# **Befesa Business Update** – December 2018

BEFESA

# Disclaimer

This presentation 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, among others: changes in general economic, political, governmental and business conditions globally and in the countries in which Befesa and its affiliates do business; changes in interest rates; changes in inflation rates; changes in prices; changes to national and international laws and policies that support industrial waste recycling; legal challenges to regulations, subsidies and incentives that support industrial waste recycling; extensive governmental regulation in a number of different jurisdictions, including stringent environmental regulation; management of exposure to credit, interest rate, exchange rate and commodity price risks; acquisitions or investments in joint ventures with third parties; inability to obtain new sites and expand existing ones; failure to maintain safe work environments; effects of catastrophes, natural disasters, adverse weather conditions, unexpected geological or other physical conditions, or criminal or terrorist acts at one or more of our plants; insufficient insurance coverage and increases in insurance cost; loss of senior management and key personnel; unauthorized use of our intellectual property and claims of infringement by us of others intellectual property; our ability to generate cash to service our indebtedness changes in business strategy and various other factors. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or targeted.

Befesa and its 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.

This presentation is intended for information only and should not be treated as investment advice. It is not intended as an offer for sale, or as a solicitation of an offer to purchase or subscribe to, any securities in any jurisdiction. Neither this presentation nor anything contained therein shall form the basis of, or be relied upon in connection with, any commitment or contract whatsoever. This presentation may not, at any time, be reproduced, distributed or published (in whole or in part) without prior written consent of Befesa.

Q3/9M 2018 figures contained in this presentation have not been audited or reviewed by external auditors.

This presentation includes Alternative Performance Measures (APMs), including EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, EBIT, Adjusted EBIT, Adjusted EBIT margin, net debt and capital expenditures which are not measures of liquidity or financial performance under International Financial Reporting Standards (IFRS). These non-IFRS measures should not be considered in isolation or as an alternative to results from operating activities, cash flow from operating, investing or financing activities, or other financial measures of our results of operations or liquidity derived in accordance with IFRS. We include APMs in this presentation because we believe that they are useful measures of our performance and liquidity. Other companies, including those in our industry, may calculate similarly titled financial measures differently than we do. Because all companies do not calculate these financial measures in the same manner, our presentation of such financial measures may not be comparable to other similarly titled measures of other companies. These APMs are not audited. All amounts are stated in million euros (€ million) unless otherwise indicated.

# Today's Presenters

CEO since 2000

**Javier Molina**

CEO

- Leading the company since 1994

CFO since 2014

**Wolf Lehmann**

CFO; including responsibilities for Operational Excellence and IT

- 20+ years in finance and operational leadership roles
- 50/50 General Electric / Private Equity

Since 2008

**Rafael Pérez**

Director of Investor Relations & Strategy

- Director of Investor Relations and Strategy of Befesa since 2008

| | |
|---|---|
| 1 | Recent Developments |
| 2 | Q3 2018 Update |
| 3 | Befesa Overview<br>(Investment Highlights) |

BEFESA

# Executive Summary

- Achieved good results 9M 2018 with +2% earnings growth YoY; S-DAX entry

- Zinc hedges in place until July 2021; Providing ~3 years of improved visibility

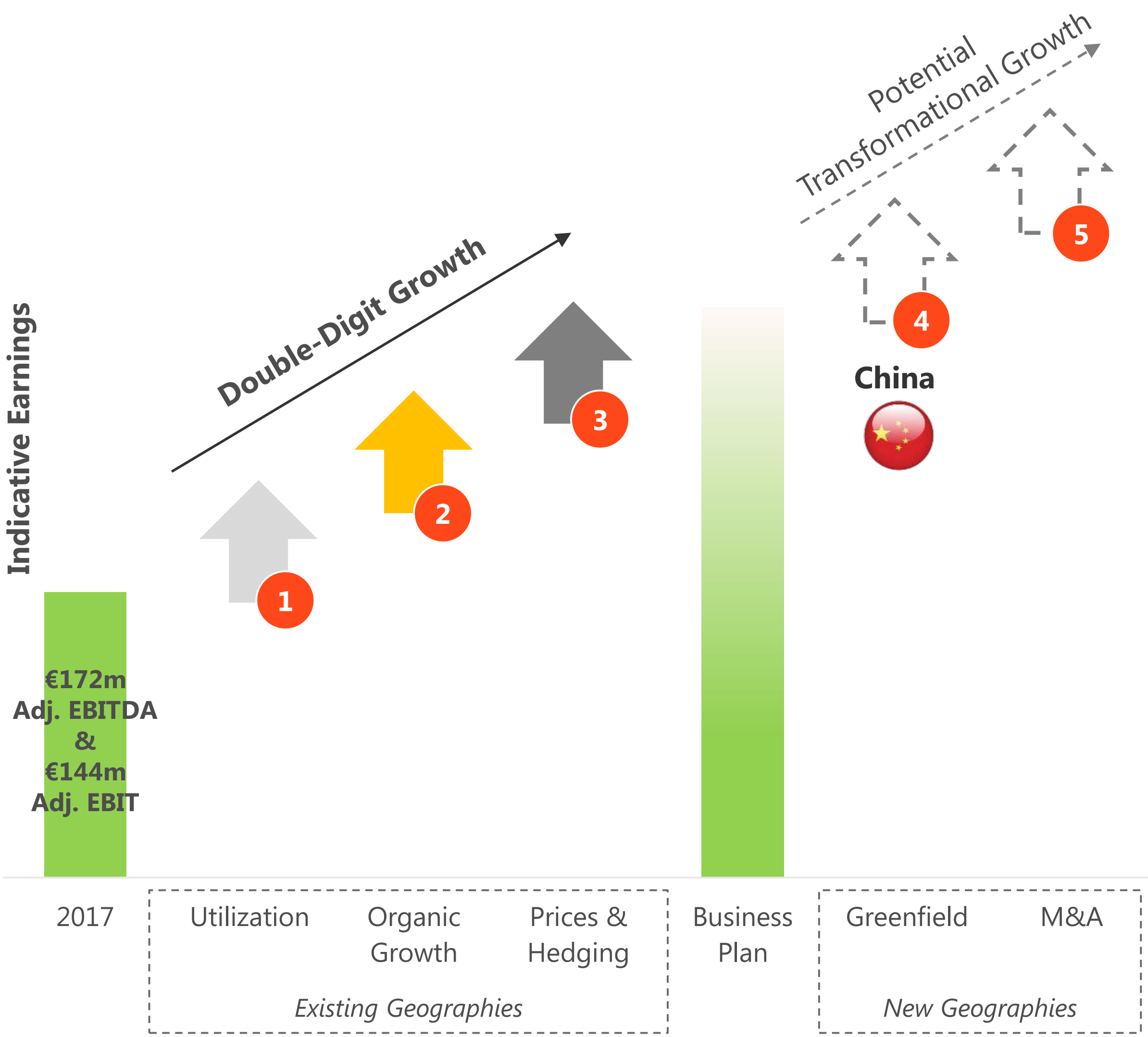
- Reduced leverage of x2.4 triggers decrease in interest rate by (25 bps) to E +250 bps; Moody's upgraded Befesa's rating by one notch from Ba3 to Ba2, outlook stable

- Guidance 2018 confirmed & concretized: EBITDA at €174-176m (2017: €172m); net profit significantly higher at €83-85m (2017: €49m) which would result in higher dividend payment

- 2019 & mid-term: strong growth based on hedges -&- execution of organic growth projects on track

- China expansion: developing 1st steel dust recycling plant at Jiangsu province; purchasing land use right; expecting ramp up of operations in 2H 2020

# Accelerated top- and bottom-line growth through a well-defined strategy




## 1 Utilization
- Increase plant utilization of prior year growth investments mainly Steel Dust Korea

## 2 Organic Growth
2018 Focus:
- Steel Dust:
  - Expand Turkey +45kt
  - Korea washing plant
- Aluminium Salt Slags:
  - Change to tilting furnaces
  - Expand Hannover +40kt

## 3 Prices & Hedging
- 2018: 92.4kt at €2,051
- 2019: 92.4kt at €2,306
- 2020: 92.4kt at €2,245
- H1 '21: 46.2kt at €2,230

## 4 Greenfield
- Monitoring growth opportunities and regulatory framework in new geographies, e.g. South East Asia, **China**, Russia

## 5 M&A Opportunities

Note: Chart is purely illustrative and size of respective arrows in the chart is not indicative to the underlying growth potential

# Signed agreement with Jiangsu Changzhou Economic Development Zone and purchasing land use right; Developing 1st steel dust recycling plant …


- ✓ Chinese government continues to strengthen environmental regulations
- ✓ Steel dust has been classified as hazardous waste
- ➢ Steel production from Electric Arc Furnaces growing and estimated to reach ~200 million tons by 2030

**… Befesa investing in proven state-of-the-art 110,000 tons facility; Expecting to complete ramp up of operations in H2 2020**

# Hedging program in place covering up to July 2021: improving visibility of earnings and cash flows for the next 3 years

## Market Zinc Price vs. Zinc Hedge
(€/ton)


Source: London Metal Exchange (LME) Zinc daily cash settlement prices

- Hedges in place **up to and including July 2021**
- **Increased volume coverage;**
  Higher volume of 7.7 kt/month or 92.4 kt/year
  (vs previous 6.1 kt/month or 73.2 kt/year)
  **approx. 70%** of zinc equivalent payable output
- **Strong hedge price levels** of €2,306/t in 2019, €2,245/t in 2020, and €2,230/t in H1 2021

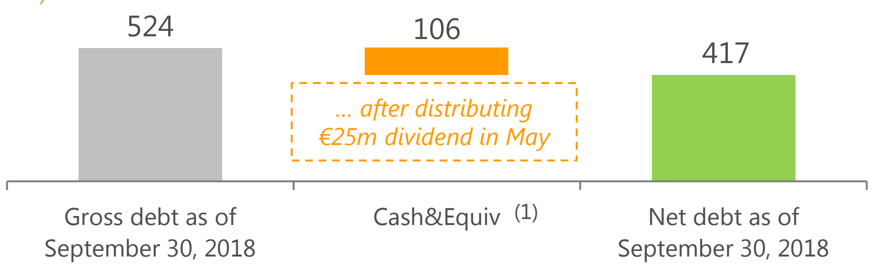
| Period | Average hedged price €/t | Zinc content hedged (tons) |
|---|---|---|
| 2017 | €1,876 | 73,200 |
| 2018 | €2,051 | 92,400 |
| 2019 | €2,306 | 92,400 |
| 2020 | €2,245 | 92,400 |
| H1 2021 | €2,230 | 46,200 |

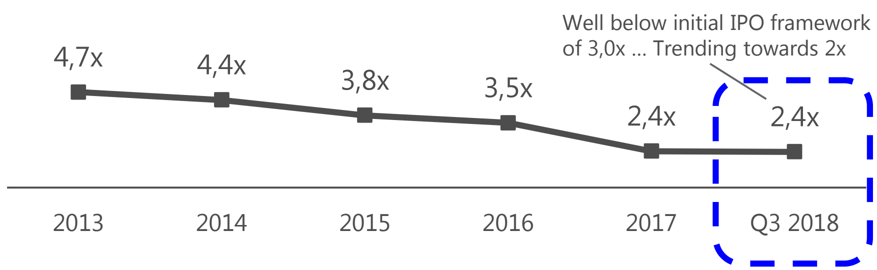
- Using recent October **~€2,300 LME market price** also for the **remaining months in 2018** for the un-hedged expected volumes (~30%), **blended** average zinc price **would translate in 2018 to ~€2,190**; vs. €2,160 in 2017
- Hedging **without** Befesa providing any **collateral; no margin calls**

# Leverage of 2.4x at Q3 2018 close
# → Interest cost reducing by 25bps to Euribor+250bps by end of November

## Net Debt and Leverage Rate Evolution

(€m)



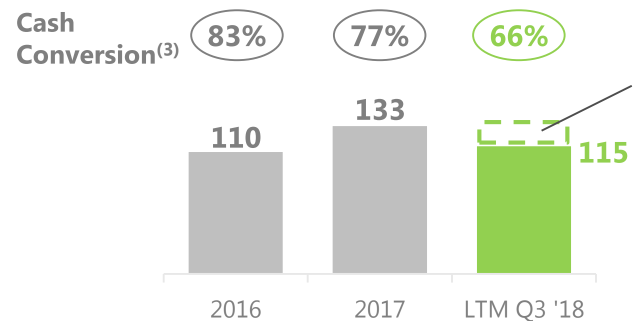

## Credit Ratings for Befesa S.A.

| | Oct 2017 (Pre-IPO) | Dec 2017 |
|---|---|---|
| Moody's | B2 | ~~Ba3 (Outlook positive)~~ |
| S&P | B | BB- (Outlook stable) |

On 26 Nov 2018, **Moody's upgraded to Ba2**, outlook stable

## Free Cash Flow[2]

(€m)




Note:
€(22)m WC impact:
a) timing / seasonality receivables;
b) payables due to plant stoppages in Aluminium (furnaces upgrade)

- **9M 2018: Operating Cash Flow** impacted by WC trend; Receivables due to seasonality; Payables due to Q3 scheduled Aluminium plant stoppages (furnace upgrades)
- **Cash stable at €106m at Q3 2018 close**
  after paying in 9M 2018: interests of €12.6m, taxes of €16.2m, cash CapEx of €27.2m, and €25m dividend distribution in May
- **Interest rate further reducing by 25 bps**
  from **Euribor** +275 bps to **+250 bps** from 27th of November; **annual interest expenses** further **reducing by €1.3m**
- **Solid free cash flow** generation run rate due to low maintenance requirements **providing funds for growth & reduction of leverage**

(1) Cash&Equiv. of €106.0m includes €0.4m of Other current financial assets
(2) Free Cash Flow is based on management accounts and is calculated as EBIT + Depreciation & Amortization (D&A) +/- WC change – maintenance capex – taxes
(3) Cash conversion = FCF / (Reported Adjusted EBIT + Adjusted D&A)

1 Recent Developments

2 Q3 2018 Update

3 Befesa Overview
(Investment Highlights)

BEFESA

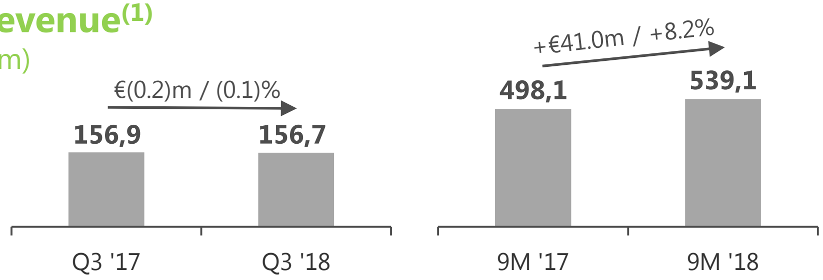
# Q3 2018 Key Highlights

- 9M 2018: EBITDA €128.9m (+2%); Adj. EBIT: €107.9m (+2%)
- 9M 2018 with strong net profit of €62.9m (+81%)
- Guidance 2018 confirmed & concretized: EBITDA at €174-176m (2017: €172m); net profit significantly higher at €83-85m (2017: €49m) which would result in higher dividend payment
- Reduced Leverage of x2.4 triggers decrease in interest rate by (25 bps) to E +250 bps
- Execution of organic growth projects on track
- Developing 1st steel dust recycling plant in China; Start of operations expected for H2 2020
- Befesa enters SDAX on 24 Sept 2018; ten months after listing at Frankfurt

# 9M Earnings +2%, in line with guidance & on track for €174-176m EBITDA 2018

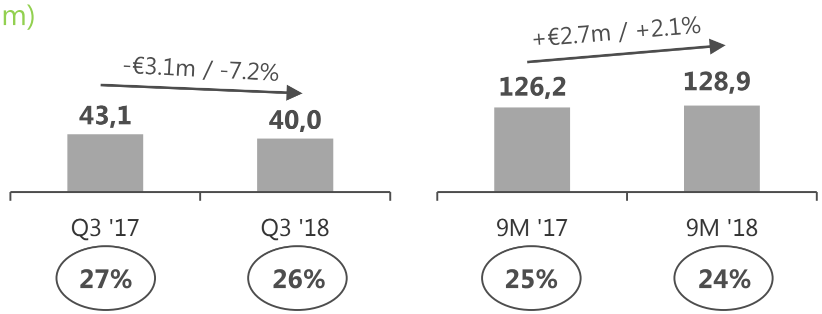
## Revenue[1]

(€m)



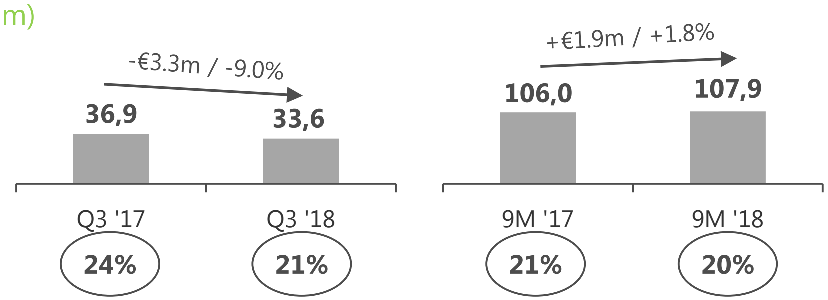

## EBITDA and % margin

(€m)




## EBIT and % margin

(€m)



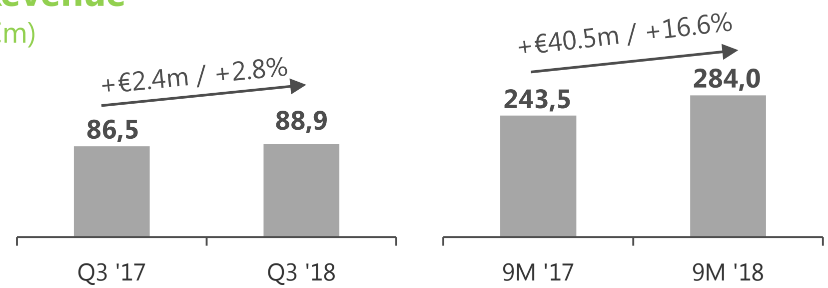

## Highlights

- **9M 2018: EBITDA at €129m (+2.1%); Adj. EBIT at €108m (+1.8%)**
- **Q3 2018 revenue flat at €157m on a comparable basis**; primarily due to:
  - Lower volumes in 2nd Aluminium segment (-20% YoY); stoppages to implement new furnaces (Bilbao & Barcelona), which will improve earnings going forward
  - **Lower prices**: **blended zinc** from €2,187 to €2,006 (**-8.3%**) YoY; **alu alloys** from €1,762 to €1,689, (**-4.1%**)
  - Partially offset by **higher volumes** in **Steel Dust Services**; **+1.9%** steel dust throughput; +5.3% WOX sold volumes
- **Despite challenging price trend**, **Q3 2018 EBITDA** at **€40.0m (-7.2%)** / **26%** EBITDA margin; **Adj. EBIT** at **€33.6m (-9.0%)** / **21%** EBIT margin
- **Strong 9M net profit** of **€62.9m (+€28.2m or +81%) on track for significantly improved net profit for 2018 of €83-85m** and corresponding **improved EPS and dividend distribution**

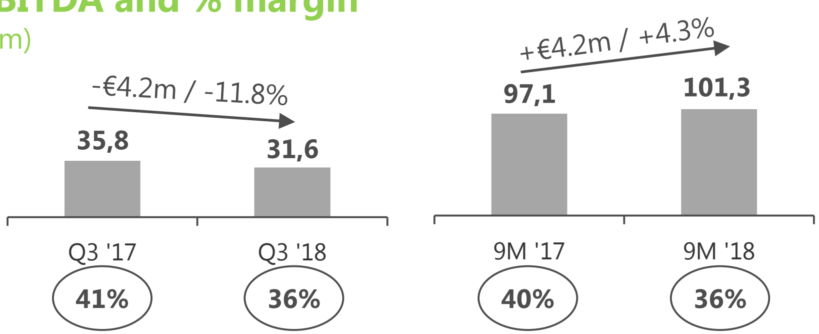
(1) Reported revenues in Q3 2017: €173.5m; 9M 2017: €547.9m; Figures shown on charts are comparable figures after IFRS amendment, for further details please refer to page 4 of the Statement for the Third Quarter 2018

# 9M 2018: +4% EBITDA / +6% EBIT, growth driven by higher EAFD throughput; Q3 earnings (-€4m) driven by zinc price decrease partially offset by volume

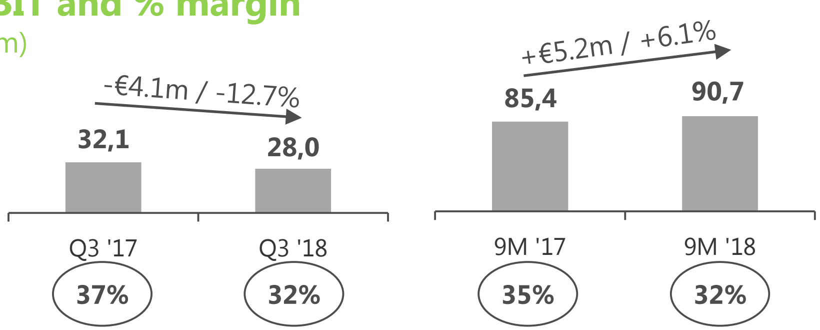
## Revenue
(€m)



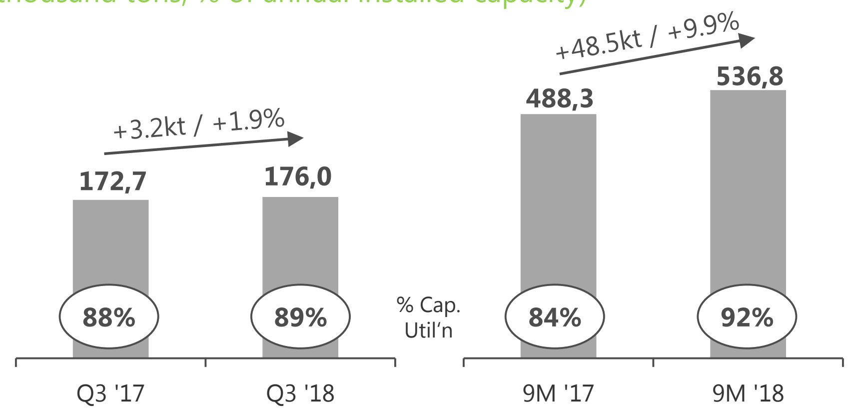

## EBITDA and % margin
(€m)




## EBIT and % margin
(€m)




## EAFD Throughput & Capacity Utilization
(thousand tons, % of annual installed capacity)




## Prices
(€ per ton)

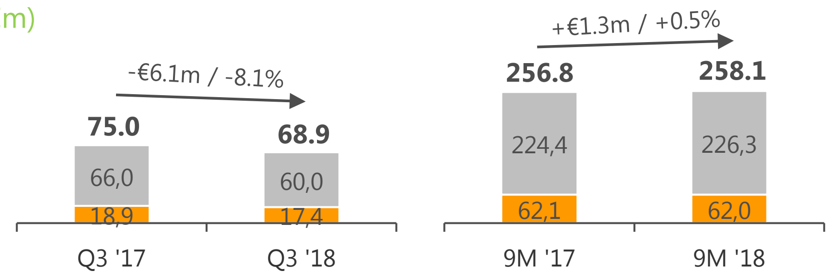
| | Q3 2017 | Q3 2018 | % Var. | 9M 2017 | 9M 2018 | % Var. |
|---|---|---|---|---|---|---|
| **Befesa blended(*) zinc price (€/t)** | 2,187 | 2,006 | **-8%** | 2,125 | 2,168 | **+2%** |
| **LME avg. price (€/t)** | 2,522 | 2,182 | **-13%** | 2,499 | 2,523 | **+1%** |

(*) Blended rate between hedged prices and average spot prices, weighted by the respective hedged and non-hedged volumes, reflecting the effective price to Befesa.

# Q3 2018: EBITDA €7.9m (+10%); EBIT €5.5m (+22%) driven by improved metal margin in 2nd Aluminium partially offset by reduced aluminium alloy prices

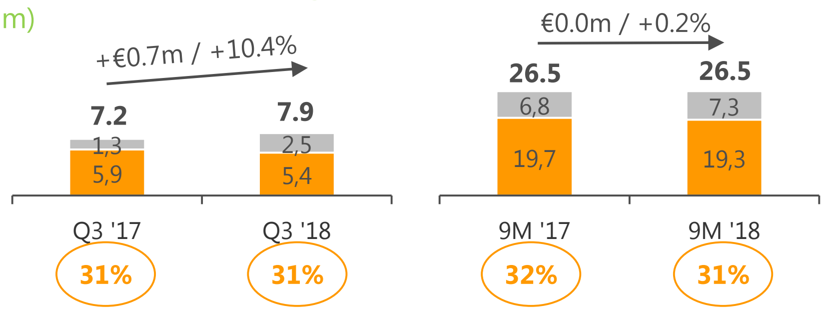
## Revenue(1)(2)

(€m)



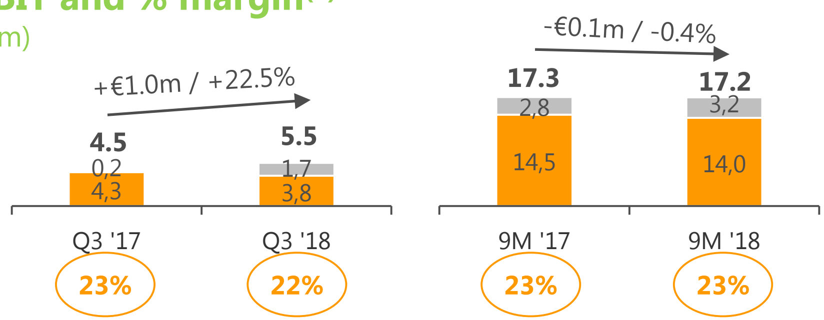

## EBITDA and % margin(3)

(€m)




## EBIT and % margin(3)

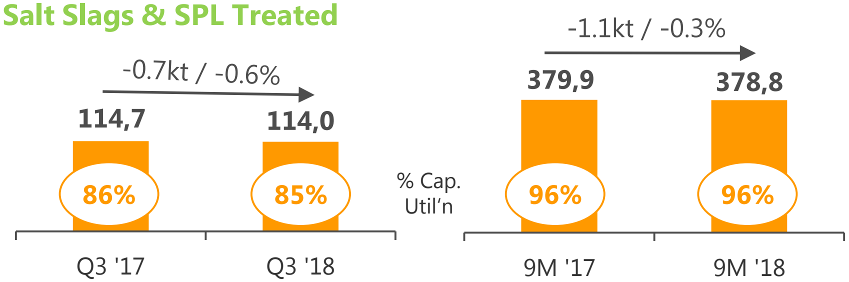
(€m)



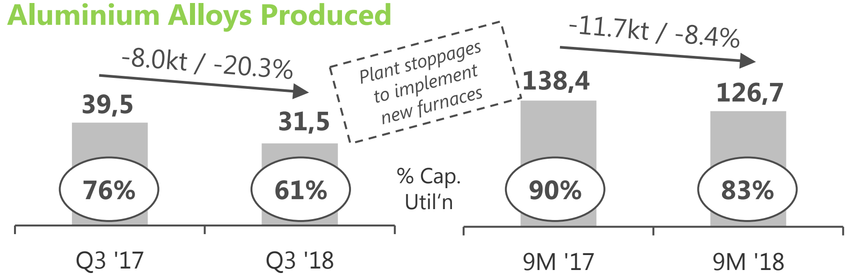

## Volumes & Capacity Utilization

(thousand tons, % of annual installed capacity)

### Salt Slags & SPL Treated




### Aluminium Alloys Produced




## Prices

(€ per ton)

| | Q3 2017 | Q3 2018 | % Var. | 9M 2017 | 9M 2018 | % Var. |
|---|---|---|---|---|---|---|
| **Aluminium alloy avg. price (*) (€/t)** | 1,762 | 1,689 | -4.1% | 1,770 | 1,783 | +0.7% |

(*) Aluminium Scrap and Foundry Ingots Aluminium pressure diecasting ingot DIN226/A380 European Metal Bulletin Free Market Duty paid delivered works.

Salt Slags sub-segment
Secondary Aluminium sub-segment

(1) Total revenue after inter-segment eliminations (2) Reported revenues in Q3 '17: €91.6m; 9M 2017: €306.7m; Figures shown on charts are comparable figures after IFRS amendment, for further details please refer to page 4 of the Statement for the Third Quarter 2018 (3) Adjusted EBIT(DA) margins refer to the Salt Slags sub-segment

BEFESA



1 Recent Developments

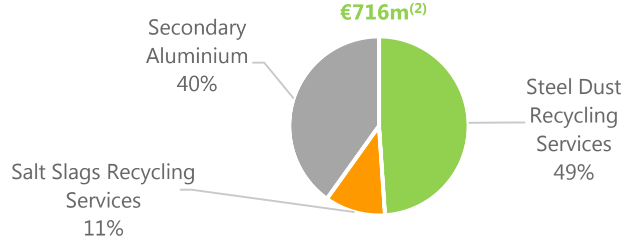
2 Q3 2018 Update

3 **Befesa Overview**
(Investment Highlights)

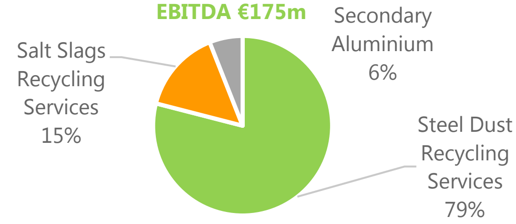
# Befesa – European market leader in providing mission critical hazardous waste recycling services to the steel and aluminium industry

BEFESA

**LTM[1] Q3 2018 Sales: €716m[2]**




**LTM[1] Q3 2018 Adj. EBITDA €175m**




**More than 90% of EBITDA generated from two core >30% EBITDA margin operations with low capital intensity**

## Steel Dust Recycling Services[3]

| | |
|---|---|
| #1 | Position in Europe (c. 45–50% market share) and Asia[5] |
| 37% | Adj. EBITDA Margin (LTM[1] Q3 2018)[3] |
| Relationships >15yrs | ArcelorMittal, voestalpine, nyrstar, Outokumpu, Glencore |

## Aluminium Salt Slags Recycling Services

| | |
|---|---|
| #1 | Position in Europe in Salt Slags (c. 45–50% market share) |
| 32% | Adj. EBITDA Margin in Salt Slags (LTM[1] Q3 2018)[4] |
| Relationships >15yrs | oetinger aluminium, Compañía Valenciana de Aluminio, Hydro, Real Alloy, Aditya Birla Novelis |

Source: Company information, International Consulting Firm based on i.a. World Steel Association's Steel Statistical Yearbooks, WBMS, industry research, expert Interviews.

(1) LTM stands for Last Twelve Months. (2) Excluding internal sales; sales split is calculated on revenues including internal revenues. (3) Including stainless steel.
(4) Including recycling of Spent Pot Linings (SPLs) which is a hazardous waste generated in primary aluminium production. (5) Excluding China.

# Befesa has grown successfully through organic initiatives and acquisitions

## Founded in Germany

**1987**
Metallgesellschaft, German industrial conglomerate, creates Berzelius Umwelt Service (B.U.S)

**1993**
B.U.S AB, together with two other companies, group their environmental assets in Spain creating Berzelius Felguera (Befesa)

**1998**
Befesa IPO at the Madrid and Bilbao Stock Exchanges

**2000**
Abengoa acquires a 51% stake in Befesa from B.U.S to develop its nvironmental services business (stake increased over time)

**2011**
Delisting from the Madrid and Bilbao Stock Exchanges

## Acquisitions & Turnarounds

**2006**
Befesa acquires a 100% stake in B.U.S, becoming the European leader in steel dust recycling

B.U.S Group

**2009**
Befesa becomes the European leader in salt slags recycling after acquiring 3 plants in Germany from Agor

/AGOR /

**2013**
Triton acquires Befesa

Triton

## Successful Greenfield (State of the Art Technology)

**2014**
Inauguration of the 2nd aluminium plant in Bernburg

## Frankfurt Stock Exchange & S-DAX

**2017 / 2018**
Successful IPO on Frankfurt Stock Exchange;
Entry to SDAX 24 Sept 2018

## Entered 2 New Markets Through a JV & Acquisition with a Subsequent Turnaround

**2010**
Entry in the Turkish market through JV with Canadian Silvermet

**2012**
- Entry in the Asian market by acquiring successive stakes in the Korean Hankook[1]
- Inauguration of WOX washing plant at Gravelines

## Successful Expansion in Korea

**2015**
Commissioning of the 2nd kiln in Korea, converting it into the largest treatment plant and further acquisition of stakes

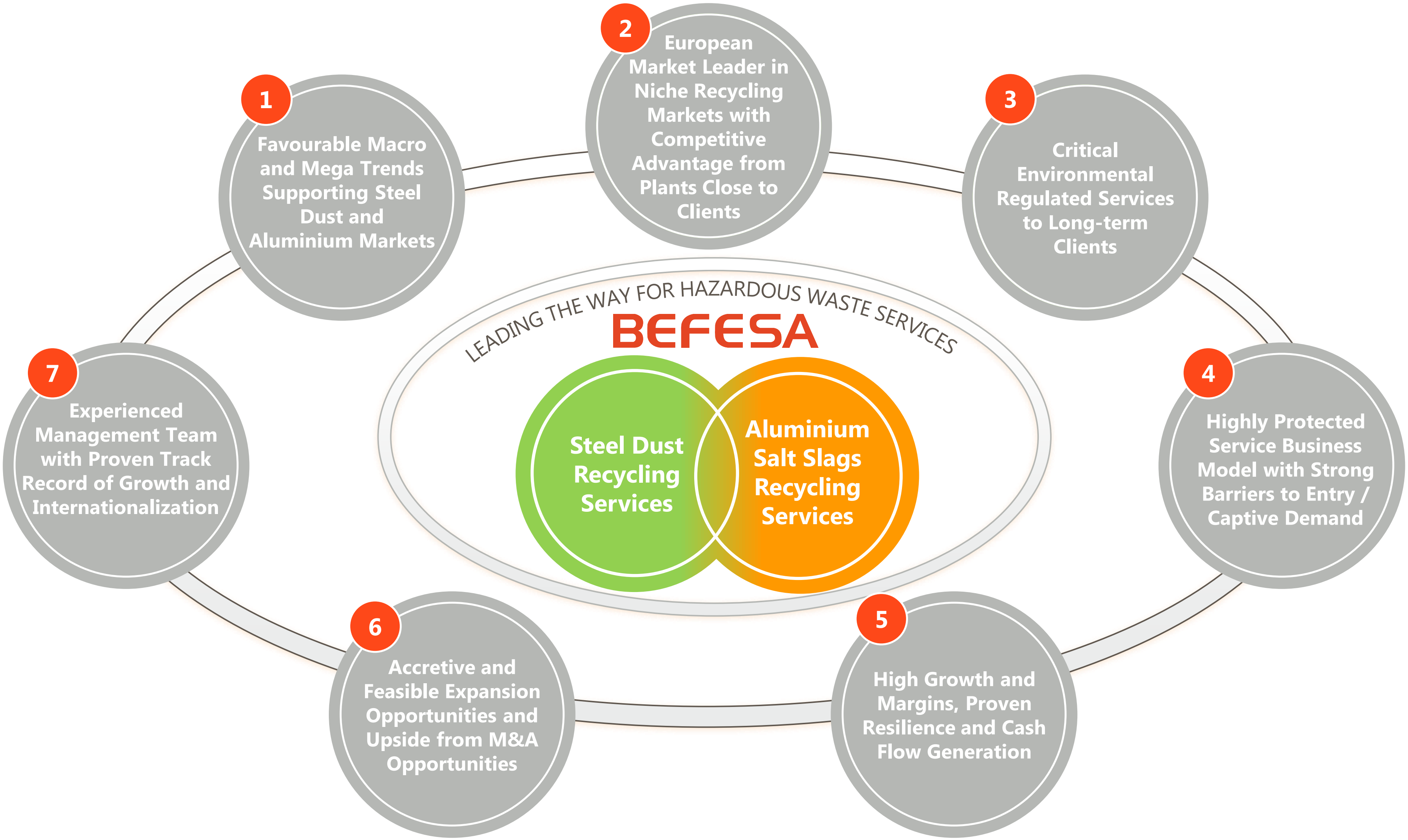
## Expanding into China

**2018**
Developing the 1st steel dust recycling plant in Jiangsu;
Start of operations expected for H2 2020

Source: Company information.
(1) Befesa subsequently acquired 100%.

BEFESA

# Investment Highlights



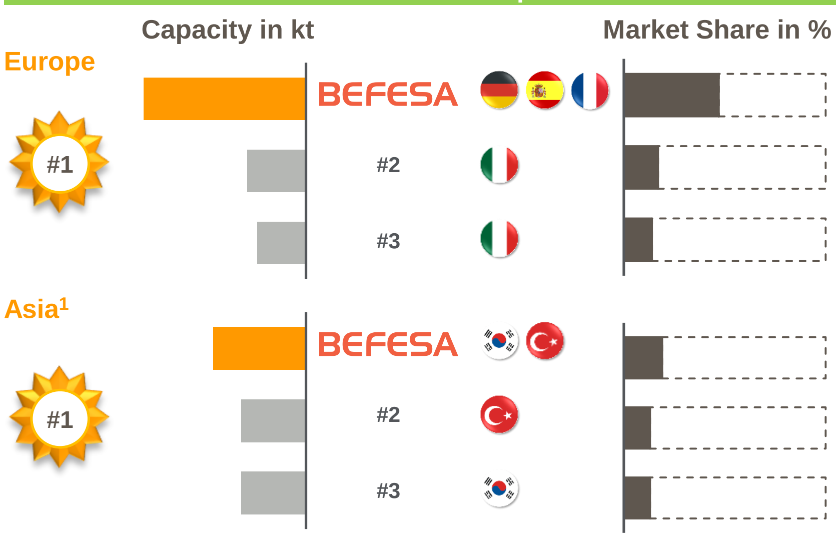
# 2 Market Leader and Close Proximity to Clients

## Befesa is the market leader in steel dust and salt slags recycling services with a competitive advantage due to its close proximity to key clients

### Established Market Leader

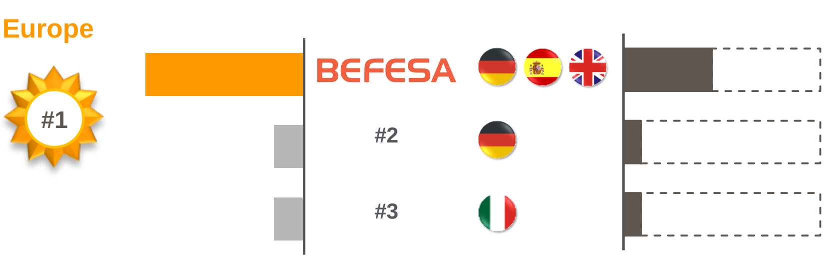
#### Steel Dust Recycling Services

**Clear Market Leader in Europe and Asia[1]**



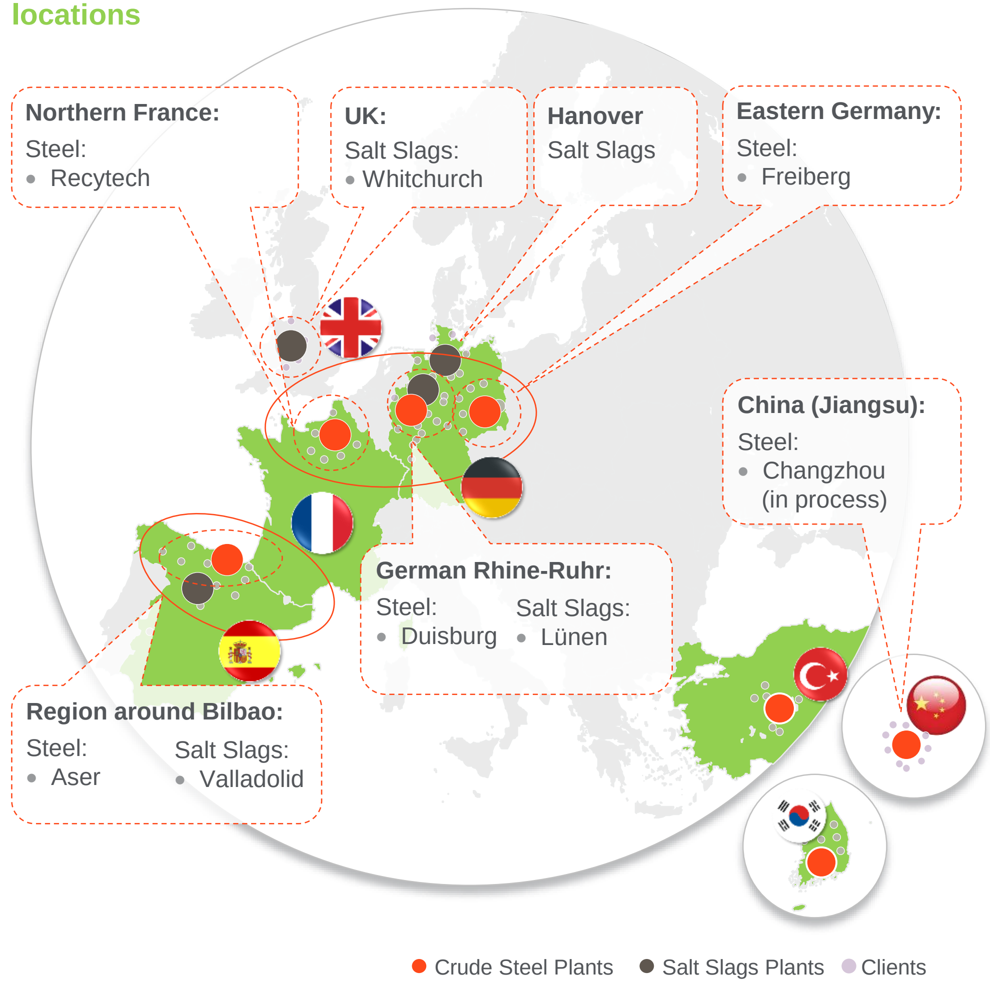

#### Salt Slags Recycling Services

**Clear Market Leader in Europe**




### Proximity to Clients Provides Strong Competitive Advantage

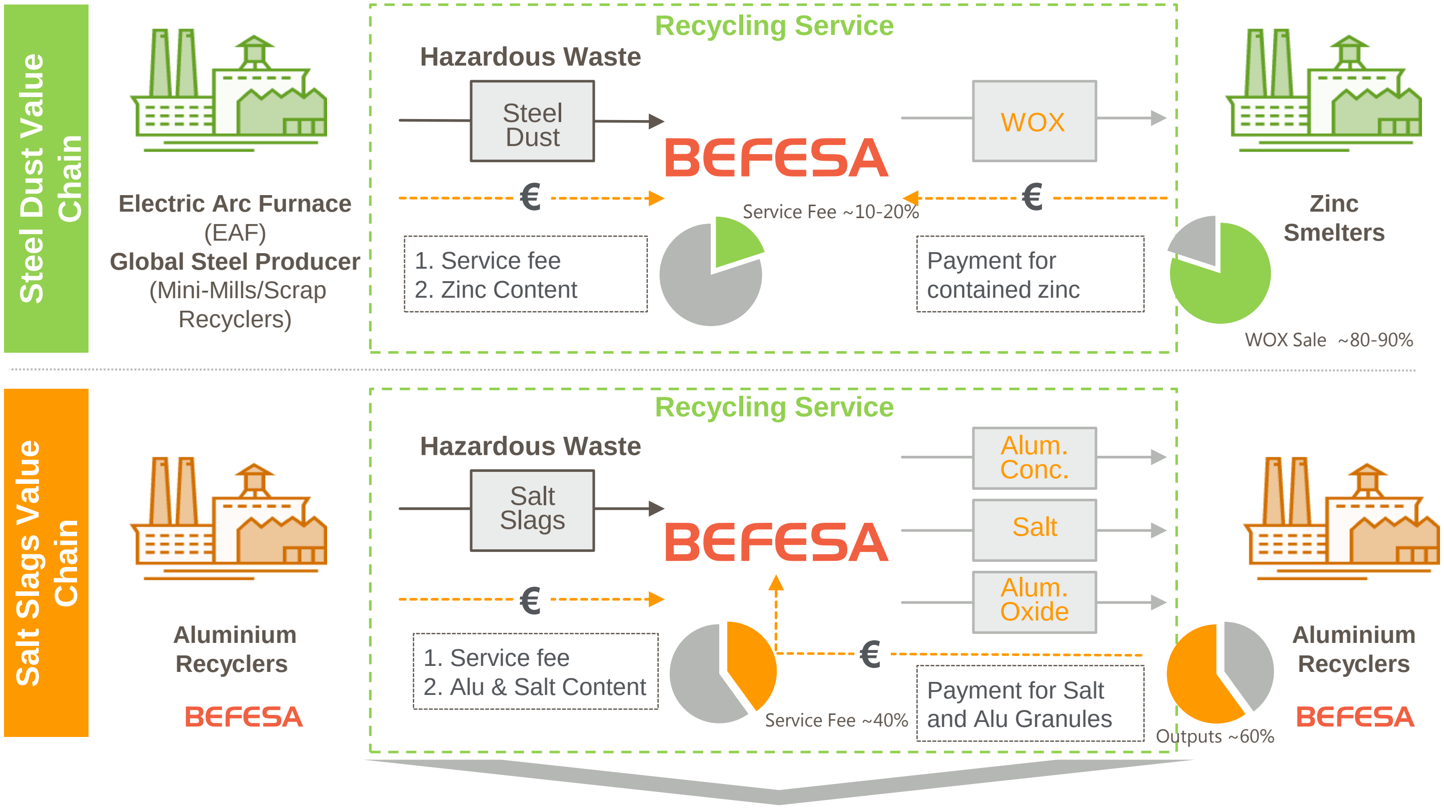
#### Each Befesa plant usually collects waste from at least 10-15 client locations




Source: Company information.

(1) Excluding China.

# Befesa offers a crucial service taking care of highly regulated hazardous waste in the value chain of secondary steel and aluminium producers




- Befesa collects and recycles hazardous waste from steel producers and aluminium recyclers
- Recycling is mandatory for Befesa's clients due to environmental regulations
- Befesa takes off and effectively takes care of environmental liability for their clients
- Without timely and regulatory compliant offtake of hazardous waste clients face risk of complete shut-down of production as well as severe penalty payments
- Befesa therefore offers a critical element of its clients value chain

## Consequences of Non-Compliance

- Major European steel producer struggles with large plant (producing 8% of European steel) due to breaching environmental regulations (contamination of environment)
- Court ordered to partly shut down the plant
- Owner prompted to invest $3.8bn to bring the plant back to required standards

- In 2002 the owners of a metal foundry in Italy faced prison time for illegal transport and landfilling of hazardous waste

- In 2004 a big aluminium refinery in Italy abandoned 450kt of hazardous waste in the open air over half an hectare
- More than 10 years later the local administration is still collecting funds to proceed to the removal and cleaning of the area

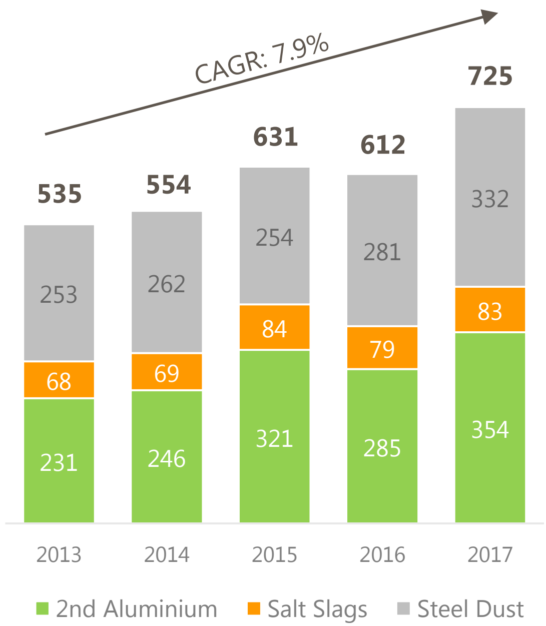
- In 2011 a big producer of aluminium alloys in Spain was involved in the transport without authorisation and illegal landfilling of 1.5kt of salt slags on a vacant lot
- Befesa was ultimately contracted to treat the waste properly

Source: Public information.

# Attractive growth track record with stable margins and strong cash generation

## Sales(1)

(€m)

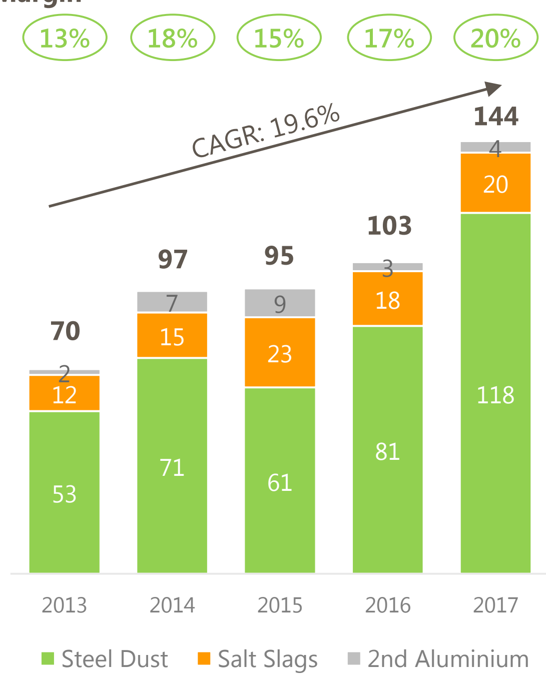



**Robust sales growth underpinned by sustainable increase in volumes and acceleration in growth in 2017**

## Adj. EBIT

(€m)

**Margin**

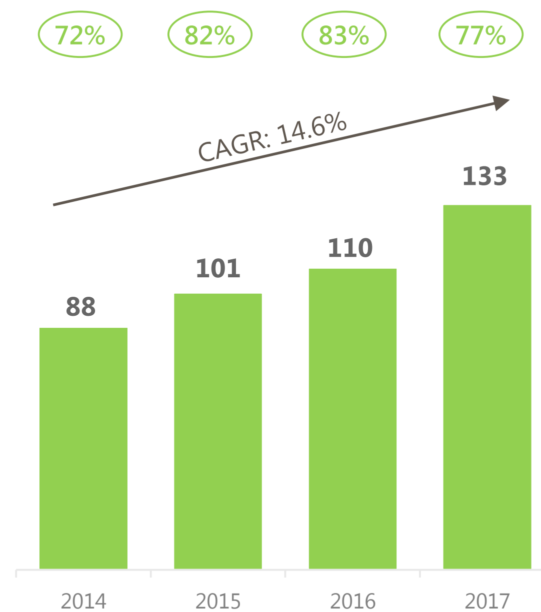



**Low capital intensity exemplified by low, stable D&A and high Adj. EBIT margin**

## Free Cash Flow(2)

(€m)

**Cash Conversion(3)**




**Strong and stable free cash flow generation due to low maintenance requirements providing funds for growth**

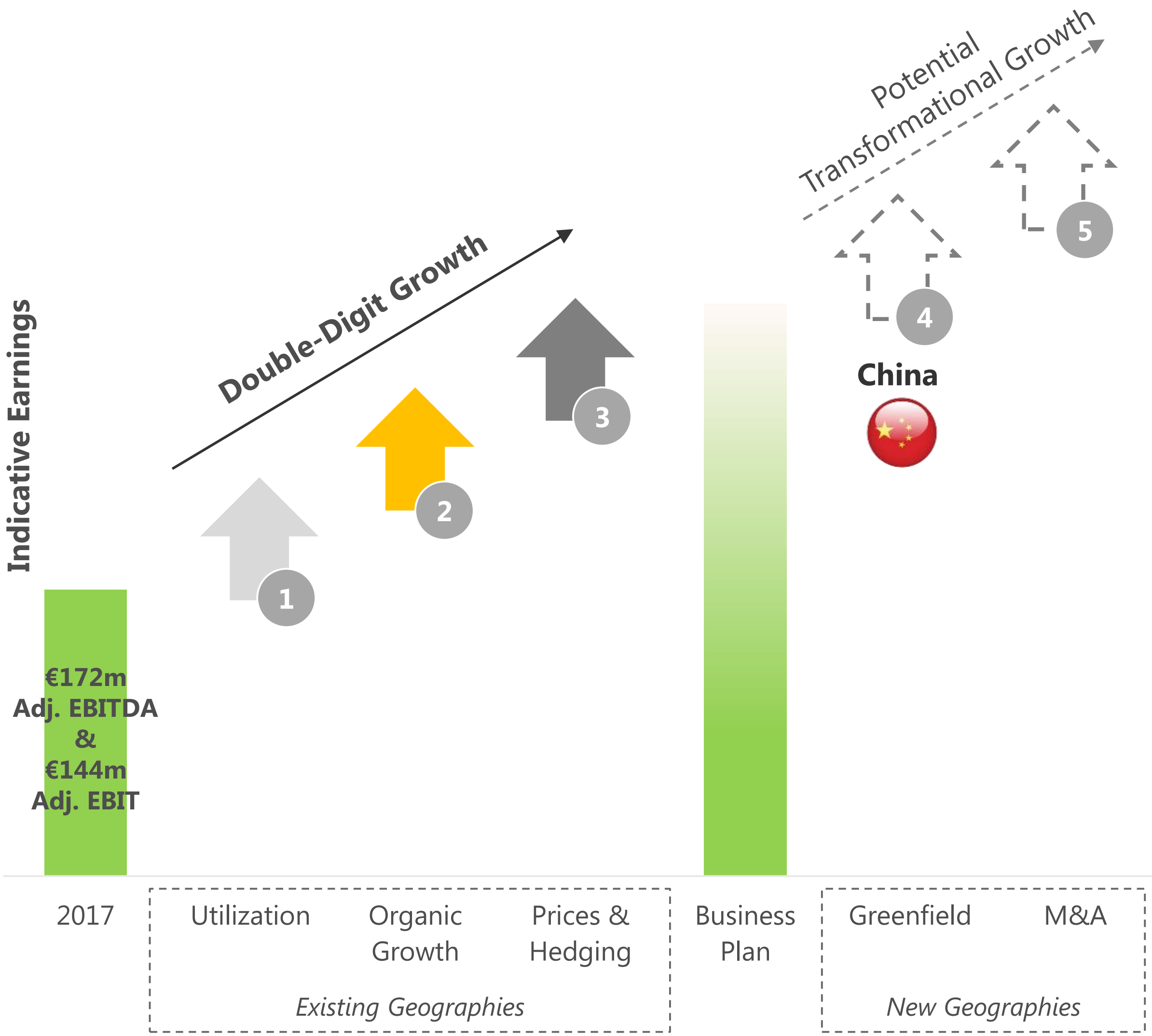
Source: Company information

(1) Totals excluding internal revenues. (2) Free Cash Flow = EBIT + Depreciation & Amortization +/- WC change – maintenance capex - taxes. (3) Cash conversion = FCF / (Adj. EBIT +Adj. D&A).

BEFESA

# 6 Mid-Term Growth Roadmap

## Accelerated top- and bottom-line growth through a well-defined strategy




### 1 Utilization

- Increase plant utilization of prior year growth investments mainly Steel Dust Korea

### 2 Organic Growth

2018 Focus:

- Steel Dust:
  - Expand Turkey +45kt
  - Korea washing plant
- Aluminium Salt Slags:
  - Change to tilting furnaces
  - Expand Hannover +40kt

### 3 Prices & Hedging

- 2018: 92.4kt at €2,051
- 2019: 92.4kt at €2,306
- 2020: 92.4kt at €2,245
- H1 ’21: 46.2kt at €2,230

### 4 Greenfield

- Monitoring growth opportunities and regulatory framework in new geographies, e.g. South East Asia, **China**, Russia

### 5 M&A Opportunities

Note: Chart is purely illustrative and size of respective arrows in the chart is not indicative to the underlying growth potential

BEFESA

# 7 Experienced Management Team

## Senior management team delivering results through long standing industry expertise, entrepreneurial spirit and focus on operational excellence as well as governance and compliance processes

CEO since 2000

**Javier Molina**
CEO

Has run Befesa for >15 Years
Became President of Abengoa's Environmental Services Division in 1994

CFO since 2014

**Wolf Lehmann**
CFO; including responsibilities for Operational Excellence and IT

20+ years in finance and operational leadership roles
50/50 General Electric / Private Equity

16 years with Befesa

**Asier Zarraonandia**
Vice President
Steel Dust Recycling Services

Has run the Steel Dust Recycling Services Business for >10 Years

25 years with Befesa

**Federico Barredo**
Vice President
Aluminium Salt Slags Recycling Services

Has run the Aluminium Salt Slags Recycling Service Business for >15 Years

### Key Achievements/Track Record

- Extensive experience in steel and aluminium recycling business
- Strong performance results through focus on operational excellence
- Building strong business foundation of ESG, compliance and health & safety processes
- Successful international expansion
- Track record of successful acquisitions and turnarounds (BUS, Agor, Alcasa, Hankook, Silvermet etc.)
- Experience in developing greenfield projects (South Korea, Gravelines, Bernburg)

BEFESA

# Investor Relations

## Financial Calendar

- ✓ **Thursday, November 22, 2018:**
  **Publication of Statement Q3 2018 & Analyst Call**
- **Thursday, March 21, 2019:**
  **Publication of Annual Report 2018 & Analyst Call**
- **Thursday, May 9, 2019:**
  **Publication of Statement Q1 2019 & Analyst Call**
- **Wednesday, June 19, 2019:**
  **Annual General Meeting in Luxembourg**
- **Friday, July 26, 2019:**
  **Publication of Interim Report H1 2019 & Analyst Call**
- **Thursday, October 31, 2019:**
  **Publication of Statement Q3 2019 & Analyst Call**


**IR Contact**
**Rafael Pérez**
*Director of Investor Relations & Strategy*
T: +49 (0) 2102 1001 340
E: irbefesa@befesa.com


## Meet Befesa …

- ✓ **October 1, 2018 - Berenberg**
  **Milan, Berenberg Milan Seminar**
- ✓ **November 15, 2018 - Goldman Sachs**
  **London, Global Natural Resources Conference**
- ✓ **Nov 26 / 27 – Berenberg, Paris**
- **December 3-6, 2018 - Berenberg**
  **London, Pennyhill European Conference**
- **Dec 12 / 13 – Stifel, Zurich**
- **Dec 17 / 18 – Kepler Cheuvreux, Oslo**
- **January 10-11, 2019 – Oddo BHF**
  **Lyon, Oddo BHF Forum**
- **January 14-16, 2019 - Commerzbank**
  **New York, German Investment Seminar**
- **February 5-6, 2019 - HSBC**
  **Frankfurt, ESG Investor Conference**
- **February 6-7, 2019 - Santander**
  **Madrid, Annual Investor Conference**
- **March 15, 2019 - Citi**
  **London, 13th Annual Business Services Conference**
- **May 21-23, 2019 – Berenberg**
  **New York, Berenberg US Conference 2019**

Note: Befesa's financial reports and statements are published at 7:30 am CET
We cannot rule out changes of dates. We recommend checking them in the Investor Relations / Financial Calendar section of our website (www.befesa.com)