaries (hereinafter "Befesa Medio Ambiente" or "Befesa"). The Company and its subsidiaries are hereinafter referred to as the "Group".

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

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

Befesa is an international industrial group (see Appendix) which engages mainly in the management and treatment of industrial residues (see Note 5).

The Majority of the systems, equipment and facilities included in 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 on by the Group or because of their nature (industrial residues). Most of the expenses and revenues for 2017 and 2016 should be understood to accrue in the normal course of the aforementioned activities. The information, if any, on possible provisions for contingencies and charges and on possible contingencies, liability and grants, if any, arising from the normal performance of the activities constituting the Group's company purpose, and other environmental measures are described, as and when appropriate, in the related notes to the consolidated financial statements.

Since 3 November 2017 Befesa, S.A. is a listed company on the stock exchange of Frankfurt (Germany) (Note 14).

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

2.1 Fair presentation

The Company's consolidated financial statements for 2017 were formally prepared:

- In accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS), in conformity with the Regulation (EC) of the European Parliament and of the Council, including International Accounting Standards (IAS) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by the Standing Interpretations Committee (SIC). The principal accounting policies and measurement bases applied in preparing the accompanying consolidated financial statements are summarised in Note 3.
- On an historical cost basis modified by the fair valuation of assets and liabilities (financial assets and liabilities including derivatives) at fair value.
- Considering all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements, as well as the alternative permitted by the relevant standards in this connection, which are specified in Note 3.
- So that they present fairly Group's consolidated equity and financial position at 31 December 2017 and the results of its operations, changes in consolidated equity and consolidated cash flows in the year then ended.
- On the basis that the accounting records kept by the Parent and by the other Group companies, which include the joint arrangements in which they had interests at 31 December 2017. However, since the accounting policies and measurement bases used in preparing Befesa, S.A. consolidated financial statements (IFRS) differ from those used by the Group companies (local standards), the required adjustments and reclassifications were made on consolidation to unify the policies and methods used and to make them compliant with International Financial Reporting Standards as adopted by the European Union.
- The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.4.
- The consolidated financial statements have been prepared in accordance with Luxemburg's legal and regulatory framework.
- Whenever necessary, certain comparative amounts have been reclassified to conform to changes in presentation in the current year.

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

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

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

Additionally, the assets and liabilities of Solarca, S.L. (and its subsidiaries), Soluciones Ambientales del Norte, S.A. and Befesa Perú, S.A. were classified as "held for sale" at 31 December 2016 and the consolidated income statement for the companies was classified as "Profit/(loss) from discontinued operations" (Note 27). These companies were sold on 29 March 2017. As required under IFRS 5, the operations of the aforementioned companies (to the date of its sale) are classified under profit/(loss) for the year from discontinued operations in the accompanying consolidated income statement.

In 2017 the Group decided to sell the company Befesa Argentina, S.A. The results from this company are classified under profit/(loss) for the year from discontinued operations in the accompanying consolidated income statement (Note 27).

2.2 Adoption of new standards and interpretations issued.

The Group consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted for utilization in the European Union (IFRS-EU) and approved under European Commission Regulations in force at 31 December 2017, taking into account all accounting principles and standards and compulsory measurement criteria with a significant effect, as well as the alternatives that legislation allows.

As a result of certain International Financial Reporting Standards coming into effect in January 2017, the Company has adapted its consolidated financial statements to those standards. These standards are set out below:

2.2.1 List and summary of standards, amendments to standards and interpretations published to date

a) Mandatory standards, amendments and interpretations for all years starting as from 1 January 2017

IAS 7 (Amendment), 'Cash flow statements', regarding the Disclosure initiative

An entity is required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from:

- cash flows, such as drawdowns and repayments of borrowings; and
- non-cash changes, such as acquisitions, disposals and unrealized exchange differences.

Debt from financing activities will be debt for which cash flows were, or future cash flows will be, classified as financing activities in the statement of cash flows. Additionally, an entity should include changes in financial assets (for example, assets that hedge liabilities arising from financing liabilities) in the new disclosures if such cash flows were, or will be, included in cash flows from financing activities.

The amendment suggests that a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities would meet the disclosure requirement.

The Group has included more specifically the additional required information in the Note 15.

IAS 12 (Amendment), "Recognition of deferred tax assets for unrealized losses"

The amendments to IAS 12 clarify the requirements for the recognition of deferred tax assets for unrealized losses. The amendment clarifies the accounting treatment of deferred tax when an asset is measured at fair value and that fair value is less than the asset's tax base. It also clarifies other aspects of accounting for deferred tax assets.

This amendment has not had a significant impact on the Group Consolidated Annual Accounts.

Annual improvements to IFRS: 2014 - 2016 cycle

Modifications affect IFRS 12 "Disclosure of interests in other entities" and apply to annual exercises beginning on January 1, 2017. The main amendment concerns a clarification of the scope of the standard.

b) Standards, amendments and interpretations not yet in force, although could be taken in advance of the exercises beginning after 1st January 2017

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

IFRS 4 (Amendment) 'Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts'

This amendment affects insurance companies and will therefore not affect the Group.

IFRS 9 "Financial instruments":

It approaches the classification, valuation and recognition of financial assets and financial liabilities. The complete version of the IFRS 9 published in July 2014 and replaces the guide of the IAS 39 about the classification and valuation of financial instruments. The IFRS 9 maintains but simplifies the mixed valuation model and establishes three main categories of valuation for the financial assets: amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVPL'). The base of classification depends on the entity business model and the characteristics of the contractual flows of cash of the financial assets. It is required that the investments in Equity instruments are valued at fair value with changes in profit and loss, with the irrevocable election at initial recognition to present in other comprehensive income subsequent changes in the fair value, unless the instrument is held for trading. If the equity instrument is held for trading, the subsequent changes in the fair value are presented in profit and loss. Under IFRS9, there is a new model of impairment losses, the model of expected credit losses, which replaces the model impairment losses incurred in IAS 39 and which will lead to recognition of losses before it has been done in IAS 39. The IFRS 9 relaxes the requirements for the coverage effectiveness. Under IAS 39, a hedge must be highly effective, both going forward and in the past. IFRS 9 replaces this line by stipulating an economic relationship between the hedged item and the hedging instrument. It also requires the hedged ratio is the same as the ratio used by the entity to manage risk. Lastly, extensive information is required, including reconciliation of the initial and final amounts of the provision for estimated credit losses, assumptions and data, and a reconciliation of the transition between the categories of initial classification under IAS 39 and the new classification categories under IFRS 9.

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

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

IFRS 9 is effective for years starting on or after 1 January 2018; and the Group has not adopted early application. IFRS 9 will be applied retroactively but restatement of the comparative figures will not be required.

The Group has decided not to restate comparative figures and present the impact of IFRS 9 adoption at 1 January 2018, date of transition, in the opening retained earnings, following practical guidance in the standard.

The Group does not expect an impact in its financial assets categorized under amortized costs.

For transactions recorded as hedging transactions by the Group, the Group only registers as such those that it considers to be highly effective coverage. Therefore, no significant incidences are expected in the amendment of IFRS 9.

The new model for the recognition of impairment losses is based in the expected credit losses instead of incurred credit losses (actual model under IAS 39). It affects mainly to the financial assets and assets of contracts of IFRS 15 (trade receivables) of the Group at the end of the period.

Regarding credit risks from trade receivables, it is not expected that the new standard will mean a significant increase in the impairment provisions as they all are short term balances related to high credit rated companies, or otherwise the collection is guaranteed by high credit rated financial institutions.

The Group's management is working to obtain recurring information resources regarding the required disclosures which is to be published in 2018, and issues are not expected to have the required information available.

IFRS 15 "Ordinary revenues from Contracts with Customers"

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

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

IFRS 15 is effective for the years commencing on or after 01 January 2018 and the Group has not early-applied this standard.

The Group has analyzed the main types of contracts with clients and based on the situation of the Group regarding these transactions, a significant impact is not expected in any case.

IFRS 15 (Amendment) “Clarifications to IFRS 15 ‘Revenue from contracts with customers’”

The IASB has amended IFRS 15 with the aim of:

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

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

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

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

IFRS 16 “Leases”

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

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

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

This IFRS will apply to annual reporting periods beginning on or after 1 January 2019. It may be adopted early as IFRS 15 but only if the entity is at the same time applying IFRS 15 Revenue from contracts with customers.

The Group has no intention of early adopting this standard and expects to choose the ‘simplified approach’ in the transition, without reexpressing comparative figures.

Management is in the process of analyzing the Group’s main existing operating leases in order to quantify the recognition on its balance sheet of the right of use associated with the leased items and the corresponding liability in respect of the instalments payable under the lease payment schedules. The Group is currently analyzing all of these agreements.

Based on the information currently under analysis, management estimates that the accounting effects of application of the new standard (in terms of the assets and financial liabilities to be recognized) on the balance sheet and income statement (presentation and reclassification in profit and loss over time) will not have a significant impact on the Group’s financial position or earnings performance.

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

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

c) Standards, amendments and interpretations of existing standards that cannot be early adopted or have not been adopted by the European Union:

At the date of these Consolidated Financial Statements were prepared, the IASB and IFRS Interpretations Committee had published the following standards, amendments and interpretations that have not yet been adopted by the European Union.

IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associates or joint ventures"

These amendments clarify the accounting treatment of the sale or contribution of assets between an investor and its associates and joint ventures. This will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business. The investor will recognize the total gain or loss when the non-monetary assets constitute a "business". If the assets do not meet the definition of a business, the investor should recognize the profit or loss to the extent of other investors' interests. These modifications will only apply when an investors sell or contribute assets to its associate and joint venture.

A wider review is being planned that could result in the simplification of the accounting for these transactions and other aspects regarding associates and joint ventures.

Based on the situation of the Group regarding these transactions, it is not expected that these modifications will have a significant impact for the Group in any case.

IFRS 2 (Amendment): "Classification and measurement of share-based payment transactions"

The amendment to IFRS 2, which was developed through the IFRS Interpretations Committee, clarifies how to account for certain types of share-based payment transactions. In this respect, it provides the requirements for accounting for:

- The effects of the conditions for the irreversibility and non-determinant conditions for the irreversibility of the grant on the measurement of share-based payments settled in cash;
- Share-based payments, settled net of tax withholdings; and
- The amendment of the terms and conditions of a share-based payment, which changes the classification of the transaction from cash settled to equity settled.

IFRS 2 is effective for years starting on or after 1 January 2018; early application is permitted.

Given the scant volume of share-based payment transactions, this amendment is not expected to have a significant impact when adopted by the European Union.

Annual improvements to IFRS: 2014 – 2016 cycle

The improvements affect IFRS 1 and IAS 28 and are applicable in annual reporting periods beginning on, or after 1 January 2018. The main amendments relate to:

- IFRS 1 – ‘First-time adoption of the International Financial Reporting Standards’. Deletion of short-term exemptions for first-time adopters.
- IAS 28 – ‘Investments in associates and joint ventures’ Measuring an associate or joint venture at fair value.

These improvements are not expected to affect the Group when adopted by the European Union.

IAS 40 (Amendment) ‘Transfers of investment property’

This amendment clarifies that in order to transfer a property in or out of investment properties there has to be an evident change of use. To conclude whether there has been a change of use, there has to be an assessment of whether the property complies with the definition of an investment property.

This amendment is effective for annual reporting periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group does not have or expect to have investment properties.

IFRIC 22, ‘Foreign currency transactions and advanced consideration’

This Interpretation tackles how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts.

The amendment is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

In light of the Group’s current situation, this Interpretation is not expected to have a significant impact on it when it is adopted by the European Union.

IFRS 17 “Insurance contracts”

On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, ‘Insurance Contracts’. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The standard applies to annual periods beginning on or after 1 January 2021. IFRS 17 has not yet been adopted by the European Union.

Considering the Group activities, this new IFRS will not have any impact on the Group when it is adopted by the European Union.

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

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

IFRIC 23: Uncertainty over income tax treatments

This interpretation gives additional requirements to those of IAS 12 "Income tax", specifying how to reflect the impacts of uncertainty over income tax accounting. This interpretation clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

The Interpretation is effective for annual periods beginning on or after 1 January 2019, though earlier application is permitted.

It is not expected to have a significant impact on the Group.

IFRS 9 (Amendment) 'Prepayment Features with Negative Compensation'

The terms of instruments with prepayment features with negative compensation – where the lender could be forced to accept an amount of prepayment substantially lower than the unpaid amounts of principal and interest – were incompatible with the notion of "reasonable additional compensation" for the early termination of a contract under IFRS 9. As a result, such instruments would not have contractual cash flows that are only capital and interest payments, which would lead them to be accounted for at fair value with changes in the profit and loss account. The amendment to IFRS 9 clarifies that a party may pay or receive reasonable compensation when a contract is terminated in advance, which could allow these instruments to be valued at amortized cost or at fair value through other comprehensive income. The amendment will be effective for annual exercises beginning on January 1, 2019, although early application is allowed.

The Group does not usually have instruments subject to these clauses, so it is not estimated that their importance may have significant effects.

IAS 28 (Amendment) 'Long-term interests in associates and joint ventures'

This limited scope amendment clarifies that the long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or in the joint venture, but to which the entity does not apply the equity method, are accounted for in accordance with the requirements of IFRS 9 "Financial instruments". The amendment will be effective for annual exercises beginning on or after January 1, 2019, although early application is allowed.

It is not expected to have significant effects for the Group.

Annual improvements to IFRS: 2015 – 2017 cycle

These improvements, which will apply to exercises beginning from January 1, 2019, provided its adoption by the EU, refer to:

- IFRS 3 "Business Combinations": A previously held share in a joint operation is re-measured when the control of the business is obtained.
- IFRS 11 "Joint agreements": A previously held share in a joint operation is not measured once the joint control of the business is obtained.

- IFRS 12 "Disclosure of interest in other entities": All the tax consequences of the payment of dividends are accounted for in the same way.

IFRS 23 "Borrowing costs ": Any specific loan originally made to develop an eligible asset is considered part of the generic loans when the asset is ready for use or sale.

IAS 19 (Amendment) 'Modification, reduction or settlement of the plan'.

Companies must determine pension expenditures when changes in a defined benefit plan occur. The amendment is effective from 1 January 2019, subject to its adoption by the European Union.

The Group does not expect to have significant impacts in relation to these improvements when they come into force.

2.3 Functional currency

These consolidated financial statements are presented in thousand euro, since the euro is the currency used in the main economic area in which the Group operates. Foreign operations are recognized in accordance with the policies established in Note 3. The main currencies other than the euro in which the Group carries out its transactions are the US dollar, Korean Won, Swedish krona, Turkish lira and Pound Sterling.

2.4 Responsibility for the information and estimates made

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

In the Group's consolidated financial statements for 2017 estimates are occasionally made by the senior management of the parent Company and of the consolidated companies, later ratified by the directors, in order to qualify certain of the assets, liabilities, income, expenses and obligations reported herein. Those estimates relate to the following:

Impairment losses on goodwill and certain assets (see Notes 3.1, 6, 7 and 8).

The Group verifies annually whether there is an impairment loss in respect of goodwill and other assets, in accordance with the accounting policy described in Note 3. The recoverable amounts in cash-generating units (CGUs) have been determined based on calculations of value in use. These calculations require the use of estimates.

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

Useful lives of property, plant and equipment and intangible assets (see Notes 3.2, 3.3, 7 and 8).

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

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

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

Corporate income tax and deferred taxes (Note 3.16, 19 and 20)

The Group is subject to income taxes in numerous jurisdictions. A major degree of judgement is required to determine the provision for income tax. There are many transactions and calculations for which the ultimate determination of the tax is uncertain during the ordinary course of business. Tax is calculated based on Management's best estimates according to the current situation as regards tax legislation and taking into account expected developments in this area in the different instructions applied to the Group. The Group recognizes liabilities in respect of possible tax claims on the basis of estimates concerning whether additional tax will be required. When the final tax result differs from the amounts initially recognized, such differences will have an impact on corporate income tax and provisions for deferred tax in the year in which the relevant calculation is made.

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

Fair value of derivatives or other financial instruments

The fair value of financial instruments that are not quoted in an active market (e.g. OTC derivatives) is determined by using valuation techniques. The Group uses judgement to select a series of methods and makes assumptions that are mainly based on the market conditions existing at each balance sheet date.

The amount of certain provisions and/or contingent liabilities

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

Although these estimates were made on the basis of the best information available at 31 December 2017 on the events analyzed, 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, recognizing the effects of the change in estimates in the related consolidated income statement.

2.5 Consolidated Group and consolidation scope

Scope of consolidation

The accompanying consolidated financial statements for the year ended 31 December 2017 were prepared from the individual accounting records at that date of Befesa SA. (the Parent Company – see Note 1) and of the subsidiaries, associates and joint arrangements listed in Appendix.

Subsidiaries

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

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

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value on the acquisition date. Subsequent changes in the fair value of the contingent consideration classified as an asset or a liability are recognized in accordance with IAS 39 in profit or loss or in other comprehensive income. Contingent consideration which is classified as equity is not remeasured and its subsequent settlement is recognized in equity.

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

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

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

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

None of the functional currencies of the subsidiaries, associates and joint operations located abroad relate to hyperinflationary economies as defined by IFRSs (IAS 29). Accordingly, at the 2017 accounting close it was not necessary to adjust the consolidated financial statements of any of the subsidiaries or associates to correct for the effect of inflation.

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

The main aggregates of the fully-consolidated companies at 31 December 2017 are shown in the Appendix.

Joint arrangements

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

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

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

The consolidation of the "joint operations" (Recytech S.A.S (steel segment)), in the consolidated financial statements means increasing assets, liabilities, income and expenses by approximately EUR 18,937 thousand, EUR 4,749 thousand, EUR 26,325 thousand and EUR 15,806 thousand, respectively (31 December 2016: EUR 12,956 thousand, EUR 3,288 thousand, EUR 18,877 thousand and EUR 12,834 thousand, respectively), before consolidation adjustments and eliminations.

Associates

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

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

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

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

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

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

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

Transactions with non-controlling interests

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

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

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

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

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

Changes in the scope of consolidation.

Following is a description of the main changes in the scope of consolidation in 2017 and 2016:

2017

Exclusion from the scope of consolidation

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

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

The results from the operations of these companies in 2017, as well as the income from the sales have been classified as discontinued operations (Note 27).

2016

Additions to the scope of consolidation and other movements:

In 2016 the minority shareholder of Befesa Zinc Korea Ltd. exercised the put option it held over 20% of its stake in that company. The Group recognized a liability amounting to EUR 6.1 million in 2014 for this put option, charged to parent company reserves, on the understanding that the risks and rewards had not been transferred to the parent company. The liability measured at fair value at year-end 2015 amounted to EUR 9.1 million and the final price paid on exercising the option in 2016 was EUR 8.3 million. Income amounting to EUR 0.8 million was recognized in the accompanying income statement for 2016.

Exclusion from the scope of consolidation

As mentioned in Note 27, certain Group companies in the Industrial Waste Management segment were sold during 2016, this activity being classified as a discontinued operation. This affected the companies Befesa Gestión de Residuos Industriales, S.L., Befesa Plásticos, S.L., Befesa Gestión PCB, S.A., Gestión y Valorización Integral del Centro S.L., Residuos Industriales de la Madera de Córdoba, S.A., Betearte, S.A., Ecología Canaria, S.A and other minor operations which were not consolidated.

3. Accounting principles and policies and measurement methods applied

3.1 Goodwill

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

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

Goodwill is recognized 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 recognized for the goodwill, which must not be reversed in a subsequent period.

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

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

3.2 Other intangible assets

Intangible assets are recognized 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 recognized as an expense in the year in which it is incurred. In conformity with IFRS, the Group classifies as internally generated intangible assets the expenses incurred in the development of projects that meet the following conditions:

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

Internally-generated intangible assets are amortised on a straight-line basis over the period that they are expected to generate income, which is generally in five years. The technical, economic and financial potential of each project is reviewed at each year-end. If a project is progressing negatively or 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 recognized, development expenditure is accounted for as an expense in the year in which it is incurred.

The Group has recognized 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 EUR 915 thousand (31 December 2016: EUR 900 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.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

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

Computer software

The acquisition and development costs incurred in relation to the basic computer systems used in the management of the Group are recognized with a charge to "Other Intangible Assets" in the consolidated balance sheet. Computer system maintenance costs are recognized with a charge to the consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over the useful life of the assets (5 years).

Concessions, patents, licenses and similar items

In general, the amounts recognized by the Group in connection with concessions, patents, licenses 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.

Licenses acquired in a business combination are recognized at fair value at the acquisition date and have an indefinite useful life (Note 3.4). Licenses with indefinite useful life are tested for impairment at least annually (Note 7).

3.3 Property, plant and equipment

Property, plant and equipment are recognized at acquisition cost less any accumulated depreciation and any recognized 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 recognized 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 2017 EUR 688 thousand were recognized in this connection (2016: EUR 790 thousand) (Note 22.2). At 31 December 2017, the work performed by the Group on its property, plant and equipment is recognized under "Other Operating Income" in the consolidated income statement. This amount mainly relates to work carried out in the subsidiary Befesa Aluminio S.L in connection with production process improvements and product development (2016: work carried out in the subsidiaries Befesa Aluminio S.L.) (Note 8).

The Group depreciates property, plant and equipment using the straight-line method (land is not subject to depreciation), distributing the cost of the assets over the following years of estimated useful life:

	Average years of estimated useful life
Buildings	25 – 50
Plant and machinery	10 – 25
Other plant, tooling and furniture	5 – 10
Computer hardware and other items of plant, property and equipment	4 – 10

Since the Group has to meet certain costs in relation to the closure of its facilities, the accompanying consolidated balance sheet includes the provisions raised for such costs (Note 18).

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.4).

3.4 Asset impairment

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

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

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

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

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

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognized for the difference with a charge to "Amortisation/Depreciation, impairment and provisions" in the consolidated income statement. Impairment losses recognized 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 recognized, except in the case of the impairment of goodwill, which cannot be reversed.

3.5 Financial instruments

Financial investments

In accordance with the classification criteria established by IAS 39, the Group classifies its current and non-current financial assets in the following categories:

- Loans and receivables. These are financial assets originated by the companies in exchange for supplying cash, goods or services directly to a debtor. Assets included in this category are initially recognized at fair value plus the transaction costs and are subsequently reflected at amortised cost in accordance with the effective interest method. However, the required measurement adjustments are made and the related losses are recognized on the basis of the risk of possible doubtful debts in respect of collection of the various balances. Interest calculated using the effective interest method is recognized in the consolidated income statement.
- Financial assets at fair value through profit or loss. Assets acquired with the intention of generating a profit from short-term fluctuations in their prices or from differences between their purchase and sale prices, and financial derivatives that qualify for fair value hedge accounting. The assets included in this category are stated in the consolidated balance sheet at fair value, and the gains and losses from changes in fair value are recognized in the net profit or loss for the year.

The fair value of a financial asset on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organized, transparent and deep market ("quoted price" or "market price"). If this market price cannot be determined objectively and reliably for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments or of the discounted present value of all the future cash flows (collections or payments), applying a market interest rate for similar financial instruments (same term, currency, interest rate and same equivalent risk rating).

- Held-to-maturity investments. These are financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold from the date of purchase to the date of maturity. Assets included in this category are initially recognized at fair value plus transaction costs and are subsequently reflected at amortised cost in accordance with the effective interest method.

Interest calculated using the effective interest method is recognized in the consolidated income statement.

The amortised cost is understood to be the initial cost minus principal repayments, plus or minus, as appropriate, cumulative amortisation, using the effective interest method, on any difference between that initial amount and the total repayment amount upon maturity, and minus any potential reduction for impairment or default.

The effective interest rate is taken to be the discount rate that, at the acquisition date of the asset, exactly matches the initial carrying amount of a financial instrument to all its estimated cash flows of all kinds through its residual life.

- Financial assets available for sale. These are financial assets not classified in any of the aforementioned three categories, nearly all of which relate to equity investments. These assets are also presented in the consolidated balance sheet at market value which, in the case of unlisted companies, is obtained using alternative methods, such as comparison with similar transactions or, if sufficient information is available, by discounting expected future cash flows. Changes in this market value are recognized with a charge or credit to "Hedging and revaluation reserves" in the consolidated balance sheet until the investments are disposed of, when the accumulated balance under this heading, relating to the investments, is allocated in full to the consolidated income statement.

Equity investments in unlisted companies, the market value of which cannot be measured reliably using alternative methods such as those indicated in the preceding paragraph, are measured at cost.

The Group's Management determines the most appropriate classification for each asset on acquisition and reviews the classification at each balance sheet date.

Factoring

The Group derecognizes trade receivables for the amount of the receivables sold to banks provided that the factor assumes in full the bad and past-due debt risk relating to non-recourse factoring agreements. At 31 December 2017 and 2016, the unmatured balances receivable derecognized as a result of the aforementioned non-recourse factoring transactions amounted to EUR 48,606 thousand and EUR 33,108 thousand, respectively. However, the Group does not derecognize collection rights factored when substantially all the risks associated with them are retained.

Cash and cash equivalents

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

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

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

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

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

Debentures, bonds and bank borrowings

Loans, debentures and similar interest-bearing items are initially recognized at the amount received, net of direct issue costs, i.e. equal to the subsequent application of the amortised cost model using the effective interest rate. Financial costs are recognized on an accrual basis in the consolidated income statement using the effective interest method and they are aggregated to the carrying amount of the financial instrument to the extent that they are not settled in the year in which they arise. Also, obligations under finance leases are recognized at the present value of the lease payments under "Accounts payable for finance leases" in the consolidated balance sheet (Note 15).

Trade and other payables

Accounts payable are initially recognized at fair value and are subsequently measured at amortised cost using the effective interest rate.

Derivative financial instruments and hedge accounting

The Group's activities expose it mainly to the financial risks of changes in foreign exchange rates and interest rates and of changes in the fair value of certain assets (mainly zinc). To hedge this exposure to foreign exchange rates and to totally or partially hedge sales transactions of physical tonnes containing zinc, the Group uses foreign currency hedges, currency futures and zinc derivative contracts to hedge highly probable transactions. The Group does not use derivative financial instruments for speculative purposes (see Note 17).

Financial derivatives are initially measured at fair value on the date the derivative contract is entered into and are subsequently re-measured to reflect their fair value at all times. Gains and losses arising from these changes are recognized in the consolidated income statement, unless the derivative has been designated as a hedge which is highly effective, in which case it is recognized as follows:

- In the case of fair value hedges, if any, changes in the fair value of derivative financial instruments designated as hedges and changes in the fair value of a hedged item due to the hedged risk are recognized with a charge or credit, as appropriate, to the consolidated income statement.
- In the case of cash flow hedges and hedges of a net investment in a foreign operation, changes in the fair value of the hedging derivatives are recognized, in respect of the ineffective portion of the hedges, in the consolidated income statement, and the effective portion is recognized under "Hedging and revaluation reserves" and "Translation Differences" in the consolidated balance sheet. The accumulated loss or gain under these headings is recognized in the consolidated income statement in the same period as that in which the hedged item affects net profit or loss or in the year of disposal.

If a hedge of a firm commitment or forecast transaction results in the recognition of an asset or a liability, this balance is taken into account in the initial measurement of the asset or liability arising from the hedged transaction. If a hedge of a firm commitment or forecast transaction does not result in the recognition of an asset or a liability, the amounts credited or charged, respectively, to "Hedging and revaluation reserves" in the consolidated balance sheet are recognized in the consolidated income statement in the same period as that in which the hedged item affects net profit or loss.

At the time of the discontinuance of the hedge, the accumulated gain or loss at that time in the "Hedging and revaluation reserves" continues to be reflected under that heading until the transaction hedged is realized, at which time the profit or loss on that transaction will be adjusted. If a hedged transaction is no longer expected to occur, the gain or loss recognized under the aforementioned heading is transferred to the consolidated income statement.

The total fair value of a hedging derivative is classified in non-current assets or liabilities, if the time remaining to maturity of the hedged item is more than 12 months, and in current assets or liabilities if the time remaining to maturity of the hedged item is less than 12 months.

Derivatives embedded in other financial instruments are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not carried at fair value; unrealized gains or losses are charged or credited to the consolidated income statement.

The fair value of financial instruments is calculated as follows:

- The market value of derivatives listed on an organized market is their market price at the year end;
- To measure derivatives not traded on an organized market (or traded derivatives with terms longer than those traded on organized markets), the Group uses assumptions based on year-end market conditions, which are compared with the valuations issued by banks or by independent third parties.

Financial assets and liabilities recognized as a result of the measurement at fair value of the aforementioned hedging instruments affected "Current Financial Assets – Other Financial Assets", "Other Current Financial Assets", "Other Non-Current Liabilities" and "Other Payables – Other Current Liabilities", as described in Note 16.

3.6 Inventories

"Inventories" in the consolidated balance sheet includes the assets that the Group:

- Holds for sale in the ordinary course of its business;
- Has in the process of production, construction or development for such sale; or
- Expects to consume in the production process or in the provision of services.

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

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

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

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

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

3.7 Classification between current and non-current

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

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

3.8 Share capital

Ordinary shares are classified as equity.

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

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

3.9 Grants, donations and bequests received

The Group companies recognize grants received as follows:

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

3.10 Provisions, contingent liabilities and contingent assets

In the preparation of the consolidated financial statements, the Parent's Directors drew a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events that could give rise to a loss for the companies, which is certain as to its nature but uncertain as to its amount and/or timing.
- Contingent liabilities: possible obligations arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated companies and which do not meet the requirements for recognition as provisions.

- **Contingent assets:** possible assets that arise from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the companies. Contingent assets, if they are significant, are detailed in the notes of the financial statements, but they are not accounted until their contingency has been solved.

The Group recognizes 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 recognized when the liability or obligation arises with a charge to the relevant heading in the consolidated income statement based on the nature of the obligation, for the present value of the provision when the effect of discounting the obligation is material.

Provisions for pensions and similar obligations

Several Group companies have certain defined benefit obligations to their employees to supplement social security retirement pensions. These obligations had been externalised at 31 December 2017 and 2016. Subsidiaries' obligations as pension plan promoters are established in the contribution of a percentage of employees' pensionable salaries. These commitments are not significant on a Group scale.

Other provisions

In addition to the above, "Long-term provisions" in the accompanying consolidated balance sheet also includes, where applicable, the estimated amounts required to close certain facilities (note 3.3), and the estimated amounts required to settle any liability that might arise from ongoing litigations and other significant obligations, when it is considered more probable than not that these obligations will have to be met, while any contingent liabilities (possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group) are not recognized in the consolidated financial statements, but rather are disclosed, as required by IAS 37 (see Note 18).

3.11 Revenue recognition

a) Revenue

Revenue from sales is measured at the fair value of the assets or rights received as consideration for the goods and services provided in the normal course of the Group companies' business, net of discounts and applicable taxes. Sales of goods are recognized when they are delivered and ownership is transferred. Revenue is shown net of value added taxes, returns, rebates and discounts, and after eliminating intra-group sales.

The Group recognizes revenue when the amount may be reliably estimated and it is likely that the future economic benefits will flow to the Group. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on past results, taking into account the type of client, the type of transaction and the specific terms of each agreement.

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

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

b) Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

c) Income from dividends

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

3.12 Recognition of contract revenue and costs

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognized by reference to the stage of completion of the contract activity at the consolidated balance sheet date.

The Group presents as a debtor account, in the heading trade and other receivables, the gross amount of the difference between revenues recognized for the work on all projects under way and the progress billings made. The Group records as a creditor account on the liabilities side of the balance sheet the gross amount owing to customers for the work on the entire project under way in the amount by which the progress billings exceed recognized income.

Any losses on contract work in progress are recognized in full as an expense in the consolidated income statement when they become known or can be estimated.

3.13 Leases

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

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

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

3.14 Interest cost

Interest costs directly attributable to the acquisition, construction or production of assets, in accordance with IAS 23 for assets that necessarily take a substantial period of time to be prepared for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the interest costs eligible for capitalisation.

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

3.15 Foreign currency

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

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

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

3.16 Income tax, deferred tax assets and deferred tax liabilities

Expense for income tax and other similar taxes applicable to the foreign consolidated entities is recognized in the consolidated income statement, except when it results from a transaction the result of which is recognized directly in equity, in which case the related tax is also recognized 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 realized or the liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, unless, in general, the temporary difference arises from the initial recognition of goodwill. In addition, deferred tax assets recognized for tax loss and tax credit carry-forwards and temporary differences are only recognized 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 recognized are re-assessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made based on the findings of the analyzes performed (see Notes 19 and 20).

In view of the Group's international nature, there are several tax rates depending on the applicable legislation, ranging mainly from 20% to 35%.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

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

3.17 Severance indemnities

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

At 31 December 2017, directors do not expect any significant dismissals or terminations to arise in the future and, accordingly, no provision was recognized in this connection in the accompanying consolidated balance sheet.

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

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

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

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

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

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

3.19 Environmental matters

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

3.21 Dividend distribution

Dividend distribution to the Parent Company's shareholders is recognized 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 information

The operating segments are presented consistently with the management approach, in accordance with the information used internally at the highest decision-making level. The maximum authority for decision-making is responsible for assigning resources to operating segments and evaluating the segments' performance. Segment reporting is disclosed in Note 5.

3.23 Consolidated statement of cash flow

The following terms are used in the consolidated statement of cash flow, which was prepared using the indirect method, with the meanings specified:

- Cash flows. Inflows and outflows of cash and cash equivalents, which are short-term, liquid investments that are subject to an insignificant risk of changes in value.
- Operating activities. The principal revenue-producing activities of the Group companies and other activities that are not investing or financing activities.
- Investing activities. Acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities. Activities that result in changes in the size and composition of the equity and borrowings that are not operating activities.

4. Financial risk management policy

The activities carried on by the Group through its business segments are exposed to several financial risks: market risk (including foreign currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Risk Management Model used by the Group focuses on the uncertainty in financial markets and attempts to minimise the potential adverse effects on the Group's earnings.

Risk management is carried out by the Corporate Financial Department in accordance with internal management rules. This Department identifies, assesses and hedges financial risks in close cooperation with the different operating units. The internal management rules provide written policies for global risk management, as well as for specific areas such as foreign currency risk, interest rate risk, and liquidity risk, use of derivative and non-derivative instruments and investment of cash surpluses. There were no changes in risk management policies between 2017 and 2016.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

4. Financial risk management policy (continued)

4.1 Financial risk factors

a) Market risk

i) Foreign currency risk

The Group companies operate internationally and, therefore, are exposed to foreign currency risks in foreign currency transactions (especially between the US dollar, Korean Won, Swedish krona, Turkish lira and Pound Sterling).

To control the foreign currency risk that arises from future commercial transactions and recognized assets and liabilities, the Group companies use derivative contracts. Foreign currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that it is not Group's functional currency.

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

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

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

	2017	2016
Sales	185,713	94,255
Purchases	74,135	36,498

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

	2017	2016
Sales	3,693	9,203
Purchases	548	3,820

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

There are no significant trade balances nor loans denominated in a currency other than the functional currency of each subsidiary at the end of 2017.

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

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

Currency	2017	2016
Swedish Krona	4,964	8,386
Korean Won	56,688	50,193
Turkish Lira	16,639	11,039
Argentinian Peso	–	2,073
Great British Pound	1,950	(1,734)

For the subsidiaries whose assets and liabilities are carried as held for sale, at 31 December 2016 the main net assets by currency (including non-controlling interests) were:

Currency	Thousand Euro 2016
Peruvian sol	13,496
Chilean pesos	1,343

If the average exchange rate of the euro in 2017 and 2016 had depreciated/appreciated by 10% on all functional currencies other than the euro, with other variables remaining constant, equity and results for the year would not have changed significantly.

ii) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from variable interest rate finance debt.

To manage interest rate risk, in certain situations, the Group uses floating-to-fixed interest rate swaps, either for the total amount or a portion of the loan and either for the full term or a portion thereof.

In 2017 and 2016, had the average interest rates on the finance debt denominated in euros increased/decreased by 10 basic points, with all other variables remaining constant, the profit after tax for the year would not have been significantly affected as a result of the hedging policies in place.

The exposure of the Group's finance debt to variations in interest rates is set out below:

	2017	2016
Total external finance debt (Note 15)	524,237	581,884
Finance debt included as liabilities related to assets held for sale	–	1,353
Fixed-rate finance debt (Note 15)	–	(464,024)
Effect of interest rate swaps (Note 17)	(316,000)	–
Finance debt subject to variable interest rate	208,237	119,213

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

4. Financial risk management policy (continued)

iii) Price risk

Earnings in the Steel, Salt slags and Aluminium segments are exposed to the movement of recycled metal prices (zinc and aluminium). The Group manages price risk through the acquisition of options in exchange for a premium through which it assures a minimum sale price or through commodity swaps. Befesa's policy in the steel waste recycling segment is to hedge between 60% and 70% of the sale transactions, which are subject to the risk of changes in selling prices.

These financial instruments are initially analyzed to assess whether they can be treated as hedging instruments and, if so, the accounting rules specific to these instruments may be applied.

Note 17 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, financial instruments, derivatives and bank deposits, as well as "Trade and other receivables" including receivables outstanding and committed transactions.

Regarding cash and cash equivalents, the Group's credit policy is to use only entities that have been given high independent credit ratings. Most of the balances are held in credit institutions located in the eurozone, mainly in Spain and Germany, being their credit risk rated at least BBB or above.

Most receivables and work in progress relate to several customers in various industries and countries. In most cases, the contracts provide for progress billings, billings at the beginning of the provision of service or billings upon delivery of the product.

It is standard practice for the Group to reserve the right to cancel projects in the event of any material breach and, in particular, of default on payment.

Additionally, under most contracts the Group has a firm commitment from several banks for the acquisition, without recourse, of receivables. Under these agreements, the Group pays a fee to the banks for assuming its credit risk, plus interest and a spread on the financing received. In all cases, the Group assumes liability for the validity of the receivables.

In this regard, factored receivables are recognized off the balance sheet provided that all the conditions established in IAS 39 are met for their de-recognition from the consolidated balance sheet. An analysis is performed to determine whether the risks and rewards inherent to ownership of the related financial assets have been transferred, comparing the company's exposure to changes in the amounts and timing of net cash flows from the transferred asset before and after the transfer. Once the exposure of the company factoring the receivables to these changes has been eliminated or substantially reduced, then the financial asset in question is deemed to have been transferred.

Additionally, some Group companies work with insurance companies that establish the credit guaranteed, normally insuring around 95% of the risk hedged in case of insolvency. The Finance Department continually seeks to adjust the limits granted to business needs. The Group allows for an acceptable level of commercial risk, which is established based on each specific customer, market and circumstance (history of non-payment, solvency, etc.).

Consequently, as regards the balance of trade and other receivables, the potential effect of trade receivables for which there are factoring agreements would have to be excluded, as well as the effect of other trade receivables that can be factored but which have not yet been sent to the factor at the year end and assets that are covered by credit insurance and that are reflected in this balance. Through this policy, the Group minimises its credit risk exposure in relation to these assets.

Trade and other receivables, other receivables, current financial assets and cash are the Group's main financial assets and represent its maximum exposure to credit risk, in the event that the counterparty does not meet its obligations.

c) Liquidity risk

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

Management monitors the Group's liquidity reserve projections and changes in net borrowings, calculated as follows at 31 December 2017 and 2016:

	2017	2016
Cash and cash equivalents	117,582	59,054
Other current financial assets (Note 13)	300	1,758
Undrawn credit facilities and unused financing (Note 15)	75,000	30,000
Liquidity reserve	192,882	90,812
PIK Toggle notes (Note 15)	–	162,025
Finance debt (Note 15)	524,030	419,523
Accounts payable for finance leases (Note 15)	207	336
Cash and cash equivalents	(117,582)	(59,054)
Other current financial assets (Note 13)	(300)	(1,758)
Net finance debt	406,355	521,072
Less non-current borrowings (Note 15)	(519,154)	(552,577)
Current net finance debt	(112,799)	(31,505)

Cash and cash equivalents comprise:

	2017	2016
Cash on hand and at banks	117,582	59,054
Total	117,582	59,054

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

4. Financial risk management policy (continued)

One of Group's strategic objectives is the optimisation and most efficient possible use of its assets and resources assigned to the business. Therefore, the Group pays special attention to the net operating working capital invested in it. In this respect, as in previous years, during 2017 and 2016 the Group made significant efforts to control and reduce collection periods with customers and other debtors and to optimise payment terms, unifying policies and conditions across the Group.

The table below presents an analysis of the financial liabilities that will be settled, grouped to reflect the term remaining from the balance sheet date to contractual maturity. This breakdown does not include long-term provisions (Note 18) since they do not have a contractual maturity date. However, the Parent's Directors consider that these liabilities will be settled in a period of more than five years. The amounts shown in the table relate to the cash flows stipulated in the contract.

	Within one year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2017				
Bank borrowings (Note 15)	5,083	497	518,657	–
Trade and other payables (*)	212,271	277	24,798	92
Unaccrued interest payable	17,004	17,004	50,919	–
At 31 December 2016				
Bank borrowings (Note 15)	29,307	483,844	68,733	–
Trade and other payables (*)	164,261	4,099	35,940	1,415
Unaccrued interest payable	45,456	26,905	1,837	–

(*) Long term payables do not include capital grants amounting to EUR 7.5 and EUR 8.4 million in 2017 and 2016, respectively.

There follows an analysis of financial liabilities recognized under Liabilities related to assets held for sale at year-end 2016 (Note 27):

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2016				
Borrowings	463	846	44	–
Trade and other payables	4,804	–	–	135

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, maximizing shareholder return by optimising the structure of equity and liabilities on the liabilities side of the subsidiaries' balance sheets.

Capital management is the responsibility of the Group's strategy committee, the approach of which focuses on increasing the value of the business in the long-term for shareholders and investors as well as for employees and customers. The objective is to achieve constant, sustained results through organic and, where necessary, inorganic growth. For this purpose, on the one hand, a balance in the businesses is required, with control of financial risks, combined with the necessary financial flexibility to achieve such objectives.

The Group's capital management policy focuses on achieving a financial structure that optimises the cost of capital while maintaining a solid financial position. This policy makes the creation of value for the shareholder compatible with access to financial markets at a competitive cost in order to cover both debt refinancing requirements and investment plan financing needs not covered by the funds generated by the business.

The detail of the debt/equity ratios (excluding balances with Group companies) at 31 December 2017 and 2016 is as follows:

Including Preferred Equity

	2017	2016
Total bank borrowings (Notes 15)	524,237	581,884
Less: Cash and cash equivalents	(117,582)	(59,054)
Other current financial assets (Note 13)	(300)	(1,758)
Net debt	406,355	521,072
Total non-preferred equity	179,727	(63,905)
Total Preferred equity	–	222,090
Total equity	179,727	158,185
Total capital invested	586,082	679,257
Borrowing ratio	69.3%	76.7%

Excluding Preferred Equity (only in 2016)

	2016
Total bank borrowings (Notes 15)	581,884
Less: Cash and cash equivalents	(59,054)
Other current financial assets (Note 13)	(1,758)
Net debt	521,072
Total non-Preferred equity	(63,905)
Total capital invested	457,167
Borrowing ratio	114%

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

4. Financial risk management policy (continued)

4.2 Fair value estimation

IFRS 13 establishes as fair value the value that would be received or paid for an asset or liability in an orderly transaction at the measurement date, whether it is observable or has been estimated using a valuation technique. For this purpose, consistent data with features that market participants would consider in the transaction are selected.

IFRS 13 maintains the principles of the other standards while setting the full framework for fair value measurement when it is mandatory under other IFRS and establishes 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 IFRS.

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

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

The table below shows the Group's assets and liabilities that were measured at fair value at 31 December 2017 and 2016:

2017

	Level 2	Level 3	2017
Assets			
– Derivatives (Note 17)	908	–	908
Total assets at fair value	908	–	908
Liabilities			
– Derivatives (Note 17)	81,413	–	81,413
Total liabilities at fair value	81,413	–	81,413

2016

	Level 2	Level 3	2016
Assets			
– Derivatives (Note 17)	124	–	124
Total assets at fair value	124	–	124
Liabilities			
– Derivatives (Note 17)	67,276	–	67,276
– Other liabilities at fair value (Note 2.5)	–	9,217	9,217
Total liabilities at fair value	67,276	9,217	76,493

a) Financial instruments level 2

The fair value of financial instruments not traded in an active market is determined using valuation techniques. The Group employs a variety of methods such as estimated discounted cash flows and uses assumptions based on the market conditions at each balance sheet date. If all significant data required to calculate the fair value of an instrument are observable, the instrument is included in level 2.

Specific techniques for measuring financial instruments include:

- The fair value of swap interest rates is calculated as the present value of future estimated cash flows.
- The fair value of derivative contract exchange rates is determined using forward exchange rates quoted in the market at the balance sheet date.
- It is assumed that the book value of receivables and trade payables approximates their fair value.
- The fair value of financial liabilities for financial reporting purposes is estimated by discounting future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The instruments included in Level 2 relate to derivative financial instruments (Note 17).

b) Financial instruments level 3

If one or more of the significant inputs are not based on observable market data, the financial instrument is included in Level 3.

There are no level 3 financial instruments as at 31 December 2017.

The instruments included in Level 3 as at 31 December 2016 correspond to the outstanding debt for the acquisition of Solarca, S.L. (Note 2.5).

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

4. Financial risk management policy (continued)

Key assumptions in the measurement of these liabilities were mainly based on the expected future return generated by the company. As a result of the assessment carried out at the year end 2016, an adjustment was made to the liability recognized, generating income in the income statement amounting to EUR 2.3 million.

The Group has no compensation agreements for financial assets and liabilities at 31 December 2017 and 2016 and Solarca, S.L. has been sold during 2017 (Note 27).

5. Segment reporting

The Board of Directors is ultimately responsible for making the Group's operational decisions, as the Board of Directors, as the Chief operating decision maker (CODM). The Board reviews the Group's internal financial information in order to assess its performance and allocate resources to the segments.

In 2016 the Group changed its oversight, analysis and reporting structure. As a result, the composition of the segments to be reported on changed. The aluminium segment on which the Group reported until 31 December 2015 was restated and the information is disclosed in the Salt Slags and Aluminium segments.

As a result, the Board of Directors has analyzed the business based on the two segments indicated below as the Industrial Waste Management Segment ceased to be a reporting segment in 2016 following the operations described in Notes 2 and 27. These segments practically relate in full to the following:

- Steel Dust Recycling Services ("Steel Dust")
- Aluminium Salt Slags Recycling Services:
 - Salt Slags Recycling ("Salt Slags")
 - Secondary Aluminium Production ("Secondary Aluminium")

These segments correspond to the Group's principal activities (products and services), the sales of which (fee for the services and/or sale of the recycled waste) determine the Group's revenue.

The Board of Directors assesses the performance of the operating segments, based mainly on operating income before interest and taxes (EBIT), depreciation/amortisation and provisions (EBITDA).

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

The accounting policies and measurement bases applied to the information furnished to the Board of Directors are consistent with those applied in the consolidated financial statements.

a) Segment reporting

Set out below is the distribution by segment of EBIT and adjusted EBIT for the years ended 31 December 2017 and 2016 (thousand euro):

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

	2016 (*)				
	Steel	Salt slags	Aluminium	Corporate, other minor and eliminations	Total
Revenue	281,081	78,896	285,475	(33,765)	611,687
Income/Expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(184,459)	(54,856)	(277,811)	34,242	(482,884)
Amortisation/Depreciation, impairment and provisions (a)	(23,204)	(12,176)	(6,908)	(2,208)	(44,496)
EBIT (Operating profit/(loss)) (b)	73,418	11,864	756	(1,731)	84,307
Extraordinary impairments/provisions (**)	5,563	5,793	865	2,882	15,103
EBITDA adjustments (c+d)	2,328	312	1,351	(38)	3,953
Adjusted EBIT	81,309	17,969	2,972	1,113	103,363

(*) It does not include the part of the Industrial Waste Management Segment classified as a discontinued operation (Note 27).

(**) It includes, mainly, the impairment of property, plant and equipment at 31 December 2016 in the steel segment amounting to EUR 5 million (Note 8), and in the salt slags segment amounting to EUR 5 million (Note 8).

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

5. Segment reporting (continued)

The reconciliation of adjusted EBIT to results attributable to the parent company is as follows:

	2017	2016
Adjusted EBIT	143,896	103,363
– Extraordinary impairments/provisions	(2,001)	(15,103)
– EBITDA adjustments	(19,453)	(3,953)
Operating profit/(loss)	122,442	84,307
Financial income (expense)	(48,243)	(49,828)
Corporate income tax	(23,017)	(13,736)
Profit/(loss) attributable to continuing operations	51,182	20,743
Profit/(loss) attributable to discontinued operations	3,779	(71,795)
Non-controlling interests	(5,710)	(1,862)
Profit/(loss) attributed to the parent company	49,251	(52,914)

Set out below is the distribution by segment of EBITDA for the years ended 31 December 2017 and 2016 (thousand euro):

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

	2016 (*)				
	Steel dust	Salt slags	Secondary aluminium	Corporate, other minor and eliminations	Total
Revenue	281,081	78,896	285,475	(33,765)	611,687
Income/Expenses from operations (except revenue, depreciation and amortisation/depreciation charge and provisions)	(184,459)	(54,856)	(277,811)	34,242	(482,884)
Amortisation/Depreciation, impairment and provisions (a)	(23,204)	(12,176)	(6,908)	(2,208)	(44,496)
EBIT (Operating profit/(loss)) (b)	73,418	11,864	756	(1,731)	84,307
EBITDA (Operating profit/(loss) before amortisation/depreciation and provisions) (a+b)	96,622	24,040	7,664	477	128,803
One-time projects (c)	1,854	312	117	859	3,142
Non-recurrent costs/incomes (d)	474	–	1,234	(897)	811
Adjusted EBITDA	98,950	24,352	9,015	439	132,756

(*) It does not include the part of the Industrial Waste Management Segment classified as a discontinued operation (Note 27).

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

	2017	2016
Adjusted EBITDA	172,430	132,756
– One-time projects	(18,387)	(3,142)
– Non-recurrent costs/incomes	(1,066)	(811)
Amortisation/Depreciation, impairment and provisions	(30,535)	(44,496)
Operating profit/(loss)	122,442	84,307
Financial income (expense)	(48,243)	(49,828)
– Share in profits of companies carried under the equity method	–	–
Corporate income tax	(23,017)	(13,736)
Profit/(loss) attributable to continuing operations	51,182	20,743
Profit/(loss) attributable to discontinued operations	3,779	(71,795)
Non-controlling interests	(5,710)	(1,862)
Profit/(loss) attributed to the parent company	49,251	(52,914)

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

5. Segment reporting (continued)

The detail of sales by geographical segment for the years ended 31 December 2017 and 2016 is as follows:

Geographical area	2017	%	2016 (*)	%
Spain	194,834	26%	160,830	26%
Germany	96,907	15%	90,022	15%
France	48,843	7%	49,005	8%
United Kingdom	43,863	6%	29,070	5%
Rest of Europe	205,434	28%	171,406	28%
South Korea	29,336	4%	13,517	2%
Rest of the world	105,572	14%	97,837	16%
	724,789	100%	611,687	100%

(*) It does not include the part of the Industrial Waste Management Segment classified as a discontinued operations (Note 27).

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

	2017	2016 (*)
Spain	62,410	62,337
Germany	90,868	92,592
France	24,536	25,678
United Kingdom	10,107	10,192
Rest of Europe	13,774	8,132
Turkey	2,777	3,772
South Korea	50,881	56,323
Rest of the world	–	1,461
	255,353	260,487

(*) The information for 2016 includes assets associated with discontinued operations (Note 27).

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

	2017					2016 (*)				
	Steel dust	Salt slags	Secondary aluminium	Corporate, other minor and eliminations	Total	Steel	Salt slags	Aluminium	Corporate, other minor and eliminations	Total
Depreciation/ amortisation charge:										
– Property, plant and equipment (Notes 8 and 22)	(14,000)	(7,109)	(4,341)	(77)	(25,527)	(16,273)	(6,538)	(5,228)	(194)	(28,233)
– Intangible assets (Note 7 and 22)	(1,346)	(339)	(1,004)	(1,306)	(3,995)	(1,405)	(270)	(850)	(1,981)	(4,506)
– Reversal/(recognition) of impairment losses and other (Note 22)	(873)	–	(136)	(4)	(1,013)	(5,526)	(5,368)	(830)	(33)	(11,757)
Total	(16,219)	(7,448)	(5,481)	(1,387)	(30,535)	(23,204)	(12,176)	(6,908)	(2,208)	(44,496)

(*) It does not include the part of the Industrial waste management segments classified as a discontinued operation in 2016 (Note 27).

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

	2017					2016 (*)				
	Steel dust	Salt slags	Secondary aluminium	Corporate, other minor and eliminations	Total	Steel	Salt slags	Aluminium	Corporate, other minor and eliminations	Total
Assets										
Intangible assets	357,549	49,595	14,599	1,983	423,726	361,891	49,673	23,589	(4,967)	430,186
Property, plant and equipment	125,377	55,907	66,164	743	248,191	124,629	58,454	65,272	1,980	250,335
Investments in associates and other non-current assets	59,783	1,442	27,015	11,973	100,213	55,832	1,500	33,011	25,115	115,458
Current assets	132,886	15,473	39,794	49,825	237,978	101,940	15,458	50,864	6,923	175,185
Assets held for sale	–	–	–	–	–	–	–	–	57,591	57,591
Total assets	675,595	122,417	147,572	64,524	1,010,108	644,292	125,085	172,736	86,642	1,028,755
Equity and liabilities										
Equity	168,730	68,385	28,328	(85,716)	179,727	151,778	64,946	39,037	(97,576)	158,185
Non-current liabilities	352,043	42,694	50,867	166,733	612,337	376,337	48,704	71,962	169,819	666,822
Current liabilities	154,822	11,338	68,377	(16,493)	218,044	116,177	11,435	61,737	7,190	196,539
Liabilities related to assets held for sale	–	–	–	–	–	–	–	–	7,209	7,209
Total equity and liabilities	675,595	122,417	147,572	64,524	1,010,108	644,292	125,085	172,736	86,642	1,028,755

(*) It does not include the part of the Industrial waste management segments classified as a discontinued operation in 2016 (Note 27).

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

5. Segment reporting (continued)

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

	2017 (*)					2016 (*)				
	Steel	Salt slags	Aluminium	Corporate and eliminations	Total	Steel	Salt slags	Aluminium	Corporate and eliminations (*)	Total
Additions to non-current assets (Notes 7 and 8)	16,373	6,256	5,220	160	28,009	7,596	9,579	4,559	7,739	29,473
Disposals of non-current assets (Notes 7 and 8)	(2,408)	(43)	(1,330)	(50)	(3,831)	(2,262)	(37)	–	(13,249)	(15,548)
Changes in the scope of consolidation (Notes 7 and 8)	–	–	–	(2,372)	(2,372)	–	–	–	(157,967)	(157,967)
Net investments in the period (Notes 7 and 8)	13,965	6,213	3,890	(2,262)	21,806	5,334	9,542	4,559	(163,477)	(144,042)

(*) It includes additions, disposals and variation in the scope of consolidation relating the part of the Industrial waste management segments discontinued in 2016 and 2017.

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

Inter-segment transfers and transactions (if any) are arranged under the same usual commercial terms and conditions as those that should also be available to unrelated third parties.

b) Information on customers

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

	%	
	2017	2016
Steel dust	81.3%	76.8%
Salt slags	31.5%	31.5%
Secondary aluminium	40.7%	29.2%

6. Goodwill

The detail of the "Goodwill" balance in the consolidated balance sheets at 31 December 2017 and 2016 and of movements in 2017 and 2016 is as follows:

	Thousand euro
Balance at 31 December 2015	353,094
Transfers to assets classified as held for sale	(14,060)
Balance at 31 December 2016	339,034
Others	(3,470)
Balance at 31 December 2017	335,564

	Balance at 01/01/16	Transfers to assets classified as held for sale	Balance at 31/12/16	Others	Balance at 31/12/17
Steel dust	293,768	–	293,768	(2,990)	290,778
Salt slags	36,213	–	36,213	(384)	35,829
Secondary aluminium	9,053	–	9,053	(96)	8,957
Industrial environmental solutions (Note 27)	14,060	(14,060)	–	–	–
	353,094	(14,060)	339,034	(3,470)	335,564

Impairment analysis

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

The recoverable amount is the higher of fair value less costs to sell and value in use, which is taken to be the present value of estimated future cash flows.

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

- Projections of the cash flows of the cash generating unit/group of cash generating units in question are made for periods of between five and ten years (when based on past experience it is possible to predict cash flows accurately over a period longer than five years), calculating a residual value based on flow for the last year projected, provided that this flow is representative of a normalised flow to reflect margin and cash flow experience in those businesses, as well as future expectations. Perpetuity growth is not envisaged ($g=0$).
- The gross margins used in the calculation of the value for 2017 and 2016 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.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

6. Goodwill (continued)

- 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 analyzes 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 recognized goodwill and licenses with indefinite useful life.

The measurement methods indicated above led to discount rates used to perform the impairment test in a range of between 5.00% and 8.47% in 2017 and 2016. The discount rates used are net of taxes and reflect the risks specific to the significant CGU segments. The directors consider that a change in the discount rate used (approximately 50 basic points) would not have a significant impact on these consolidated financial statements.

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

At the end of 2017 and 2016, estimates were made of the recoverable amounts of the cash-generating units to which goodwill and/or licenses with indefinite useful life had been allocated in accordance with Note 3.1 and the methods described above. No impairment has been recognized in 2017 and 2016.

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

7. Other intangible assets

Movements in "Other Intangible Assets" in the consolidated balance sheet for 2017 and 2016 are as follows:

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

(*) These licenses were considered to have an indefinite useful life. They were tested for impairment as at 31 December 2017 (Note 6).

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

7. Other intangible assets (continued)

	Development expenditure	Licenses and other (*)	Computer software	Administrative concessions and others	Total
Cost:					
Balance at 31/12/15	10,905	81,000	24,113	2,099	118,117
Changes in scope of consolidation	(4,831)	–	(5,357)	(39)	(10,227)
Additions	2,570	–	183	–	2,753
Disposals	(95)	–	(109)	–	(204)
Transfers	95	–	(52)	309	352
Translation differences (net)	(12)	–	(111)	8	(115)
Transfer to assets classified as held for sale	(1,627)	–	(1,003)	(417)	(3,047)
Balance at 31/12/16	7,005	81,000	17,664	1,960	107,629
Accumulated amortisation					
Balance at 31/12/15	(5,944)	–	(11,546)	(1,618)	(19,108)
Changes in scope of consolidation	3,254	–	3,295	39	6,588
Additions	(1,401)	–	(3,837)	(271)	(5,509)
Disposals	95	–	130	–	225
Translation differences (net)	2	–	47	(9)	40
Transfer to assets classified as held for sale	606	–	462	219	1,287
Balance at 31/12/16	(3,388)	–	(11,449)	(1,640)	(16,477)
Other intangible assets, net at 31/12/15	4,961	81,000	12,567	481	99,009
Other intangible assets, net at 31/12/16	3,617	81,000	6,215	320	91,152

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

2017

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

2016

The most significant additions for the year relate to development expenses capitalised in subsidiaries amounting to EUR 1,775 thousand, of which EUR 900 thousand relates to continuing operations.

Changes in the scope of consolidation mainly relate to the sale of the subsidiaries indicated in Note 2.5 in the Industrial Waste Management segment.

Additionally, the intangible assets of the companies indicated in Note 2.1 of the Industrial Waste Management Segment which had not been sold at 31 December 2016 were transferred to the assets held for sale group, except for those assets related to the subsidiary Befesa Argentina, S.A.

Investment commitments

At 31 December 2017 and 2016 the Group had no significant investment commitments.

8. Property, plant and equipment

Movements in this consolidated balance sheet caption in 2017 and 2016 are as follows:

2017

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

**Notes to the Consolidated Financial Statements
as at 31 December 2017
(continued)
(Thousand euro)**

8. Property, plant and equipment (continued)

2016

	Land and buildings	Plant and machinery	Other property, plant and equipment	Fixed assets in progress	Total
Cost:					
Balance at 31/12/15	204,997	504,996	54,269	16,189	780,451
Changes in the scope of consolidation	(28,015)	(97,061)	(22,459)	(206)	(147,741)
Additions	1,028	13,080	2,108	10,504	26,720
Disposals	(5,912)	(7,253)	(1,928)	(251)	(15,344)
Transfers	(40)	11,952	550	(12,505)	(43)
Translation differences (net)	597	(4,989)	(132)	(820)	(5,344)
Transfer to assets classified as held for sale	(16,267)	(14,674)	(6,256)	(558)	(37,755)
Balance at 31/12/16	156,388	406,051	26,152	12,353	600,944
Accumulated depreciation and provisions:					
Balance at 31/12/15	(63,566)	(308,359)	(40,386)	–	(412,311)
Changes in the scope of consolidation	7,399	57,674	17,932	–	83,004
Additions	(5,467)	(27,159)	(2,398)	–	(35,024)
Disposals	2,731	5,859	1,513	–	10,103
Translation differences (net)	(37)	3,455	96	–	3,514
Transfer to assets classified as held for sale	6,019	7,412	4,290	–	17,721
Balance at 31/12/16	(52,921)	(261,118)	(18,953)	–	(332,993)
Impairment losses at 31/12/15	–	(7,616)	–	–	(7,616)
Additions	–	(10,000)	–	–	(10,000)
Impairment losses at 31/12/16	–	(17,616)	–	–	(17,616)
Carrying amount at 31/12/15	141,431	189,021	13,883	16,188	360,523
Carrying amount at 31/12/16	103,467	127,317	7,199	12,353	250,336

2017

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

2016

The main additions for the year basically relate to investments in health and safety and environmental projects and maintenance investments made at each plant.

Changes in the scope of consolidation mainly relate to the sale of the subsidiaries indicated in Note 2.5 in the Industrial Waste Management segment.

Additionally, the tangible assets of the companies indicated in 2.1 of the Industrial Waste Management Segment which had not been sold at 31 December 2016 were transferred to assets held for sale, except for those assets related to the subsidiary Befesa Argentina, S.A.

Impairment losses

In 2017 no impairment has been recognized.

In 2016 the Group recognized PPE impairment in respect of Befesa Valera, SAS and Befesa Salt Slags, Ltd. amounting to EUR 5 million each, after estimating that future cash flows generated by these subsidiaries would not be sufficient to recover the carrying amount of the plant.

Insurance

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

Capitalisation of borrowing costs

There are no borrowing costs capitalised in 2017 and 2016.

Mortgaged property, plant and equipment

At 31 December 2017 and 2016 there are no significant fixed assets pledged to secure loans.

Investment commitments

At 31 December 2017 and 2016 the Group had no significant investment commitments.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

9. Investments accounted for using the equity method

There are no investments in associates at 31 December 2017 and 2016.

In 2015, the only investment accounted using the equity method was Ecología Canararia, S.A. that was deconsolidated as a result of the sale of the subsidiaries indicated in note 2.5. Its results for 2016 until its disposal were considered as results on discontinued operations.

Gross changes in "Investments accounted for using the equity method" in the consolidated balance sheet in 2016 were as follows:

	2016
Opening balance	1,526
Results of investments accounted for using the equity method	163
Dividends paid	(174)
Variation in consolidation scope (Note 2.5)	(1,515)
Closing balance	–

10. Non-current financial assets

The detail of "Non-Current Financial Assets" is as follows:

2017

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

2016

	Balance at 31/12/2015	Changes in scope of consolidation, net	Additions/ (Charge for the year)	Disposals	Transfers to assets classified as held for sale (Note 27)	Balance at 31/12/2016
Investments in subsidiaries and associates						
Investments in Group companies	4,175	1,200	591	(58)	(31)	5,877
Investments in associates and other companies	2,101	–	–	(1,121)	–	980
Value adjustments	(3,574)	(1,725)	(318)	59	10	(5,548)
	2,702	(525)	273	(1,120)	(21)	1,309
Long-term loans						
Other long-term loans	37,566	(3,559)	6,653	(5,178)	(170)	35,312
Value adjustments	(14,643)	(706)	(4,417)	4,842	–	(14,924)
Other non-current financial assets	1,423	(862)	165	(411)	(180)	135
	24,346	(5,127)	2,401	(747)	(350)	20,523
Total	27,048	(5,652)	2,674	(1,867)	(371)	21,832

a) Investments in Group companies and associates

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

	% Direct and indirect ownership interest	Book Cost	Value adjustments	Share capital	Reserves and translation differences	Profit/(loss) for the year
2017						
Group companies						
Befesa Silvermet Izmir A.S.	53.70%	811	(784)	11	16	(10)
Other	–	2,804	(2,681)			
		3,615	(3,465)			

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

10. Non-current financial assets (continued)

2016	% Direct and indirect ownership interest	Book Cost	Value adjustments	Share capital	Reserves and translation differences	Profit/(loss) for the year
Group companies						
Befesa Silvermet Izmir A.S.	55.9%	1,148	–	580	9	(181)
Other		4,729	(4,568)			
		5,877	(4,568)			
Associates and other companies						
Other		980	(980)			
		980	(980)			

The net variation in consolidation in 2016 for equity investment relates mainly to the sale of the companies indicated in note 2.5.

2017

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

2016

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

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

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

b) Other long-term loans

At 31 December 2017 and 2016, this heading includes an account receivable from a non-fully consolidated group company relating to prior years' input VAT vis-à-vis the Portuguese tax authorities on the purchase of aluminium scrap. In 2014, this balance was totally impaired (EUR 7.4 million), considering the time elapsed and the development of the ongoing litigation.

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

At 31 December 2016, other loans are included with group companies that were not fully consolidated, namely Befesa Industrial Services USA, Inc. (EUR 4.1 million), Aluminio en Discos, S.A.U. (EUR 1.6 million) and Befesa Colombia, S.A.S. (EUR 1.5 million). Such balances with group companies were fully accrued at 31 December 2016.

At 31 December 2016, it also includes EUR 16.9 million related to an upstream loan to Bilbao LuxCo, S.A. (Note 25) granted by the Company, with a maturity date ending the 1 December 2018 and an interest rate of 11%, approximately. This loan has been cancelled during 2017 as payment of the interim dividend distribution approved in the period (Note 14).

11. Inventories

The detail of "Inventories" in the accompanying consolidated balance sheet at 31 December 2017 and 2016 is as follows:

	2017	2016
Finished goods	19,160	6,563
Goods in progress and semi-finished goods	821	294
Work in progress	84	84
Raw materials	12,202	11,601
Other	12,529	11,312
Advances to suppliers	396	556
Total	45,192	30,410

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 the accounts receivable in the accompanying consolidated balance sheet at 31 December 2017 and 2016 is as follows:

	2017	2016
Work completed not invoiced	1,940	1,889
Trade and other receivables	52,406	62,278
Trade receivables from related companies (Note 25)	795	916
Other receivables	11,734	10,576
Public authorities (Note 20)	10,266	10,358
Less- Allowance for doubtful debts	(2,237)	(2,054)
Total	74,904	83,963

Accounts receivable are stated at their nominal value, which does not differ significantly from their fair value, based on related cash flows discounted at market rates.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

12. Accounts receivable (continued)

The recoverability of trade and other receivables is assessed on individual balance basis. Balances that are matured but which have not exceeded the period of collection agreed with customers (ranging between 30 and 60 days) are not considered as bad debt. At 31 December 2017 and 2016, there were no balances that had exceeded the agreed-upon collection terms or the habitual payment periods for which impairment losses had not been recognized. The trade receivables for which impairment losses were not recognized relate to independent customers which have no recent history of default. All trade balances mature in less than twelve months.

At 31 December 2017 and 2016, impairment losses had been recognized for all receivables, past due or otherwise, the recoverability of which was considered to be doubtful at those dates. Impairment losses were recognized on the basis of an estimate of the reasonable loss corresponding to each trade receivable.

All impaired accounts receivable are more than twelve months past due.

Accounts receivable that are impaired mainly relate to balances with specific collection problems identified individually. Taking into account collection efforts in progress, a high percentage of those receivables (albeit undetermined) is expected to be recovered.

Changes in the allowances for doubtful debts relating to the Group's trade and other receivables for 2017 and 2016 are as follows:

	2017	2016
Opening balance	(2,054)	(2,815)
Provision for impairment	(458)	(285)
Write-off uncollectible accounts receivable and other transfers	275	–
Changes in the scope of consolidation (Note 2,5)	–	1,046
Closing balance	(2,237)	(2,054)

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.

The detail of the accounts receivable denominated in foreign currency and recognized at the end of 2017 and 2016 in the accompanying consolidated balance sheet is as follows (in thousand euro):

	2017	2016
US dollars	2,326	8,912
Swedish krona	2,026	31
Argentine peso	–	3,092
Pound sterling	1,965	733
Korean won	5,008	2,413
Other	1,048	51
	12,373	15,232

13. Other current financial assets

The detail of “Other Current Financial Assets” in the accompanying consolidated balance sheet at 31 December 2017 and 2016 is as follows:

	2017	2016
Derivative financial instruments (Note 17)	–	124
Other short-term loans	240	1,574
Short-term guarantees and deposits	60	60
Total	300	1,758

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

14. Equity

a) Share capital

As at 31 December 2015, subscribed and fully paid-up capital was represented by 5,728,116 Class-A preference shares and 5,503,246,234 Class-B ordinary shares with a par value of EUR 0.01 each, totalling EUR 55,089,743.50.

During 2016, there was a capital increase, consisting in the issuing of 900,344,916 new Class-B shares with a par value of EUR 0.01 each. The capital increase was performed with a share premium amounting to EUR 10,997 thousand. This capital increase was subscribed by Bilbao LuxCo, S.A., which contributed with the convertible bond, acquired from Abengoa for an amount of EUR 20 million.

Consequently, 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 EUR 0.01 each.

Afterwards, there was transfer of Bilbao MidCo's shares between Bilbao LuxCo, S.A. and Triton Luxembourg II GP Bilbao, S.C.A.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

14. Equity (continued)

Consequently, at 31 December 2016, the Parent's shareholder structure was as follows:

	Percentage of ownership
	2016
Bilbao LuxCo, S.A.	88.91%
Triton Luxembourg II GP Bilbao, S.C.A.	11.09%
Total	100%

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

- First, each Class A Preference share shall entitle to the Preference share return (preference share return means the cumulative dividend in an amount of 10% per 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*) into a limited company (*société anonyme*).

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

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

As of the date of the IPO, on 3 November 2017, a 45.18% of the ordinary shares of the Company got listed in the Frankfurt Stock Exchange at an initial price of EUR 28.

The number of shares as at 31 December 2017 is 34,066,705, with a par value of EUR 2.77 each.

The Shareholder structure as at 31 December 2017 is as follows:

	Percentage of ownership
	2017
Triton	49.3%
Management	3.2%
Freefloat	47.5%
Total	100%

b) Share premium and other reserves

The detail in the consolidated balance sheet is as follows:

	2017	2016
Share premium	288,744	233,087
Hedging reserves and revaluation reserves	(57,013)	(47,163)
Reserves of consolidated companies	(205,836)	(45,449)
Total	25,895	140,475

Share premium

The share premium may be used to provide for the payment of any shares which the Parent Company may repurchase from its shareholders, to offset any net realized losses, to make distributions to its shareholders, in the form of a dividend, or to allocate funds to the Legal reserve.

During 2017, the Company approved an interim dividend distribution to the selling shareholder under the class A preference shares in an aggregate amount of EUR 16,829,225.15. Following the payment of such dividend, the outstanding debt owed by Bilbao LuxCo, S.A. to the Company was offset against the dividend (Note 10).

Additionally the share premium has been increased by EUR 72,287,087 by the contribution in kind indicated in note 14.a) and calculated on 2 November 2017.

Reserves of consolidated companies

This reserves include, together with other reserves of consolidated companies, the legal reserve required by the Luxembourg law. On 2 May 2017, the Annual General Meeting of shareholders approved the allocation to the legal reserve of EUR 6,409 thousand from the net profit of the year 2016.

Other shareholder contributions

At 31 December 2015 this amount referred to the fair value measurement of the convertible bond at the acquisition date in 2013 of the Befesa Medio Ambiente Group. The measurement was made considering the Befesa Medio Ambiente Group's value based on the value-in-use method.

In 2016, Bilbao LuxCo, S.A. acquired from Abengoa the convertible bond for an amount of EUR 20 million. After that, Bilbao LuxCo, S.A. has signed a contribution agreement with Befesa, S.A. (formerly Bilbao MidCo, S.à r.l.) for which Bilbao LuxCo, S.A. has agreed to subscribe for 900,344,916 new Class-B shares with a nominal value of EUR 0.01 per share. The shares have been issued for a total amount of EUR 20,000,000, including a share premium in a total amount of EUR 10,996,550.84. Bilbao LuxCo, S.A. has agreed to pay for these shares by way of a contribution in kind which consists of the aforementioned convertible bond held by the subscriber in the Company, representing a total amount of EUR 20,000,000.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

14. Equity (continued)

c) Translation differences

The breakdown, by company, of "Translation Differences" at 31 December 2017 and 2016 is as follows:

Company or group of companies	2017	2016
Befesa Argentina, S.A.	–	(3,284)
Befesa Perú, S.A.	–	(164)
Befesa Zinc Korea, Ltd.	4,989	5,201
Befesa Salt Slags, Ltd.	(1,412)	(910)
Soluciones Ambientales del Norte, S.A.	–	(401)
Befesa Scandust AB	(938)	(787)
Befesa Silvermet Iskenderum, A.S.	(2,037)	(1,280)
Other	(1,164)	(775)
Total	(562)	(2,400)

d) Profit/(Loss) for the period

The detail, by business segment, of the contribution to consolidated profit/(loss) attributable to the Parent for the years ended 31 December 2017 and 31 December 2016 is as follows:

	2017	2016
Steel dust	46,627	21,263
Salt slags	12,523	6,075
Secondary aluminium	113	(1,164)
Corporate, other minor and consolidation adjustments (*)	(13,791)	(7,293)
Profit/(loss) for the year from discontinued operations	3,779	(71,795)
Total	49,251	(52,914)

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

e) Non-controlling interests

The detail of "Equity – Non-Controlling Interests" on the liabilities side of the accompanying consolidated balance is as follows:

	2017	2016
Industrial Environmental Solutions:		
Solarca Qatar, W.L.L.	–	357
Steel:		
Befesa Silvermet Turkey, S.L.	10,567	8,574
	10,567	8,931

Summary information on subsidiaries with non-controlling material shareholdings

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

2017

Subgroup/Company	Befesa Silvermet Turkey S.L. and its subsidiaries
Assets	28,451
Liabilities	5,648
Equity	22,803
Sales	26,604
Profit before taxes	15,978
Profit after taxes	12,322

2016

Subgroup/Company	Befesa Silvermet Turkey S.L. and its subsidiaries
Assets	22,024
Liabilities	2,582
Equity	19,442
Sales	14,221
Profit before taxes	6,470
Profit after taxes	5,151

At 31 December 2017 and 2016, the percentages of non-controlling interests for Befesa Silvermet Turkey, S.L. amounted to 46.1% and 44.1%, respectively.

f) Capital management

The Group's capital management focuses on achieving a financial structure that optimises cost of capital while maintaining a solid financial position. This policy reconciles the creation of value for the shareholder with access to financial markets at a competitive cost in order to cover both debt refinancing requirements and investment plan financing needs not covered by the funds generated by the business (Note 4.1.d.).

Group management considers that the minimal leverage ratio is a good indicator of the degree to which the objectives set are being achieved. At 31 December 2017 and 2016, most of the debts are related to business acquisitions made in prior years.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

15. Financial debt

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

	2017		2016	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Bank loans and credit facilities	3,973	519,017	24,289	552,411
Unmatured accrued interest	1,040	–	4,848	–
Accounts payable for finance leases	70	137	170	166
Total	5,083	519,154	29,307	552,577

Fair values of borrowings are not materially different to their carrying amounts, since the interest payable is close to current market rates.

The main terms and conditions of the borrowings are as follows:

Limit in nominal currency (thousand currency)	Effective interest rate	Maturity date	2017		2016	
			Current maturity	Non-Current maturity	Current maturity	Non-Current maturity
EUR 636,000	Euribor + 2.75%	2022	1,040	518,636	–	–
EUR 300,000	8.875%	2018	–	–	3,328	298,671
EUR 150,000	10.50%–11.25%	2018	–	–	1,359	160,666
EUR 167,500	Euribor + 2.25% (Euribor + 4.25% until July 2016)	2020	–	–	23,151	92,578
Other			4,043	518	1,469	662
			5,083	519,154	29,307	552,577

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

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

The Facility Agreement has been signed by the parent company of the Group (Befesa, S.A.) and has been designed to meet the financing needs of all Group companies.

The Facilities Agreement comprises:

- Term Loan B Facility Commitment in an amount of EUR 526 million, which is a bullet with a maturity of 5 years.
- RCF in an amount of EUR 75 million with a maturity of 5 years.
- A Guarantee Facility Commitment in an amount of EUR 35 million with a maturity of 5 years.

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

The Facilities Agreement provides a financial covenant based on the Net Leverage which shall not exceed the ratio 4.5:1 for any relevant period. The covenant only applies if the total amount of all drawings under the RCF exceeds 40% of the commitments under the RCF. At 31 December 2017, the RCF has not been yet 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.

As a result of entering in the described refinancing, the following indebtedness were early prepaid:

- EUR 300 million senior secured notes issued on May 11, 2011 by Zinc Capital, S.A maturing May 2018. Zinc Capital, S.A. is a non-Befesa Group special purpose vehicle without assets or business operations other than those relating to the bond issue.
- EUR 167.5 million refinanced syndicated loan signed on July 28, 2016 by Befesa Medioambiente, S.L. maturing March 2020.
- Bilbao Luxembourg issued in 2013 EUR 150,000 thousand of its 10.50%/11.25% PIK Toggle Notes due 2018 pursuant to an indenture. The Notes were issued among Befesa Holding S.à r.l. as parent guarantor and Citibank, N.A., London Branch as Trustee, as Security Agent and as Principal Paying Agent, Transfer Agent and Registrar Agent. An amount of EUR 148,125 thousand was drawn at 31 December 2016 under these Notes.

At 31 December 2017 and 2016 Other mainly includes short-term payables with banks on the factoring of accounts receivable and amounts payable for leases.

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

	2017	2016
2018	–	469,495
2019	441	14,349
2020	56	68,529
2021	21	126
Subsequent years	518,636	78
Total	519,154	552,577

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

15. Financial debt (continued)

At 31 December 2017, an amount of EUR 75 million was undrawn yet from the syndicated financing arrangement (EUR 17 million in 2016), (Note 4.c). In addition, at 31 December 2016, the Group had unused credit facilities with no personal guarantee arranged, totalling EUR 13 million. These facilities were cancelled during 2017.

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

	Cash and cash equivalents (Note 4)	Other current financial assets (Note 13)	Finance debt (Note 15)	Other current financial liabilities	Total
Net financial debt as at 31 December 2016	(59,054)	(1,758)	581,884		521,072
Cash Flows	(56,432)	–	(55,716)	–	(112,148)
Exchange rate adjustments	(1,787)	184	(13)	–	(1,616)
Changes in consolidation scope	(309)	1,390	–	–	1,081
Other non-monetary movements	–	(116)	(1,918)	–	(2,034)
Net financial debt as at 31 December 2017	(117,582)	(300)	524,237	–	406,355

15.1 Financing currencies

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

	2017	2016
Euro	522,550	581,283
Swedish krona	1,687	601
	524,237	581,884

16. Other current and non-current payables

	2017		2016	
	Current maturity	Non-current maturity	Current maturity	Non-current maturity
Other Group Liabilities	–	–	–	1,197
Payable to non-current asset suppliers	4,908	–	1,145	–
Derivative financial instruments (Note 17)	57,173	24,240	36,289	30,987
Accounts payable to public authorities (Note 20)	14,976	–	14,720	–
Remuneration payable	8,657	–	6,747	–
Other	11,702	8,439	5,704	17,636
Total	97,416	32,679	64,605	49,820

"Other" mainly includes the capital grants not yet released to income and debts with official bodies amounting to approximately EUR 8.6 million (2016: EUR 8.4 million) and the financial liabilities related to the last derivative settlements of the period amounting to EUR 10.3 million in 2017 (2016: EUR 1.0 million). Additionally EUR 9.2 million were recognized in 2016 respect of future payments to be made for the acquisition of the subsidiary Solarca, SL and its subsidiaries Solarca, SL has been sold in 2017 and this debt has been cancelled as a part of the sale (Note 4.2).

17. Financial derivatives

The Group uses derivative financial instruments to hedge the risks to which its activities, operations and future cash flows are exposed, which are mainly risks arising from changes in exchange rates, interest rates and the market price of certain metals, mainly zinc. The detail of the balances that reflect the measurement of derivatives in the accompanying consolidated balance sheets at 31 December 2017 and 2016 is as follows:

	2017	2016
Cash flow hedges non-current assets (Note 10)		
Interest rate SWAP	908	–
	908	–
Cash flow hedges current assets (Note 13):		
Foreign currency SWAP	–	124
	–	124
Total assets	908	124
Cash flow hedges non-current liabilities (Note 16):		
SWAP contracts for zinc	24,240	30,987
	24,240	30,987
Cash flow hedges current liabilities (Note 16):		
SWAP contracts for zinc	57,152	36,217
Foreign currency SWAP	21	72
	57,173	36,289
Total liabilities	81,413	67,276

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

17. Financial derivatives (continued)

- Zinc derivative contracts*

The detail of the tonnes hedged and of the maturity of the related contracts at 31 December 2017 and 2016 is as follows:

	Tons			
	31 December 2017		31 December 2016	
	2018	2019 and subsequent years	2017	2018 and subsequent years
Hedge (in tonnes)				
Swap contract for zinc	92,400	138,600	73,200	67,100
	92,400	138,600	73,200	67,100

Derivatives are designated to hedge highly probable forecast transactions (sales) and the full effect of the hedge is recognized in equity, net of tax effect, considering its assessment as highly effective hedging instruments. The portion transferred to profit/(loss) each year is recognized under "Revenue" in the income statement at each settlement date.

- Interest rate swaps (floating to fixed)*

In the context of the Group debt refinancing process, the Company has contracted an interest rate swap during 2017. The notional amounts of the IRSs outstanding at 31 December 2017 totalled EUR 316,000 thousand (Note 4.1), which were classified as highly effective hedging instruments.

At 31 December 2017, the fixed interest rate is 0.3580% and the main benchmark floating rate was Euribor. This derivative matures in 2022.

At 31 December 2016 the Group had no interest rate swaps.

- Foreign currency cash flow hedges*

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

- US dollar sales: USD 6,983 thousand.
- US dollar purchases: USD 8,500 thousand.
- GBP Purchases: GBP 467 thousand.

At 31 December 2016, currency purchase contracts (swaps or forwards) amounted to:

- US dollar sales: USD 19,490 thousand.
- EUR sales: EUR 9,316 thousand.

Highly probable future hedged transactions denominated in foreign currency are expected to take place on various dates within the next twelve months. The gains and losses recognized in the hedging reserve in equity in connection with forward foreign currency contracts at 31 December 2017 and 2016 are recognized 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 2017 will be transferred to the income statement over the next 12 months.

18. Long-term provisions

The detail of "Long-Term Provisions" on the liability side of the accompanying consolidated balance sheets and of movements in 2017 and 2016 is as follows:

	Provisions for litigation, pensions and similar obligations	Other provisions for contingencies and charges	Total long-term provisions
Balance at 01 January 2016	2,033	10,895	12,928
Period provisions charged to income	230	166	396
Provisions used	–	(83)	(83)
Transfers	–	115	115
Changes in the scope of consolidation (Note 2.5)	–	(7,918)	(7,918)
Transfers to liabilities related to assets held for sale (Note 27)	–	(193)	(193)
Balance at 31 December 2016	2,263	2,982	5,245
Period provisions charged to income	571	30	601
Transfers	(639)	(299)	(938)
Balance at 31 December 2017	2,195	2,713	4,908

The Group companies Befesa Valera, S.A.S. and Befesa Zinc Gravelines, S.A.S. recognize a provision of approximately EUR 2.2 million at 31 December 2017 and 2016 for the present value of the estimated costs of dismantling the concession for the performance of their activities at the Port of Dunkirk (France) following its termination (Note 8).

In addition, the Group has recognized other provisions under "Other provisions for contingencies and charges" to meet liabilities, whether legal or implicit, probable or certain, arising from contingencies, on-going litigations and tax obligations, which arise as the result of past events and are more likely than not to require an outflow of resources embodying economic benefits from the Group to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

19. Deferred taxes

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the income taxes levied by the same tax authority. At 31 December 2017 and 2016 there was no material offset of deferred tax assets and liabilities.

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

The detail of "Deferred Tax Assets" and "Deferred Tax Liabilities" in the accompanying consolidated balance sheet for 2017 and 2016 is as follows:

	2017	2016
Deferred tax assets arising from:		
Tax loss carry-forwards and tax credits and tax relief	65,769	65,822
Revaluation of derivative financial instruments	23,749	20,019
Other deferred tax assets	5,457	7,785
Total deferred tax assets	94,975	93,626
Deferred tax liabilities arising from:		
Asset revaluation	33,103	33,656
Revaluation of derivative financial instruments	254	–
Deferred tax liability arising from the tax deductibility of goodwill	19,646	19,646
Other deferred tax liabilities	2,593	5,878
Total deferred tax liabilities	55,596	59,180

Amounts corresponding to deferred tax assets are as follows:

	2017	2016
Deferred tax assets		
Deferred tax assets recoverable in more than 12 months	94,975	93,626
Deferred tax assets recoverable within 12 months	–	–
Total deferred tax assets	94,975	93,626

Movements in deferred tax assets and liabilities in 2017 and 2016 relate to:

2017

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

2016

	Balance at 31/12/15	Recognized in		Consolidation change (Note 2.5)	Transfer to assets and liabilities held for sale (Note 27)	Balance at 31/12/16
		Income statement	Equity			
Deferred tax assets						
Tax losses carry-forwards and deductions	76,175	(5,912)	(33)	(1,300)	(3,108)	65,822
Derivatives	415	(2,869)	22,473	–	–	20,019
Others	4,810	3,220	(49)	(313)	117	7,785
Total deferred tax assets	81,400	(5,561)	22,391	(1,613)	(2,991)	93,626
Deferred tax liabilities						
Revaluations	34,290	(634)	–	–	–	33,656
Goodwill	19,373	1,098	–	(825)	–	19,646
Other (temporary differences)	7,984	(1,333)	(193)	144	(724)	5,878
Total deferred tax liabilities	61,647	(869)	(193)	(681)	(724)	59,180

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

19. Deferred taxes (continued)

The main amounts and changes in deferred tax assets and liabilities in 2017 and 2016, in addition to those arising from the revaluation of derivatives disclosed in Note 17, were as follows:

2017

- Movements recognized in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 17).
- Deconsolidation relates basically to the tax credits recognized mainly by Befesa Argentina, S.A. (Note 2.5).

2016

- The Group has recognized EUR 2.9 million in tax credits and deductions on tax loss carry-forwards, most originating in the Basque Tax Group, as the Directors of the parent company understand that they may be recovered within a reasonable timeline.
- In 2016 a write-off has been recognized in respect of tax credits amounting to EUR 10 million, as they are considered not recoverable within a reasonable timeline and they relate to Befesa Gestión de Residuos Industriales, S.L. which was sold.
- Movements recognized in equity relate mainly to the tax effect of the measurement of derivatives hedging zinc prices (Note 17).
- Deconsolidation relates basically to the tax credits recognized mainly by Befesa Plásticos, S.A. (Note 2.5).

20. Public administrations

The detail of "Tax Receivables" and "Tax Payables" on the asset and liability sides, respectively, of the accompanying consolidated balance sheet at 31 December 2017 and 2016 is as follows:

	2017		2016	
	Receivable (Note 12)	Payable (Note 16)	Receivable (Note 12)	Payable (Note 16)
VAT	6,468	2,635	5,884	3,307
Withholdings and interim payments	3	906	470	988
Corporate income tax	1,905	9,179	3,442	8,127
Social Security bodies	53	1,800	64	2,018
Other	1,837	456	498	280
Total	10,266	14,976	10,358	14,720

"Accounts Payable to Public Authorities" on the liability side of the accompanying consolidated balance sheet includes the liability relating to applicable taxes, mainly personal income tax withholdings, VAT and projected income tax relating to the profit for each year, mainly net of tax withholdings and pre-payments made each year.

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

Befesa Medioambiente HoldCo, S.L. heads the fiscal Group of companies subject to the Biscayne tax regulation. That tax group comprises Befesa Medioambiente HoldCo, S.L., Befesa Medio Ambiente, S.L.U., MRH Residuos Metálicos, S.L.U., Alianza Medioambiental, S.L.U., Befesa Aluminio, S.L., Befesa Aluminio Comercializadora, S.L.U., Befesa Zinc, S.A.U., Befesa Zinc Comercial, S.L.U., Befesa Zinc Óxido, S.L.U., Befesa Zinc Aser, S.L.U. Befesa Steel R&D, S.L.U. and Befesa Zinc Sur, S.L.U.

It was reported that Befesa, S.A., with tax residence at 46 Boulevard Grande-Duchesse Charlotte, L-133(Luxembourg) and register identification number B0177697, acknowledged being the parent company of consolidated tax group 00914/BSC, in accordance with Article 85.2 of Biscayne law for Income tax.

Given the consideration of Befesa, S.A. as a non-resident in Spain, Befesa Medioambiente HoldCo, S.L. was designated at the entity representing group 00914/BSC, in accordance with the provisions of the third paragraph of Article 83.2 of Biscayne law for Income tax. In this regard, it should be noted that all companies belonging to tax group 00914/BSC are subject to the same regional regulations for income tax purposes, namely, that of Biscay.

The German companies Befesa Zinc Germany GmbH, Befesa Steel Services GmbH, Befesa Zinc Freiberg GbmH and Befesa Zinc Duisburg GmbH file consolidated tax returns under the tax legislation applicable to them in Germany; Befesa Zinc Gravelines, S.A.S.U. and Befesa Valera S.A.S. file consolidated tax returns under the tax legislation applicable to them in France, and the German companies Befesa Salzschlacke GmbH and Befesa Aluminium Germany GmbH file consolidated tax returns under the tax legislation applicable to them in Germany.

The other Group companies file individual income tax returns in accordance with the tax legislation applicable to them.

The Group companies subject to Biscay tax legislation, including those which form part of the tax group, generally have the years that have not become statute-barred, 2013 onwards, open for review by the tax authorities for income tax and the last four years for the other main taxes and tax obligations applicable to them, in accordance with current legislation.

The difference between the tax charge allocated to each year and the tax payable for that year, recognized in "Deferred Tax Assets" and "Deferred Tax Liabilities" on the asset and liability sides, respectively, of the consolidated balance sheets at 31 December 2017 and 2016, arose as a result of the following noteworthy circumstances:

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

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

The fully-consolidated foreign subsidiaries calculate income tax expense and tax charges for the taxes applicable to them in conformity with the legislation of, and at the tax rates in force in, their respective countries (Nota 3.16).

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

20. Public administrations (continued)

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

	2017	2016
Profit/(Loss) before tax from continuing operations	74,199	34,479
Profit/(Loss) before tax from discontinued operations	2,052	(67,082)
Total accounting profit/(loss) before tax	76,251	(32,603)
Non-deductible expenses and non-computable income:		
– Other permanent differences	(123)	(272)
Adjusted accounting profit/(loss)	76,128	(32,875)
Tax charge in the Parent Company's territory	(18,714)	17,355
Tax credits generated in the year and not capitalised	(4,243)	(28,764)
Recognition of unused tax credits, tax relief and tax loss carry-forwards, net of provisions	–	(8,856)
Others	1,668	1,816
Income tax expense	(21,289)	(18,449)
– From continuing operations	(23,017)	(13,736)
– From discontinuing operations	1,728	(4,713)

The unused tax credit recognized by the Group amount to EUR 24.7 million at 31 December 2017 (2016: EUR 24 million) corresponding mainly to credits on double tax deductions, export activities and contributions to company promotion undertakings. The tax credits not recognized on deductions amounted to EUR 25.4 million at 31 December 2017 (EUR 23.3 million in 2016).

Tax credits on tax loss carry-forwards available for offset recognized in the Group at 31 December 2017 amounted to EUR 41.0 million (31 December 2016: EUR 41.8 million). Unrecognized tax credits on tax loss carry-forwards amounted to EUR 78.8 million at 31 December 2017 (31 December 2016: EUR 68.5 million).

The Directors of the Group companies and of the Parent consider that the tax assets recognized 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.

21. Guarantee commitments to third parties and contingencies

At 31 December 2017 and 2016, a number of Group companies had provided guarantees for an overall amount of approximately EUR 34.8 million (31 December 2016: EUR 32.8 million) to guarantee their operations vis-à-vis customers, banks, government agencies and other third parties.

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

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 license initiated by the local Country Council. Group management has commissioned several advisors to assess the existing environmental risk and potential economic effect of the corrective measures, as well as invested into measures required to reopen the plant. As a consequence, the plant is operating from May 2017. At 31 December 2016 a provision amounting to EUR 2.5 million was recognized by management, as their best estimate of the liability deriving from this incident. The Group has an insurance policy that will mitigate the relevant expenses and has recognized during 2017 an additional income from the insurance under the heading "Other operating income" amounting to approximately EUR 3.4 million (2016: EUR 2.3 million) (Note 22).

22. Income and expenses

22.1 Raw materials and consumables

The detail of "Procurements" in the consolidated income statement for the years 2017 and 2016 is as follows:

	2017	2016
Cost of raw materials and other supplies used	389,997	294,118
Changes in goods held for resale, raw materials and other inventories	(1,783)	1,110
Subcontracted work	–	1,935
Total	388,214	297,163

22.2 Other operating income

The detail of "Other Operating Income" in the consolidated income statement for the years 2017 and 2016 is as follows:

	2017	2016
In-house work on non-current assets (Note 3.3)	688	790
Income from income-related grants	2,247	1,463
Services and other operating income	6,540	7,091
Total	9,475	9,344

22.3 Staff costs

The detail of "Staff Costs" in the consolidated income statement for the years 2017 and 2016 is as follows:

	2017	2016
Wages and salaries	59,191	58,172
Employer's social security contributions	11,563	11,803
Other welfare costs	2,035	2,161
Total	72,789	72,136

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

22. Income and expenses (continued)

The average number of employees at the Group in 2017 and 2016 in continuing and discontinued operations, by professional category, were as follows:

	Average number of employees	
	2017	2016
Management	40	54
Experts	150	217
Professionals	222	386
Operators and assistants	828	1,276
Total	1,240	1,933

Of the Group's average headcount in 2017, 154 had temporary employment contracts (2016: 517 employees).

In 2017, the average number of employees from companies consolidated following the proportional method amounted to 47 (2016: 48 employees).

The average number of employees with the Group in 2017 in discontinued operations was 124 employees (2016: 697 employees).

The average number of employees in 2017 and 2016, in continuing and discontinued operations, by country, was as follows:

	Average number of employees	
	2017	2016
Spain	388	888
Germany	374	373
France	107	108
United Kingdom	41	53
Rest of Europe	75	85
Turkey	95	104
South Korea	51	53
Rest of the world	109	269
Total	1,240	1,933

The number of employees at 2017 and 2016 year-end, by gender, was as follows:

	2017		2016	
	Men	Women	Men	Women
Management	33	5	43	6
Experts	104	30	140	33
Professionals	142	53	186	76
Operators and assistants	688	52	891	82
Total	967	140	1,260	197

The workforce of the joint operations in which the Group holds ownership interests is included in full when calculating the average number of employees and the status of the workforce at the year-end, by gender, shown above.

At year-end there were no employees under discontinued operations (2016: 237 employees).

22.4 Other operating expenses

	2017	2016
Research and development expenditure	452	347
External services	125,557	108,604
Taxes other than income tax	2,265	2,014
Losses on, impairment of and changes in allowances	155	141
Other current operating expenses	6,630	8,228
Total	135,059	119,334

22.5 Amortisation/depreciation, impairment and provisions

	2017	2016
Amortisation of intangible assets (Note 7)	3,995	4,506
Depreciation of property, plant and equipment (Note 8)	25,527	28,233
Impairment of fixed assets (Notes 7 and 8)	–	10,000
Other	1,013	1,757
Total	30,535	44,496

23. Financial expenses

The breakdown of this balance in the 2017 and 2016 consolidated income statements is as follows:

	2017	2016
Interest expense	44,907	48,611
Other finance costs	4,269	4,773
Impairment losses	1,520	4,739
Total	50,696	58,123

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

24. Remuneration of the Board of Directors

a) Directors' remuneration and other benefits

In 2017 the members of the Parent's Board of Directors earned approximately EUR 275 thousand for salaries and attendance fees for discharging their duties in the Group companies (2016: EUR 10 thousand).

Also, as at 31 December 2017 and during the year ended thereon, the Parent had not granted any loans, advances or other benefits to its former or current Directors.

In addition, the Parent Company did not have any pension or guarantee obligations to any current members of the Board of Directors.

b) Remuneration of senior executives

The annual remuneration (mainly wages and social security) of the managing directors of Befesa, S.A. industrial groups (see Note 1), and of people discharging similar duties in 2017 amounted to EUR 2,707 thousand (2016: EUR 2,409 thousand).

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

Incentives to executives and other matters

In 2017 and 2016 there were no other transactions with senior executives outside the normal course of business.

In January 2018, the Parent Company approved two different compensation plans for some members of the Group management:

- A compensation plan linked to the evolution of the share price consisting of 79.018 shares that will be exercisable after three years of signing the agreement (November 2017). The agreed remuneration is conditioned to the continuation of the beneficiaries as directors of the Group.
- A compensation plan linked to the evolution of certain key indicators determined in the agreement (cumulative EBIT, cumulative cash flow and return on inputs of strategic projects). The plan consists of four periods of three years each starting from January 2018 to January 2021 and considers 89.107 shares per period. The agreed remuneration plan is conditioned to the continuation of the beneficiaries as directors of the Group.

The settlement of the Plan is to be chosen by the Board of Directors of the Company, by means of cash or by exercising the purchase option of the shares at the reference price, after considering compliance with the mentioned indicators.

25. Balances and transactions with related parties

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

The detail of the balances with shareholders and Group and related companies at 31 December 2017 and the transactions effected with them in 2017 and 2016 are as follows:

2017

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

2016

	Accounts receivable and other current financial assets (Note 12)	Long-term loans	Accounts payable	Other non-current liabilities (Note 16)	Sales and other income	Purchases and other expenses	Financial income	Financial cost
Bilbao Lux.Co S.A.	293	16,853	374	–	–	–	1,702	25
Triton IV Managers Limited	–	–	–	1,125	–	–	–	–
Recytech, S.A.	333	–	998	–	1,426	8,233	–	–
Other	290	33	232	72	64	–	337	–
Total	916	16,886	1,604	1,197	1,490	8,233	2,039	25

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

25. Balances and transactions with related parties (continued)

The balances and transactions of Group companies relate to sale and purchase transactions and other commercial operations on an arm's length basis.

All transactions are commercial and do not accrue interest, except for loans and the above credit facilities with the Group, carried out on an arm's length basis, the maturity of which are ordinary for these types of transactions.

The Parent Company's Directors do not consider, taking into account that transactions with related parties are carried out on an arm's length basis, that they could give rise to significant liabilities in the future.

Long-term loan receivable from Bilbao LuxCo as at 31 December 2016 was offset against dividend payable to this related party (Note 14.b.)

26. Information on the environment

The Parent and the subsidiaries maintain their production facilities in such a way as to meet the standards established by the environmental legislation of the countries in which the facilities are located.

Property, plant and equipment include investments made in assets intended to minimise environmental impact and protect and improve the environment. In 2017 no significant environmental investments were made.

In 2017 and 2016 the Group did not incur any significant expenses relating to environmental activities.

27. Assets held for sale and discontinued operations

In 2016 the Parent company's Board of Directors took the decision to divest and sell off practically all companies that comprised the Industrial Waste Management Segment. As a result of that decision, in December 2016 Befesa Gestión de Residuos Industriales, S.L., Befesa Gestión PCB, S.A., Gestión y Valorización Integral del Centro S.L., Residuos Industriales de la Madera de Córdoba, S.A., Betearte, S.A., Ecología Canaria, S.A., Befesa Plásticos, S.L. and other minor not consolidated operations were sold. Additionally, the assets and liabilities of Solarca, S.L (and its subsidiaries), Soluciones Ambientales del Norte, S.A. and Befesa Perú, S.A were classified as held for sale at 31 December 2016. These companies were sold on 29 March 2017.

As required under IFRS 5, the operations of these companies in 2016 (to the date of sale for the first group of companies) are classified under profit/(loss) for the year from discontinued operations in the accompanying consolidated income statement in 2016.

On March 2017 the Companies classified as held for sale at 31 December 2016 were sold. Additionally, the Group has sold on 30 August 2017 the company Befesa Argentina, S.A. The operations of these companies and the results from the sale have been classified as discontinued operations.

27.1 Discontinued operations – companies sold in the year

Information on cash flows and results

The information on cash flows and results is for the years ended 31 December 2017 and 2016.

	2017	2016
Revenue	7,100	50,504
Expenses	(7,290)	(58,685)
Financial results	(704)	(5,411)
Profit/(loss) before taxes	(894)	(13,592)
Corporate income tax	229	(11,000)
Profit/(loss) after tax from discontinued operations	(665)	(24,592)
Profit/(loss) on the sale of subsidiaries after income tax	4,444	(47,765)
Profit/(loss) from discontinued operations	3,779	(72,357)
Addition/(disposal) cash from operating activities – net	1,111	(5,151)
Addition/(disposal) cash from investing activities – net	51,901	(1,764)
Addition/(disposal) cash from financing activities – net	77	7,798
Net inflow of cash generated by the subsidiary	53,089	883

Detail of sale of subsidiaries

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

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

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

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

	Net assets sold
Goodwill	14,060
Intangible assets and PP&E	23,100
Long-term financial assets	371
Deferred tax assets	3,533
Investments carried under the equity method	
Long-term receivables	–
Inventories	1,144
Receivables	17,562
Other current assets	1,517
Cash and cash equivalents	3,089
Total assets	64,376
Deferred tax liabilities	724
Provisions	457
Financial liabilities	29,855
Accounts payable and other liabilities	6,539
Total liabilities	37,575
Translation differences	3,926
Net assets	30,727

27.2 Discontinued operations – classified as held for sale in 2016

Information on cash flows and results

The information on cash flows and results is for the year ended 31 December 2016:

	2016
Revenue	28,727
Expenses	(25,608)
Financial results	(1,623)
Profit/(loss) before tax	1,496
Corporate income tax	(934)
Profit/(loss) after tax	562
Net cash flows from operating activities	2,643
Net cash flows from investing activities	(3,923)
Net cash flows from financing activities	1,235
Net inflow of cash generated by the subsidiary	(45)

Detail of subsidiaries classified as held for sale in 2016:

The analysis of assets and liabilities held for sale is as follows:

	31/12/2016
Goodwill (Note 6)	14,060
Intangible assets and property, plant and equipment (Notes 7 and 8)	21,794
Long-term financial assets (Note 10)	371
Deferred tax assets (Note 19)	2,991
Inventories	1,144
Receivables	14,149
Other current assets	127
Cash and cash equivalents	2,955
Assets held for sale	57,591
Deferred tax liabilities (Note 19)	724
Provisions (Note 18)	193
Financial liabilities	1,353
Accounts payable and other liabilities	4,939
Liabilities related to assets held for sale	7,209
Net assets held for sale	50,382

28. Auditors' fees

The fees for professional services rendered by PwC Network firms and other audit firms to Befesa and its subsidiaries are as follows:

	Thousand Euro:	
	Services rendered by PwC	Services rendered by other audit firms
2017		
Audit services	475	19
Other assurance services	845	58
Tax advisory services	–	62
Other non-audit services	855	–
	2,175	139

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

28. Auditors' fees (continued)

	Thousand euro	
	Services rendered by PwC	Services rendered by other audit firms
2016		
Audit services	601	19
Other assurance services	22	–
Tax advisory services	41	85
Other non-audit services	837	–
	1,501	104

29. Earnings per share

a) Basic earning/(losses) per share (EUR per share)

	2017	2016
From continuing operations attributable to the ordinary equity holders of the company	0.87	(2.44)
From discontinued operations	0.15	(3.38)
Total basic earnings/(losses) per share attributable to the ordinary equity holders of the company	1.02	(5.82)

b) Diluted earning/(losses) per share (EUR per share)

Total diluted earning/(losses) per share attributable to the ordinary equity holders of the company as at 31 December 2016 amounted to (5.36) EUR. As at 31 December 2017, there are no differences between basic and diluted earning/(losses) per share.

c) Reconciliation of earnings used in calculating earning per share

	Thousand Euros	
	2017	2016
Profit/(loss) for the year from continuing operations	51,182	20,743
Less Non-controlling interests from continuing operations	(5,710)	(1,880)
Profit/(loss) from continuing operations attributable to the ordinary equity holders of the company	45,472	18,863
Less: cumulative preference share return	(23,659)	(70,821)
	21,813	(51,958)
Profit/(loss) for the year from discontinued operations	3,779	(71,795)
Less Non-controlling interests from discontinued operations	–	(18)
Profit/(loss) from discontinued operations attributable to the ordinary equity holders of the company	3,779	(71,777)
Profit/(loss) attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	25,592	(123,735)

d) Weighted average number of shares used as the denominator

	Number in thousand	
	2017	2016
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	25,025	21,262
Adjustments for calculation of diluted earnings per share:		
Convertible bond	–	1,804
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	25,025	23,066

Convertible bond into potential ordinary shares has been included in the determination of diluted earnings per share from their date of issue until the date of its contribution to the parent company share capital in 2016. It has not been included in the determination of basic earnings per share.

During 2017, a grouping of shares has been carried out so that 6,403,591,150 ordinary shares were converted into 23,066,112 shares. This conversion factor has been applied for the purpose of calculating the benefit per share, as if it had been carried out at the beginning of the 2016 exercise.

30. Subsequent events

No significant Event has occurred after the close of the year outside of the normal activities of the Befesa Group.

Notes to the Consolidated Financial Statements as at 31 December 2017 (continued) (Thousand euro)

Subsidiaries, joint operations and associates

2017

Entity	Address	Activity	% Interest	Auditor	Thousand euro (31/12/2017)				
					Share	Reserves	Translation differences	Results	Interim dividend
Subsidiaries									
Befesa Holding S.à r.l.	Luxembourg	Holding	100%	(1)	13	426,991	–	(1,550)	–
Befesa Medioambiente Holdco, S.L.	Biscay	Holding	100%	(1)	77,870	332,527	–	(5,100)	–
Befesa Management Services	Germany	Holding	100%	PwC	25	589	–	211	–
Befesa Medio Ambiente, S.L.	Biscay	Holding	100%	PwC	150,003	(96,496)	–	(3,722)	–
Alianza Medioambiental, S.L.	Biscay	Holding	100%	(1)	104,359	(28,148)	–	8,417	–
MRH Residuos Metálicos S.L.U.	Biscay	Holding	100%	(1)	15,600	74,771	–	24,339	–
– Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	PwC	25	1,888	–	8,140	(5,153)
– Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	PwC	25	303	–	–	–
– Subgroup Zinc Befesa Zinc, S.A.U.	Biscay	Holding	100%	PwC	25,010	37,392	–	35,804	–
• Befesa Zinc Comercial, S.A. (Sociedad Unipersonal)	Biscay	Sale of recycled waste	100%	PwC	60	9,658	–	276	–
• Befesa Zinc Aser, S.A. (Sociedad Unipersonal)	Biscay	Recovery of metals	100%	PwC	4,260	8,577	–	30,529	(28,000)
• Befesa Zinc Sur, S.L. (Sociedad Unipersonal)	Badajoz	Recovery of metals	100%	(1)	605	246	–	2	–
• Befesa Zinc Óxido, S.A. (Sociedad Unipersonal)	Biscay	Recovery of metals	100%	PwC	1,102	5,331	–	93	–
• Befesa Steel R&D, S.L. (Sociedad Unipersonal)	Biscay	Development of projects and technology innovation	100%	(1)	3	1,970	–	29	–
• Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	(2,730)	–	466	–
• Befesa Zinc Gravelines, S.A.S.	France	Waelz oxide treatment	100%	PwC	8,000	1,613	–	710	–
• Befesa ScanDust AB	Sweden	Recovery of metals	100%	PwC	5,310	8,663	(187)	(8,822)	–
• Befesa Silvermet Turkey, S.L.	Biscay	Holding	53,70%	(1)	9,775	4	–	3,877	(4,230)
• Befesa Silvermet Iskenderun	Turkey	Recovery of metals	100%	PwC	5,344	1,349	(4,408)	11,867	–
• Befesa DisTicaret	Turkey	Recovery of metals	100%	PwC	1,198	274	(553)	1,568	–
• Befesa Zinc Germany GmbH	Germany	Holding	100%	PwC	25	5,826	–	24,018	(27,000)
• Befesa Steel Services GmbH	Germany	Sales and logistics	100%	PwC	2,045	67,109	–	367	–
• Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	PwC	5,113	5,890	–	(378)	–
• Befesa Zinc Korea Ltd.	South Korea	Recovery of metals	100%	PwC	17,015	23,810	4,989	10,874	–

Entity	Address	Activity	% Interest	Auditor	Thousand euro (31/12/2017)				
					Share	Reserves	Translation differences	Results	Interim dividend
• Befesa Zinc Freiberg GmbH & Co. KG	Germany	Recovery of metals	100%	PwC	1,000	(3,243)	-	(621)	-
• Befesa Aluminio, S.L.U.	Biscay	Recovery of metals	100%	PwC	4,767	55,521	-	6,528	-
• Befesa Aluminio Comercializadora, S.L	Biscay	Marketing company	100%	(1)	90	21	-	-	-
• Befesa Salt Slags, SLtd.	United Kingdom	Recovery of metals	100%	PwC	27,108	(21,098)	(2,018)	(2,042)	-
Joint operations									
- Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	1,098	-	21,038	-

(1) Companies not subject to statutory audit.

Notes to the Consolidated Financial Statements as at 31 December 2017

(continued)

(Thousand euro)

Subsidiaries, joint operations and associates

2016

Entity	Address	Activity	% Interest	Auditor	Thousand euro (31/12/2016)				
					Share	Reserves	Translation differences	Results	Interim dividend
Subsidiaries									
Befesa Holding S.à r.l.	Luxembourg	Holding	100%	PwC	13	444,251	–	(15)	–
Bilbao (Luxembourg), S.A.	Luxembourg	Holding	100%	PwC	31	246	–	(195)	–
Befesa Medioambiente Holdco, S.L.	Biscay	Holding	100%	(2)	77,870	346,319	–	(5,721)	–
Befesa Management Services	Germany	Holding	100%	(2)	25	371	–	218	–
Befesa Medio Ambiente, S.L.	Biscay	Holding	100%	PwC	150,003	209,296	–	(177,562)	–
1. AMA Subgroup-									
Alianza Medioambiental, S.L.	Biscay	Holding	100%	PwC	104,359	12,267	–	(43,324)	–
– Befesa Argentina, S.A.	Argentina	Industrial cleaning and waste treatment	100%	PwC	8,328	3,814	(10,192)	123	–
– Befesa Perú, S.A. (1)	Perú	Waste treatment	100%	PwC	639	3,574	370	706	–
– Soluciones Ambientales del Norte Ltda., S.A.(1)	Chile	Waste treatment	100%	PwC	6,581	(4,560)	(964)	287	–
– Solarca S.L. (1)	Tarragona	Chemical cleaning and steam and air blowing	100%	PwC	343	7,523		948	–
– Solarca CLM, S.L. (1)	Castilla La Mancha	Chemical cleaning and steam and air blowing	100%	(2)	186	348	–	29	–
– Sabsco UK, Ltd. (1)	United Kingdom	Chemical cleaning and steam and air blowing	100%	Wilkins Kennedy	407	186	(71)	404	–
– Solarca France, Sarl (1)	France	Chemical cleaning and steam and air blowing	100%	PwC	43	490	–	162	–
– Sabsco Asia (1)	Singapore	Chemical cleaning and steam and air blowing	100%	NACN International	130	(11)	(1)	(185)	–
– Solarca USA, Corp (1)	USA	Chemical cleaning and steam and air blowing	100%	(2)	1	458	(21)	(365)	–
– Sabsco Malasia (1)	Malaysia	Chemical cleaning and steam and air blowing	100%	Mustapharaj	21	14	2	(131)	–
– Solarca Qatar, WLL (1)	Qatar	Chemical cleaning and steam and air blowing	49%	Morison Menon	51	655	29	(34)	–
– Solarca Portugal (1)	Portugal	Chemical cleaning and steam and air blowing	100%	(2)	100	9	–	72	–

Entity	Address	Activity	% Interest	Auditor	Thousand euro (31/12/2016)				
					Share	Reserves	Translation differences	Results	Interim dividend
2. MRH Residuos Metálicos S.L.U.	Biscay	Holding	100%	(2)	15,600	68,646	-	21,800	-
- Befesa Salzschlacke GmbH	Germany	Aluminium waste treatment	100%	PwC	25	7,440	-	7,440	(1,764)
- Befesa Aluminium Germany GmbH	Germany	Aluminium waste treatment	100%	(2)	25	304	-	(975)	-
- Subgroup Zinc Befesa Zinc, S.A.U.	Biscay	Holding	100%	PwC	25,010	38,955	-	19,112	-
- Befesa Zinc Comercial, S.A. (Sociedad Unipersonal)	Biscay	Sale of recycled waste	100%	PwC	60	8,647	-	1,011	-
- Befesa Zinc Aser, S.A. (Sociedad Unipersonal)	Biscay	Recovery of metal and mineral containing waste	100%	PwC	4,260	8,315	-	25,874	(22,500)
- Befesa Zinc Sur, S.L. (Sociedad Unipersonal)	Badajoz	Recovery of metal and material containers	100%	(2)	605	(56)	-	301	-
- Befesa Zinc Óxido, S.A. (Sociedad Unipersonal)	Biscay	Recovery of metals	100%	PwC	1,102	5,248	-	83	-
- Befesa Steel R&D, S.L. (Sociedad Unipersonal)	Biscay	Development of projects and technology innovation	100%	(2)	3	1,956	-	14	-
- Befesa Valera, S.A.S.	France	Recovery of metals	100%	PwC	4,000	8,039	-	(11,769)	-
- Befesa Zinc Gravelines, S.A.S.	France	Waelz oxide treatment	100%	PwC	8,000	944	-	670	-
- Befesa ScanDust AB	Sweden	Recovery of metals	100%	PwC	5,310	2,484	(36)	628	-
- Befesa Silvermet Turkey, S.L.	Biscay	Holding	55.90%	(2)	10,301	1,205	-	499	(340)
- Befesa Silvermet Iskenderun	Turkey	Recovery of metals	100%	PwC	6,788	1,436	(2,876)	3,696	-
- Befesa DisTicaret	Turkey	Recovery of metals	100%	PwC	1,198	(551)	(233)	1,580	-
- Befesa Zinc Germany GmbH	Germany	Holding	100%	PwC	25	355	-	25,972	(20,500)
- Befesa Steel Services GmbH	Germany	Sales and logistics	100%	PwC	2,045	66,777	-	332	-
- Befesa Zinc Duisburg GmbH	Germany	Recovery of metals	100%	PwC	5,113	7,699	-	(732)	-
- Befesa Zinc Korea Ltd.	South Korea	Recovery of metal and mineral waste	80%	PwC	17,015	28,258	5,201	(280)	-
- Befesa Zinc Freiberg GmbH & Co. KG	Germany	Recovery of metals	100%	PwC	1,000	(561)	-	(372)	-
- Befesa Aluminio, S.L.U.	Biscay	Recovery of metals	100%	PwC	4,767	60,717	-	3,066	-
- Befesa Aluminio Comercializadora, S.L.	Biscay	Marketing company	100%	PwC	90	21	-	-	-
- Befesa Salt Slags, Ltd.	United Kingdom	Recovery of metals	100%	PwC	21,399	(13,450)	(1,995)	(7,688)	-
Joint operations									
- Recytech, S.A.	France	Recovery of metals	50%	Deloitte	6,240	1,012	-	12,086	-

(1) Companies which at 31 December 2016 are classified as held for sale.

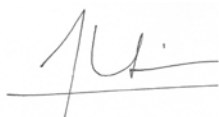
(2) Companies not subject to statutory audit.

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 2017 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, March 13, 2018



Javier Molina Montes



Wolf Uwe Lehmann

Independent Auditor's Report



Audit report

To the Shareholders of
Befesa S.A.

Report on the audit of the consolidated financial statements

Our opinion

In our **opinion**, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Befesa S.A. (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Our **opinion** is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statements for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

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Independent Auditor's Report (continued)



To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, for the year ended 31 December 2017, are disclosed in Note 28 to the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<i>Recoverability of goodwill and other intangible assets with an indefinite useful life</i> The group has goodwill of EUR 336 million and other intangible assets with an indefinite useful life (licenses) of EUR 81 million as at 31 December 2017. Group's accounting principles and policies regarding Goodwill and other intangible assets are disclosed in Note 3. In accordance with IFRS, the Group tests for impairment these assets at least annually and whenever there are impairment indicators. To perform impairment tests, Management applies judgment to make assumptions to estimate the recoverable amount of the cash-generating units to which the goodwill and licenses are allocated. The most significant assumptions used are discount rates, rates of growth of revenues and the estimate of future margins. This matter was of particular significance to our audit as goodwill	Our audit procedures included, among others: We assessed the group's processes to test goodwill and other intangible assets with indefinite useful life (licenses) for impairment by performing the following procedures: We back tested past cash flows projections for year 2017 with the actual cash flows for the year. We compared the cash flow projections with forecasts approved by the Board of Directors, and when possible benchmarked them against general and sector-specific market expectations. We tested the rates of growth of revenues and forecast future margins against available comparable, including historical results, actual selling prices for 2017 and the first months of 2018 and, when applicable, prices guaranteed for future years. We tested the sensitivity analysis performed by Management. We involved internal valuation specialists to assist us in evaluating the reasonableness of the discount rates applied against independent data. We finally assessed the adequacy of the disclosures in the consolidated financial statements.



and licenses are significant and Management's determination the calculation of the recoverable amount involves significant judgement and estimates.

Recoverability of deferred tax assets

As disclosed in Note 19, as at 31 December 2017 the Group recognised deferred tax assets amounting to EUR 95 million. This amount includes EUR 66 million relating to capitalised tax losses, and other tax credits.

Deferred tax assets may be recognised based on a number of factors, including whether the Group will have sufficient tax profits in future periods to support the recognition.

This matter was of particular significance to our audit because it involves significant estimate and judgement.

We tested Management's process to assess the level of future tax profits to support the recognition of deferred tax assets.

We compared these forecast with the projections used for testing goodwill and other intangible assets with an indefinite useful life for impairment.

We satisfied ourselves as of the reasonability of the deferred tax assets which are expected to be recovered annually, by reference to applicable tax legislation.

We also assessed the adequacy of the disclosures on deferred tax assets in the consolidated financial statements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Annual report including the Management report and the Corporate Governance Report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report (continued)



Responsibilities of the Board of Directors and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;



- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The Management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Report is included on pages 62 to 70 to the Annual Report. The information required by Article 68ter Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, which is included in the Corporate Governance Report, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Group by the General Meeting of the Shareholders on 18 October 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 5 years.

Independent Auditor's Report (continued)



Other matter

The Corporate Governance Report includes the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 14 March 2018

A handwritten signature in dark ink, appearing to read 'Markus Mees', written over the printed name.

Markus Mees

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Deutsche Börse
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BEFESA

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(euro)

Balance Sheet	Note(s)	2017	2016
Assets			
A. Subscribed capital unpaid			
I. Subscribed capital not called			
II. Subscribed capital called but unpaid			
B. Formation expenses		132,48	320,96
C. Fixed assets		774.521.878,18	265.873.281,41
I. Intangible assets			
1. Costs of development			
2. Concessions, patents, licences, trade marks and similar rights and assets, if they were			
a) acquired for valuable consideration and need not be shown under C.I.3			
b) created by the undertaking itself			
3. Goodwill, to the extent that it was acquired for valuable consideration			
4. Payments on account and intangible assets under development			
II. Tangible assets			
1. Land and buildings			
2. Plant and machinery			
3. Other fixtures and fittings, tools and equipment			
4. Payments on account and tangible assets in the course of construction			
III. Financial assets	3.	774.521.878,18	265.873.281,41
1. Shares in affiliated undertakings	3.1	248.521.878,18	265.873.281,41
2. Loans to affiliated undertakings	3.2	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			

Balance Sheet		Note(s)	2017	2016
D. Current assets			8.584.748,47	3.640.654,86
I. Stocks				
1. Raw materials and consumables				
2. Work in progress				
3. Finished goods and goods for resale				
4. Payments on account				
II. Debtors	4.		8.489.051,38	3.634.500,00
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				
a) becoming due and payable within one year				
b) becoming due and payable after more than one year				
3. Amounts owed by undertakings with which the undertaking is linked by virtue of participating interests			8.489.051,38	3.634.500,00
a) becoming due and payable within one year			4.923.051,38	
b) becoming due and payable after more than one year			3.566.000,00	3.634.500,00
4. Other debtors				
a) becoming due and payable within one year				
b) becoming due and payable after more than one year				
III. Investments				
1. Shares in affiliated undertakings				
2. Own shares				
3. Other investments				
IV. Cash at bank and in hand			95.697,09	6.154,86
E. Prepayments	5.		7.364.017,39	2.340,00
TOTAL (ASSETS)			790.470.776,52	269.516.597,23

Statutory Annual Accounts
as at 31 December 2017
(continued)
(euro)

Balance Sheet	Note(s)	2017	2016
CAPITAL, RESERVES AND LIABILITIES			
A Capital and reserves	6	250.493.596,08	267.748.362,58
I. Subscribed capital	6.1	94.575.646,35	64.093.192,67
II. Share premium account	6.2	288.744.501,22	233.286.638,84
III. Revaluation reserve			
IV. Reserves		6.409.319,27	
1. Legal reserve	6.3	6.409.319,27	
2. Reserve for own shares			
3. Reserves provided for by the articles of association			
4. Other reserves, including the fair value reserve			
a) other available reserves			
b) other non available reserves			
V. Profit or loss brought forward		-138.810.329,41	-271.437.572,46
VI. Profit or loss for the financial year		-425.541,35	241.806.103,53
VII. Interim dividends			
VIII. Capital investment subsidies			
B. Provisions	7.	581.210,32	17.828,15
1. Provisions for pensions and similar obligations			
2. Provisions for taxation			50,00
3. Other provisions		581.210,32	17.778,15
C. Creditors	8.	532.031.952,73	1.750.406,50
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	8.1	527.039.752,00	

Balance Sheet	Note(s)	2017	2016
a) becoming due and payable within one year		1.039.752,00	
b) becoming due and payable after more than one year		526.000.000,00	
3. Payments received on account of orders in so far as they are shown separately as deductions from stocks			
a) becoming due and payable within one year			
b) becoming due and payable after more than one year			
4. Trade creditors	8.2	2.436.609,30	
a) becoming due and payable within one year		2.436.609,30	
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	8.3	2.555.591,43	1.750.406,50
a) becoming due and payable within one year			336.815,07
b) becoming due and payable after more than one year		2.555.591,43	1.413.591,43
7. Amounts owed to undertakings with which the undertaking is linked by virtue of participating interests			
a) becoming due and payable within one year			
b) becoming due and payable after more than one year			
8. Other creditors			
a) Tax authorities			
b) Social security authorities			
c) Other creditors			
i) becoming due and payable within one year			
ii) becoming due and payable after more than one year			
D. Deferred income	9.	7.364.017,39	
TOTAL (CAPITAL, RESERVES AND LIABILITIES)		790.470.776,52	269.516.597,23

Statutory Annual Accounts
as at 31 December 2017
(continued)
(euro)

	Note(s)	2017	2016
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.	1.465.841,44	
5. Raw materials and consumables and other external expenses		-1.920.814,30	-153.583,14
a) Raw materials and consumables			
b) Other external expenses	11.	-1.920.814,30	-153.583,14
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		-188,48	-188,48
a) in respect of formation expenses and of tangible and intangible fixed assets		-188,48	-188,48
b) in respect of current assets			
8. Other operating expenses			
9. Income from participating interests			
a) derived from affiliated undertakings			
b) other income from participating interests			
10. Income from other investments and loans forming part of the fixed assets		964.333,33	
a) derived from affiliated undertakings	3.2	964.333,33	
b) other income not included under a)			

	Note(s)	2017	2016
11. Other interest receivable and similar income		216.859,22	250.736.376,55
a) derived from affiliated undertakings			250.736.376,55
b) other interest and similar income	9.	216.859,22	
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		-1.143.207,56	-8.773.291,40
a) concerning affiliated undertakings		-19.863,01	-3.636.601,94
b) other interest and similar expenses	8.	-1.123.344,55	-5.136.689,46
15. Tax on profit or loss	13.		
16. Profit or loss after taxation		-417.176,35	241.809.313,53
17. Other taxes not shown under items 1 to 16		-8.365,00	-3.210,00
18. Profit or loss for the financial year		-425.541,35	241.806.103,53

Notes to the Statutory Annual Accounts as at 31 December 2017 (euro)

1. General information

Befesa S.A. (the "Company") (formerly Bilbao Midco S.à r.l) was incorporated in Luxembourg on 31 May 2013 as a "société à responsabilité limitée" subject to the Luxembourg law for an unlimited period of time. On 18 October 2017, the shareholders resolved to convert the Company from its current form of a "société à responsabilité limitée" into a "société anonyme" without creating a new legal entity or affecting the legal existence or personality of the Company in any manner, and to change the name of the Company into Befesa S.A.. As at 31 December 2017, the registered office of the Company is established at 2C, Rue Albert Borschette, L-1246, Luxembourg. On 1 March 2018, the registered office of the Company was transferred to 46, Boulevard Grande-Duchesse Charlotte, L-1330 Luxembourg.

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

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

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

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

In a general fashion, the Company may carry out any commercial, industrial or financial operation, which it may deem useful in the accomplishment and development of its object.

Following the Initial Public Offer ("IPO") held on 3 November 2017, the Company is listed on the Frankfurt Stock Exchange.

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

The Company also prepares consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). The consolidated financial statements are available at the registered office of the Company.

The provisions of the law of 18 December 2015 on the annual accounts and consolidated accounts and the grand-ducal regulation of 18 December 2015 on the layout of balance sheet and profit and loss accounts, amending the law of 19 December 2002 have been transposed in these annual accounts.

2. Summary of significant accounting policies

2.1 Basis for preparation

The annual accounts have been prepared in accordance with Luxembourg legal and regulatory requirements, under the historical cost convention. The accounting policies and valuation rules are besides the ones laid down by the law of 19 December 2002, as amended, 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 Company 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.

2.2 Significant accounting policies

2.2.1 Foreign currency translation

The Company maintains its books and records in Euro ("EUR") and the Balance Sheet and the Profit and Loss account are expressed in this currency.

Other assets and other liabilities (except specific cases) denominated in currencies other than EUR are translated at the exchange rates prevailing at the date of the balance sheet, unless this would lead to an unrealised exchange gain.

As a result, realised exchange gains and losses and unrealised exchange losses are recorded in the profit and loss account. Unrealised exchange gains are not recorded.

Specific cases:

Current assets and liabilities denominated in currencies other than EUR (having an economic link and similar characteristics) are recorded at the exchange rates prevailing at the date of the balance sheet.

Long term debt denominated in currencies other than EUR having an economic link with receivables recorded in financial assets (and having similar characteristics) are translated at the historical exchange rates ("back to back" loans).

2.2.2 Formation expenses

Formation expenses include costs in connection with the incorporation of the Company and any subsequent capital increases. Formation expenses are amortized on a straight line basis over a period of five years.

Notes to the Statutory Annual Accounts as at 31 December 2017 (continued) (euro)

2.2.3 Financial assets

Shares in affiliated undertakings, participating interests and securities held as fixed assets are valued at acquisition cost, including the expenses incidental thereto.

Loans to affiliated undertakings are recorded at their nominal value, including the expenses incidental thereto.

In case of 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 they were recorded have ceased to apply.

Pre-acquisition reserves distributions received from affiliated undertakings are considered to be a reimbursement of the investment, and therefore are accounted for as a reduction of the Company's cost of the participation in the affiliated undertaking.

2.2.4 Debtors

Debtors are recorded at their nominal value. They are subject to value adjustments where, in the opinion of the Board of Directors, their recovery is compromised. These value adjustments are not maintained if the reasons for which the value adjustments were made have ceased to apply.

2.2.5 Prepayments

This asset item includes expenditures incurred during the financial year but relating to a subsequent financial year.

2.2.6 Provisions

Provisions are intended to cover losses or debts the nature of which is clearly defined and which at the date of the balance sheet are either likely to be incurred or certain to be incurred but uncertain as to their amount or 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 balance sheet date 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. Summary of significant accounting policies continued

2.2.7 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.

2.2.8 Deferred income

This liability item includes income received during the financial year but relating to a subsequent financial year.

3. Financial assets

3.1 Shares in affiliated undertakings

Name of Company	Registered office	% of ownership	Net book value 31.12.2016 (EUR)	Additions/ (Reductions) for the year (EUR)	Net book value 31.12.2017 (EUR)
Befesa Holding S.à r.l.	Luxembourg	100 %	247.532.853,80	(17.243.403,23)	230.289.450,57
Befesa Medio Ambiente, S.L.	Spain	6 %	18.340.427,61	(108.000,00)	18.232.427,61
Total			265.873.281,41	(17.351.403,23)	248.521.878,18

Name of Company	Net Equity as at 31.12.2017 (EUR)	Result YTD 2017 (EUR)
Befesa Holding S.à r.l.	222.442.760,04	(1.521.487,62)
Befesa Medio Ambiente, S.L.	182.393.470,00	(16.758.269,00)

Befesa Holding S.à r.l.

In October 2017, Befesa Holding distributed an interim dividend (with charge to pre-acquisition reserves) for a total amount of EUR 17,243,403.23.

Befesa Medio Ambiente, S.L.

During the year 2017, the carrying value of this investment has been adjusted by EUR 108.000,00 following the assignment and set-off of a claim from the former owner of the Group.

In the opinion of the Board of Directors, no durable depreciation in value has occurred on shares in affiliated undertakings as at 31 December 2017, accordingly no value adjustment was recorded.

Notes to the Statutory Annual Accounts as at 31 December 2017 (continued) (euro)

3.2 Loans to affiliated undertakings

Name of Borrower	Instruments	Balance as at 31.12.2017 (EUR)	Balance as at 31.12.2016 (EUR)
Befesa Medio Ambiente, S.L.	Loan	526.000.000,00	–
Total		526.000.000,00	–

On 7 December 2017, the Company granted a loan of EUR 526.000.000,00 to Befesa Medio Ambiente, S.L. The principal economic terms of this loan match the principal economic terms of the Facility granted to the Company (Note 8.1).

As at 31 December 2017, the nominal amount of this loan is EUR 526.000.000,00 (2016: EUR 0) and accrued interest amount to EUR 964.333,33 (2016: EUR 0) (Note 4). The interest income of the year amounts to EUR 964.333,33 (2016: EUR 0).

In the opinion of the Board of Directors, no durable depreciation in value has occurred on loans to affiliated undertakings as at 31 December 2017, accordingly no value adjustment was recorded.

4. Debtors

	Total 31.12.2017 (EUR)	Total 31.12.2016 (EUR)
Amounts owed by affiliated undertakings		
Becoming due and payable within one year	4.923.051,38	–
Becoming due and payable after more than one year	3.566.000,00	3.634.500,00
Total	8.489.051,38	3.634.500,00

As at 31 December 2017, the amounts owed by affiliated undertakings becoming due and payable within one year are mainly composed of EUR 2.053.451,38 (2016: EUR 0) for the costs recharged to the subsidiary (Note 10). The balance also includes accrued interest: EUR 964.333,33 (2016: EUR 0) on the loan granted to Befesa Medio Ambiente, S.L. (Note 3.2), EUR 75.418,67 (2016: EUR 0) on the interest rate swap ("IRS") granted to this same subsidiary. This IRS has the same principal economic terms than the IRS granted to the Company (Note 8.1).

As at 31 December 2017, the amounts owed by affiliated undertakings becoming due and payable after more than one year are composed of cash advances mainly granted to affiliated undertakings. The balance bears no interest.

In the opinion of the Board of Directors, the recovery of debtors is not compromised as at 31 December 2017, accordingly no value adjustment was recorded.

5. Prepayments

	Total 31.12.2017 (EUR)	Total 31.12.2016 (EUR)
Arrangement fees	6.276.407,45	–
Capitalized costs	1.087.609,94	–
Other prepaid expenses	–	2.340,00
Total	7.364.017,39	2.340,00

Arrangement fees of EUR 6.360.000,00 (2016: EUR 0) have been paid in relation to the Facility agreement granted to the Company (Note 8.1). These transactions costs have been recognized and are amortized all along the length of the facility. As at 31 December 2017, the prorated amortisation amounts to EUR 83.592,55 (2016: EUR 0).

In addition, some costs related to the facility have also been capitalized for an amount of EUR 1.102.095,31 (2016: EUR 0), and amortized similarly. As at 31 December 2017, the prorated amortisation amounts to EUR 14.485,37 (2016: EUR 0).

6. Capital and reserves

6.1 Subscribed capital

	Balance 31.12.2016 (EUR)	Movements of the year (EUR)	Balance 31.12.2017 (EUR)
Class A Preference Shares	57.281,17	(57.281,17)	–
Class B Ordinary shares	64.035.911,50	(64.035.911,50)	–
Ordinary Shares	–	94.575.646,35	94.575.646,35
Subscribed capital	64.093.192,67	30.482.453,68	94.575.646,35

As at 31 December 2016, the subscribed capital was fully paid up and represented by 5.728.117 Class A preference shares and 6.403.591.150 Class B ordinary shares with a nominal value of EUR 0,01, each for a total amount of EUR 64.093.192,67.

At the time of the conversion of Bilbao Midco S.à r.l. into Befesa S.A., the Company reduced its total number of shares, cancelled the nominal value of the shares, and set the Company's share capital at EUR 64.093.192,67 divided into 20.633 class A preference shares and 23.066.112 ordinary shares.

Prior to the IPO, the 20.633 Class A preference shares have been converted into 11.000.593 ordinary shares.

As at 31 December 2017, the subscribed capital is fully paid up and represented by 34.066.705 ordinary shares without nominal value, representing a total amount of EUR 94.575.646,35.

Notes to the Statutory Annual Accounts as at 31 December 2017 (continued) (euro)

6.2 Share premium account

The movements on the share premium account during the year are as follows:

	Balance 31.12.2016 (EUR)	Movements of the year (EUR)	Balance 31.12.2017 (EUR)
Share Premium account	233.286.638,84	55.457.862,38	288.744.501,22

The movements of the year are explained by:

- (i) EUR 16.829.225,15 decrease following distribution as an interim dividend on 17 October 2017.
- (ii) EUR 72.827.087,53 increase following the conversion of the Class A preference shares into ordinary shares.

6.3 Legal Reserve

In accordance with the 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

As at 31 December 2017, provisions mainly consist of provisions for other external charges.

8. Creditors

8.1 Amounts owed to credit institutions

	Total 31.12.2017 (EUR)	Total 31.12.2016 (EUR)
Amounts becoming due and payable within one year	1.039.752,00	–
Amounts becoming due and payable after more than one year	526.000.000,00	–
Total	527.039.752,00	–

On 19 October 2017, the Company entered into a Facility agreement of EUR 636.000.000,00. An amount of EUR 526.000.000,00 was drawdown on 7 December 2017. The Facility bears interests at 2,75% 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 EUR 316.000.000,00, and the fixed rate is 0,358%, and the benchmark floating rate is Euribor.

As at 31 December 2017, the amounts becoming due and payable within one year are composed of EUR 964.333,33 (2016: EUR 0) accrued interest on the facility, and of EUR 75.418,67 (2016: EUR 0) accrued interest on the IRS.

8. Creditors continued

8.2 Trade Creditors

As at 31 December 2017, the trade creditors consist of accrued invoices for EUR 2.436.609,30 (2016: EUR 0).

8.3 Amounts owed to affiliated undertakings

	Total 31.12.2017 (EUR)	Total 31.12.2016 (EUR)
Amounts becoming due and payable within one year	–	336.815,07
Amounts becoming due and payable after more than one year	2.555.591,43	1.413.591,43
Amounts becoming due and payable after more than five years	–	–
Total	2.555.591,43	1.750.406,50

As at 31 December 2017, the amounts becoming due and payable after more than one year are composed of a payable of EUR 1.255.591,43 (2016: EUR 1.363.594,43) to one of the subsidiary, and cash advances of EUR 1.300.000,00 (2016: EUR 50.000,00) granted by a subsidiary.

9. Deferred income

The Facility agreement granted to the Company on 7 December 2017 (Note 8.1) and the loan granted to Befesa Medio Ambiente, S.L. (Note 3.2) have the same principal economic terms. The arrangement fees EUR 6.360.000,00 (2016: EUR 0) and costs capitalised EUR 1.102.095,31 (2016: EUR 0) on the Facility (Note 5) have been accounted for equally on the loan granted to Befesa Medio Ambiente, S.L.. As at 31 December 2017, the prorated amortisation of the arrangement fees amounts to EUR 83.592,55 (2016: EUR 0), and the prorated amortisation of the capitalised costs amounts to EUR 14.485,37 (2016: EUR 0).

10. Other operating income

The other operating income consists of the costs the Company recharged to its subsidiary for the year 2017.

11. Other external expenses

The other external expenses are composed of the following:

	01.01.2017- 31.12.2017 (EUR)	01.01.2016 - 31.12.2016 (EUR)
Accounting, auditing and domiciliation fees	46.762,32	36.467,73
Banking and similar services	400,97	146,25
Legal fees	1.324.313,01	106.259,16
Other commissions and professional fees	548.988,00	10.360,00
Miscellaneous	350,00	350,00
Total	1.920.814,30	153.583,14

The legal and professional fees are mainly composed of costs related to the IPO.

Notes to the Statutory Annual Accounts as at 31 December 2017 (continued) (euro)

The professional services provided by PwC Network firms to Befesa S.A. and its affiliated undertakings are as follows :

(Thousand EUR)	2017	2016
Audit services	475	601
Other assurance services	845	22
Tax advisory services	–	41
Other non-audit services	855	837
Total	2.175	1.501

12. Staff costs

The average number of employees for the year 2017 was nil (2016: 0).

13. Tax on profit or loss

The Company is subject to the general tax regulation applicable in Luxembourg.

14. Related parties transactions

Unless previously disclosed, the Company did not enter into related party transactions which have not been concluded under normal market conditions.

15. Off balance sheet items

On 19 October 2017, the Company entered into a Facility agreement of EUR 636.000.000,00 (Note 8.1). In this context, the Company pledged the shares of Befesa Holding S.à r.l. and Befesa Medio Ambiente, S.L..

On 7 December 2017, the Company entered into an Interest Rate Swap agreement ("IRS") in relation with the Facility agreement (Note 8.1).

16. Advances and loans granted to the members of the management and supervisory bodies

Neither advances nor loans have been granted by the Company to the members of the management and supervisory bodies.

17. Subsequent events

In January 2018, the Parent Company approved two different compensation plans for some members of the Group management:

- A compensation plan linked to the evolution of the share price consisting of 79.018 shares that will be exercisable after three years of signing the agreement (November 2017). The agreed remuneration is conditioned to the continuation of the beneficiaries as directors of the Group.
- A compensation plan linked to the evolution of certain key indicators determined in the agreement (cumulative EBIT, cumulative cash flow and return on inputs of strategic projects). The plan consists of four periods of three years each starting from January 2018 to January 2021 and considers 89.107 shares per period. The agreed remuneration plan is conditioned to the continuation of the beneficiaries as directors of the Group.

The settlement may be liquidated, at the Company's discretion, by means of cash or by exercising the purchase option of the shares at the reference price, after considering compliance with the mentioned indicators.

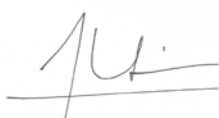
On 1 March 2018, the registered office of the Company was transferred to 46, Boulevard Grande-Duchesse Charlotte, L-1330 Luxembourg.

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 2017 annual accounts presented in this Annual Report, which have been prepared in accordance with Luxembourg legal and regulatory requirements, give a true and fair view of the assets, liabilities, financial position and profit or loss of Befesa S.A.; and
- The management report on the annual accounts included in this Annual Report, which has been combined with the management report on the consolidated financial statements included in this Annual Report, gives a fair review of the development and performance of the business and the position of Befesa S.A., or Befesa S.A. and its consolidated subsidiaries, taken as a whole, as applicable, together with a description of the principal risks and uncertainties that they face.

Luxembourg, March 13, 2018



Javier Molina Montes



Wolf Uwe Lehmann

Independent Auditor's Report



Audit report

To the Shareholders of
Befesa S.A.

Report on the audit of the annual accounts

Our opinion

In our opinion, the accompanying annual accounts give a true and fair view of the financial position of Befesa S.A. (the "Company") as at 31 December 2017, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Our opinion is consistent with our additional report to the Audit Committee or equivalent.

What we have audited

The Company's annual accounts comprise:

- the balance sheet as at 31 December 2017;
- the profit and loss account for the year then ended; and
- the notes to the annual accounts, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the annual accounts. We have fulfilled our other ethical responsibilities under those ethical requirements.

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Cabinet de révision agréé, Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B65 477 - TVA LU25482518

Independent Auditor's Report (continued)



To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Company and its affiliated undertakings, for the year ended 31 December 2017, are disclosed in Note 11 to the annual accounts.

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, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Recoverability of financial assets	
The balance sheet as at 31 December 2017 includes shares in affiliated undertakings amounting to 230 million EUR (related to the investment in Befesa Holding S.à r.l.) and loans to affiliated undertakings (Befesa Medio Ambiente S.L., hereafter "BMA") amounting to 526 million EUR. Both items together represent 96% of the total assets of the Company. Management's estimation of the recoverability of the investment in Befesa Holding S.à r.l. included the comparison of the carrying value of the investment with the market capitalization of Befesa S.A.. Management's estimation of the recoverability of the loan granted to BMA included projection of consolidated cash flows of BMA and its subsidiaries. The most significant assumptions used are discount rates, rates of growth of revenues and the estimate of future margins.	Our audit procedures over the recoverability of the financial assets included, but were not limited to: • Comparison of the carrying value of the investment in Befesa Holding S.à r.l. with the market capitalisation of Befesa S.A. as at 31 December 2017; • Analysis of the capability of BMA to repay the debt owed to the Company, based on the consolidated cash position and projections of free cash flows of BMA and its subsidiaries. Regarding the projections of free cash flows, we back tested past cash flows projections for year 2017 with the actual cash flows for the year; we compared the cash flow projections with forecasts approved by the Board of Directors, and when possible benchmarked them against general and sector-specific market expectations; we tested the rates of growth of revenues and forecast future margins against available comparable, including historical results, actual selling prices for 2017 and the first months of 2018 and, when applicable, prices guaranteed for future years; we tested the sensitivity analysis performed by Management; and we involved internal valuation specialists to assist us in evaluating the reasonableness of the discount rates applied against independent data. We finally assessed the adequacy of the disclosures in the annual accounts.



Key audit matter	How our audit addressed the Key audit matter
This matter was of particular significance to our audit as Management's assessment of the recoverable amount of the financial assets required estimates and judgement.	

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report and the Corporate Governance Report but does not include the annual accounts and our audit report 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 identified above 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 that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of the annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent Auditor's Report (continued)



Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the annual accounts

The objectives of our audit are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters. We describe these matters in our audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

The Management report is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

The information required by Article 68ter Paragraph (1) Letters c) and d) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, which is included in the Corporate Governance Report, is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

We have been appointed as “Réviseur d’Entreprises Agréé” of the Company by the General Meeting of the Shareholders on 18 October 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 5 years.

Other matter

The Corporate Governance Report includes the information required by Article 68ter Paragraph (1) Letters a), b), e), f) and g) of the Law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 14 March 2018

Markus Mees

Additional Information



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Events & IR Contact**

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Disclaimer

Glossary

For a full understanding of this Annual Report and Befesa's activities, please see below a glossary of certain technical terms used herein.

Aluminium alloy	A mixture of two or more elements in which aluminium is the predominant metal
Aluminium concentrates	Secondary aluminium residue generated during the recycling process of salt slags and SPL, which can either be landfilled or sold to various industries as an input material for further production cycles
Aluminium residue	Aluminium scrap and other residues mainly containing aluminium, such as drosses, shavings and cuttings, that can be recycled
Aluminium scrap	Material from various goods that have reached completion of their useful lives, that mainly contains aluminium and can be recycled
Basic Oxygen Furnace (BOF)	A type of metallurgical furnace which uses iron ore as its base raw material to produce steel
Coke	An input material used in our steel residue recycling processes
Crude steel dust	Hazardous waste resulting from the production of crude steel by mini-mills
Electric Arc Furnace (EAF)	A furnace used by mini-mills to melt scrap steel that can be easily started and stopped to respond to changes in demand
Galvanized steel	Steel with a protective coating containing zinc that protects against corrosion
Leaching	A hydrometallurgical process that increases the zinc content of Waelz oxide by removing impurities like fluorides and chlorines
Lime	An input material used in our steel dust recycling process
Mini-mills	Steel production facilities for the production of steel by melting the recycled scrap steel in Electric Arc Furnaces (EAF), as opposed to directly from iron ore (which is the primary iron resource used in traditional Basic Oxygen Furnace (BOF) steel factories)
Plasma furnace	A furnace used for recycling stainless steel residue by processing the residue, coke and lime amongst other materials in a plasma generator to recover metals (mainly nickel, chromium and molybdenum)

Rotary oven	A tube-shaped oven that rotates around a central axis while materials are being treated
Salt slags	A hazardous waste generated by the production of secondary aluminium
Scrap steel	Recycled steel that serves as an input material for steel manufacturers using mini-mill facilities
SPL	Spent Pot Linings or aluminium electrolysis cells are hazardous waste materials generated in the production process of primary aluminium
Stainless steel residue	A hazardous residue resulting from the stainless steel production from scrap stainless steel
Steel residue	Crude steel dust and stainless steel residue
Submerged arc welding furnace	A furnace used for recycling stainless steel residue by processing stainless steel residue, coke and lime amongst other materials in a charging device to recover metals (mainly nickel, chromium and molybdenum)
Tolling fee	A fee charged to stainless steel manufacturers to collect and treat stainless steel residue and return to them metals (mainly nickel, chromium and molybdenum) recovered in the process
Valorization	The recovery of valuable materials from waste
Waelz kiln	A kiln used for processing crude steel dust by mixing crude steel dust, coke and lime in the kiln containing a rotating furnace, which vaporizes the zinc and lead components contained in the crude steel dust and produces Waelz oxide
Waelz oxide	A product with a high concentration of zinc that is generated in the crude steel dust recycling process and that is used in the production of zinc
Zinc smelter	A type of industrial plant or establishment that engages in zinc smelting, i.e. the conversion of zinc ore concentrates and Waelz oxide into zinc metal

Financial Calendar, IR Events & IR Contact

Financial Calendar

Thursday, March 15, 2018

Publication of Report for the Full Year 2017 & Analyst Call

Thursday, April 26, 2018

Annual General Meeting in Luxembourg

Thursday, May 24, 2018

Publication of Statement for the Q1 2018 & Analyst Call

Thursday, August 30, 2018

Publication of Interim Report for the H1 2018 & Analyst Call

Thursday, November 22, 2018

Publication of Statement for the Q3 2018 & Analyst Call

Note: We cannot rule out changes of dates. We recommend checking them in the Investor Relations / Financial Calendar section of our website (www.befesa.com)

IR Events

January 8-9, 2018

New York, German Investment Seminar (Commerzbank)

March 8, 2018

London, Global Resources Conference (Citi)

March 16, 2018

London, Pan-European Business Services Conference (Citi)

June 6-8, 2018

Berlin, dbAccess Berlin Conference (Deutsche Bank)

June 11-13, 2018

Boston, 2018 Cross Sector Insight Conference (Stifel)

September 11-13, 2018

London, Small and Mid Caps Europe (JP Morgan)

September 24-26, 2018

Munich, Berenberg & Goldman Sachs German Corporate Conference

Note: We cannot rule out changes of dates. We recommend checking them in the Investor Relations / IR news section of our website (www.befesa.com)

IR Contact

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Published on Thursday, March 15, 2018

You can find this and other publications online in the Investor Relations / Reports and presentations section of our website (www.befesa.com)

Disclaimer

This report contains forward-looking statements and information relating to Befesa and its affiliates that are based on the beliefs of its management, including assumptions, opinions and views of Befesa and its affiliates as well as information cited from third party sources.

Such statements reflect the current views of Befesa and its affiliates or of such third parties with respect to future events and are subject to risks, uncertainties and assumptions.

Many factors could cause the actual results, performance or achievements of Befesa and its affiliates to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, amongst others: changes in general economic, political, governmental

and business conditions globally and in the countries in which Befesa and its affiliates does business; changes in interest rates; changes in inflation rates; changes in prices; changes to national and international laws and policies that support industrial waste recycling; legal challenges to regulations, subsidies and incentives that support industrial waste recycling; extensive governmental regulation in a number of different jurisdictions, including stringent environmental regulation; management of exposure to credit, interest rate, exchange rate and commodity price risks; acquisitions or investments in joint ventures with third parties; inability to obtain new sites and expand existing ones; failure to maintain safe work environments; effects of catastrophes, natural disasters, adverse weather conditions, unexpected geological or other physical conditions, or criminal or terrorist acts at one or more of our

plants; insufficient insurance coverage and increases in insurance cost; loss of senior management and key personnel; unauthorized use of our intellectual property and claims of infringement by us of others intellectual property; our ability to generate cash to service our indebtedness changes in business strategy and various other factors.

Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or targeted.

Befesa and its affiliates do not assume any guarantee that the assumptions underlying forward-looking statements are free of errors nor do they accept any responsibility for the future accuracy of the opinions expressed herein or the actual occurrence of the forecasted

developments. No representation (express or implied) is made as to, and no reliance should be placed on, any information, including projections, estimates, targets and opinions, contained herein, and no liability whatsoever is accepted as to any errors, omissions or misstatements contained herein or otherwise resulting, directly or indirectly, from the use of this document.

Befesa and its affiliates do not intend, and do not assume any obligations, to update these forward-looking statements.

BEFESA

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