

BEFESA

Innovative Solutions for Sustainability



BEFESA ZINC

Reporting of 1H 2011 Results

August 2011

Management's Discussion & Analysis of Results of Operations

The table below illustrates our results of operations for the periods ended June 31, 2011 and 2010.

	<u>2010</u>	<u>2011</u>
Consolidated Income Statement Data		
Revenue.....	102,154	106,162
Cost of Sales.....	(60,240)	(63,149)
Other operating income.....	1,686	2,066
Depreciation and amortization charges.....	(6,483)	(6,296)
General & Administrative expenses.....	(7,031)	(10,278)
Profit from operations.....	30,086	28,505
Finance income.....	162	414
Finance expense.....	(2,787)	(5,860)
Exchange differences (gains and losses).....	(820)	50
Net financial expense.....	(3,445)	(5,396)
Profit before tax.....	26,641	23,109
Income tax expense.....	(6,044)	(7,379)
Profit from continuing operations.....	20,597	15,730

Segment reporting

The following table shows the revenue, EBITDA and EBITDA margin of each of our reportable segments and for the periods indicated:

	1H2010			1H2011		
	<u>Revenue</u>	<u>EBITDA</u>	<u>EBITDA Margin</u>	<u>Revenue</u>	<u>EBITDA</u>	<u>EBITDA Margin</u>
Steel dust.....	78,199	34,404	44.0%	84,119	34,841	41.4%
Stainless steel....	23,955	2,165	9.0%	22,043	-40	-0.2%
Total.....	<u>102,154</u>	<u>36,569</u>	<u>35.8%</u>	<u>106,162</u>	<u>34,801</u>	<u>32.8%</u>

Comparison of periods ended June 30, 2011 and 2010

Revenues

The following table sets forth our revenue for the years ended June 30, 2011 and 2010 by operating segment.

	Period ended June 30		
	2010	2011	% Var.
	(in thousands of euros)		
Crude Steel dust.....	78,199	84,119	+7.6%
Stainless Steel	23,955	22,043	-8.0%
Total.....	102,154	106,162	+3.9%

Revenues increased 3.9% in 1H2011 compared to 1H2010. This is due to several reasons depending on the segment.

Crude Steel Dust Segment: The following table shows the production and sales data:

	Period ended June 30		
	2010	2011	% Var.
	(in Dry Metric tons)		
Throughput crude steel dust.....	226,428.6	243,534.8	7.6%
Average Load factor.....	92.2%	99.2%	
Waelz Oxide Production.....	82,338.0	84,814.4	3.0%
Zinc contained in production.....	53,634.5	55,759.0	4.0%
Waelz Oxide Sold.....	83,880.1	76,567.4	-8.7%
Zinc contained in sales.....	54,461.6	49,998.7	-8.2%
LME Average Zinc Price (Euro).....	1,619.7	1,659.65	2.5%

Our steel dust segment revenues increased by 7.6% due to the following effects:

- 1.- The commercialization of the Turkish plant Waelz Oxide production through Befesa Zinc - with an impact in sales of 4.7 million euros in 1H2011. Without considering this effect the sales would have increased 1.5%.
- 2.- An increase in the volume of steel dust treated to 226.4 thousand tons in 1H2011 from 243.5 thousand tons in 1H2010 (+7.6%) and consequently an increase in the revenues for the treatment fees collected. This increase in volumes was mainly due to a better performance in all the plants and the reduction in the maintenance standstill of some plants.
- 3.- A decrease in the volumes of Waelz Oxide sold in the first half 2011 by 8.7% partly compensated by an slightly increase in the LME zinc prices during 1H2011. Accordingly, there is an increase in our stocks of Waelz Oxide by about 8,000 tons.

Stainless Steel Dust Segment: The following table shows the production and sales data:

	Period ended June 30		
	2010	2011	% Var.
	(in Dry Metric tons)		
Throughput stainless steel dust.....	47,486	37,897.0	-20.2%
Average Load factor.....	55.0%	43.9%	
Metal Alloys sold.....	832.3	1,987.6	138.8%

The stainless steel dust segment revenues decrease by 8.0% despite the reduction of the stainless steel dust throughput by 20.2% mainly due to the increase in the metal alloys sold during this period compared to the first half of 2010.

EBITDA

The following table sets forth our EBITDA and EBITDA margin for the periods ended June 30, 2011 and 2010 by operating segment.

	Year ended June 30			
	2010		2011	
	EBITDA	EBITDA Margin	EBITDA	EBITDA Margin
	(in thousands of euros)			
Crude Steel dust.....	34,404	44.0%	34,841	41.4%
Stainless Steel.....	2,165	9.0%	-40	-0.2%
Total.....	36,569	35.8%	34,801	32.8%

Total EBITDA decreased 4.8% to €34,801 thousand in the first half 2011 from €36,569 thousand in the same period in 2010.

Steel dust segment EBITDA increased 1.3% to €34,841 thousand in 2011 from €34,404 thousand in 2010, primarily due to the increased levels of production and partly compensated by the increase of some costs like energy costs.

The EBITDA margin is also affected by the commercialization of Turkish production, without considering this effect the EBITDA margin for crude steel dust segment would be 43.9%, similar to 2010 EBITDA margin.

Stainless steel segment EBITDA margin decreased to zero in 2011 from 9% in 2010, mainly due to the reduction in the activity partially offset by the margin got from the sale of alloys.

Liquidity and Capital Resources

Liquidity & Cash flows

As of June 30, 2011 our liquidity amounted to €72,033 thousand, including not only the cash in hands but also the short term financial investments.

The following table sets forth our consolidated cash flow information for the periods ended June 30, 2011 and 2010

	Period ended June 30		
	2010	2011	Variation
	(in thousands of euros)		
Cash generated from operations.....	33,567	29,928	-3,639
Taxes paid.....	-5,511	-13,424	-7,913
Interest paid.....	-2,787	-2,223	565
Interest received.....	162	414	252
Net cash flows from operating activities (I).....	25,431	14,696	-10,735
Net cash flows from investing activities (II).....	-4,266	-5,691	-1,465
Net cash flows from financing activities (III).....	0	20,53	20,53
Effect in change of the perimeter (IV).....	0	1,572	1,572
Net increase in cash and cash equivalents (I+II+III+IV)..	21,165	31,107	9,942
Cash and cash equivalents at beginning of the period	44,989	40,926	
Cash and cash equivalents at end of the period	66,154	72,033	

Operating activities. Net cash flows used in operating activities decreased in €10,735 Thousand, primarily due to the increase in the taxes paid during this period.

Investing activities. Net cash flows used in investing activities increased to €5,691 Thousand due to the acquisition to our parent company of 2 new subsidiaries: Befesa Zinc Sur (the new recycling plant in Extremadura project) and Befesa Steel R&D (R&D projects for steel recycling business) for €3.7 million and acquisition of tangible assets for €1.9 million.

Financing activities. The €20,530 Thousand is the net amount of the new long term loan received from Zinc Capital S.A., the repayment of the outstanding bank loan and the distribution of €90 million dividend to our parent company.

Befesa Zinc, S.A. and Subsidiaries

Consolidated Balance Sheets (Thousands of Euros)

Assets	30.06.2011	31.12.2010	Equity and Liabilities	30.06.2011	31.12.2010
Non-current assets:			Equity:		
Intangible assets:			Of the Parent:		
Goodwill	274.294	267.850	Share capital	25.010	25.010
Other intangible assets	956	1.059	Unrealised Asset and Liability Revaluation Reserve	4.526	(14.309)
	275.250	268.909	Other reserves	72.791	122.563
Property, plant and equipment:			Translation differences	59	299
Property, plant and equipment in use	87.320	91.482	Net profit for the year	15.730	40.239
Property, plant and equipment in the course of construction	9.844	1.748		118.116	173.802
	97.164	93.230	Of minority interests	0	0
Investments accounted for using the equity method			Total equity	118.116	173.802
Non-current financial assets:			Non-current liabilities:		
Investments securities	1.670	1.721	Provisions for contingences and expenses	16.189	15.563
Other financial assets	494	406	Bank borrowings	0	138.562
	2.164	2.127	Capital Grants	3.762	4.136
Derivative financial instruments	0	0	Other non-current liabilities	295.739	13
Deferred tax assets	34.893	40.895	Derivative financial instruments	940	10.168
Total non-current assets	409.471	405.161	Deferred tax liabilities	22.337	22.436
			Total non-current liabilities	338.967	190.878
Current Assets:			Current liabilities:		
Inventories	13.361	7.097	Bank borrowings	0	46.695
Trade and other receivables	18.447	19.304	Current obligations under finance leases	0	0
Trade receivables, related companies	5.961	14.687	Trade payables, related companies	10.970	17.230
Tax receivables	6.182	3.341	Trade and other payables	28.908	25.302
Other receivables	1.554	1.724	Derivative financial instruments	2.314	20.458
Other current financial assets	12.836	0	Other payables:		
Cash and cash equivalents	59.197	40.926	Tax payables	11.351	8.521
Total current assets	117.538	87.079	Other current liabilities	16.383	9.354
				27.734	17.875
			Total current liabilities	69.926	127.560
Total Assets	527.009	492.240	Total Equity and Liabilities	527.009	492.240

**Befesa Zinc, S.A.
and Subsidiaries**

Consolidated Income Statements
(Thousands of Euros)

	(Debit)/Credit	
	June 2011	June 2010
Revenue	106.162	102.154
Cost of Sales	-63.149	(60.240)
Other operating income	2.066	1.686
Gross Profit	45.079	43.600
Depreciation and amortization charge	-6.296	-6.483
General and Administrative Expenses	-10.278	(7.031)
Income From Operations	28.505	30.086
Finance income	414	162
Finance costs	-5.860	(2.787)
Exchange differences (gains and losses)	50	(820)
Financial Loss	-5.396	-3.445
Profit before tax	23.109	26.641
Income tax	-7.379	(6.044)
Profit for the year from continuing operations	15.730	20.597
Profit for the year	15.730	20.597
Attributable to:		
Shareholders of the parent	15.730	20.597
Minority interests	0	

Befesa Zinc, S.A. and Subsidiaries

Consolidated Cash flow statements for the periods ended 30 June 2011 and 2010 (Thousand of euro)

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Profit for the period before tax	23.109	26.641
Adjustments due to		
Amortization/ Depreciation	6.296	6.483
Profit/(loss) on disposal of non-current assets	11	331
Change in provisions	626	345
Financial income	-414	-162
Financial expense	5.860	2.787
Income from government grants	-374	-400
Change in working capital:		
Change in trade receivables and other receivables	857	3.427
Change in inventories	-6.264	259
Change other current assets	506	-95
Change in other current liabilities	-285	-6.049
Cash generated from operations	29.928	33.567
Taxes paid	-13.424	-5.511
Interest paid	-2.223	-2.787
Interest received	414	162
Net Cash Flows From Operating Activities (I)	14.696	25.431
Cash flows from investing activities		
Purchase of intangible assets	-8	-16
Purchase of property, plant and equipment	-1.907	-1.923
Proceeds from disposal of assets	41	202
Acquisition of new subsidiaries	-3.742	0
Other non-current financial assets	-75	-2.529
Net Cash Flows From Investing Activities (II)	-5.691	-4.266
Cash flows from financing activities		
Repayment of borrowings and other long-term debt	-185.197	0
Long Term borrowings	295.726	0
Distribution of dividends	-90.000	0
Net Cash Flows From Financing Activities (III)	20.530	0
Effect of change in the perimeter on cash and cash equivalents (IV)	1.572	0
Net Increase In Cash and Cash Equivalents (I+II+III+IV)	31.107	21.165
Cash and cash equivalents at beginning of the period	40.926	44.989
Cash and cash equivalents at end of the period	72.033	66.154