



**Zinc Capital S.A. €300 million 8.875%
Senior Secured Notes (the “SSNs”)**

Report to Holders of SSNs (the “Report”)
October 14, 2013

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This Report provides certain information and data in respect of Befesa Media Ambiente, S.L. (“Befesa”), and in particular relating to Befesa Zinc S.A. and its subsidiaries. Please note that in this Report references to “we”, “our” or the “Group” relate to Befesa and its subsidiaries, including Befesa Zinc S.A. and its subsidiaries. The financial information presented in this Report is historical financial data of Befesa and its consolidated subsidiaries.

1. FORWARD-LOOKING STATEMENTS

This Report contains various forward-looking statements that reflect management’s current views with respect to future events and anticipated financial and operational performance. A forward-looking statement is any statement that does not relate to historical facts or events or facts or events at the date of this Report. The words “believe,” “anticipate,” “plan,” “expect,” “project,” “estimate,” “predict,” “intend,” “target,” “assume,” “may,” “could,” “should,” “will” and similar expressions are intended to identify such forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements appear in a number of places in this Report, including, without limitation, in the sections entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” “*Our Business*” and “*Risks Relating to Our Business*.” Although we believe that the expectations reflected in any forward-looking statements contained in this Report are reasonable, we can give no assurance that they will materialize or prove to be correct. Because these forward-looking statements involve risks and uncertainties as they relate to future events, the actual results or outcome could differ materially from those set forth in the forward-looking statements as a result of a range of different factors, some of which are discussed under “*Risks Relating to Our Business*.”

We urge you to read the sections of this Report entitled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” “*Our Industry and Markets*,” “*Our Business*” and “*Risks Relating to Our Business*” for a more detailed discussion of the factors that could affect our future performance and the industry in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Report may not be accurate or occur at all.

Accordingly, holders of SSNs and any prospective investors should not place undue reliance on these forward-looking statements, which speak only as of the date of this Report or as otherwise indicated. In addition, from time to time we and our representatives, acting in respect of information provided by us, have made or may make forward-looking statements orally or in writing. These forward-looking statements may be included in, but are not limited to, press releases (including on our website), reports to our security holders and other communications. Although we believe that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

These forward-looking statements speak only as of the date of this Report. We undertake no obligation, and do not expect, to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Report.

2. SUMMARY

2.1 Our Business

We believe we are the leading European steel dust and salt slag recycling company with a market share of over 40% (measured by installed capacity). We specialize in the recycling of steel and aluminium waste with recycling facilities (both directly owned and through joint ventures) in Germany, Spain, Sweden, France, the United Kingdom, Turkey and a plant in South Korea which commenced operations in March 2013. In addition, we provide waste management services for industrial waste in Spain and in certain countries in Latin America. For the twelve-month period ended June 30, 2013, we generated total revenues of €627.1 million and Adjusted EBITDA of €126.0 million. Approximately 89.7% of our total EBITDA was derived from our steel and aluminium waste recycling businesses (including steel dust and salt slag recycling, which are our highest margin contributors). In the twelve-month period ended June 30, 2013, we generated approximately 18%, 22% and 47% of our total EBITDA in Germany, Spain and other European countries, respectively.

In our steel waste recycling operations, we collect and recycle steel waste (typically in the form of dust) generated in the production of crude, stainless and galvanized steel. In the recycling process of the crude steel dust, we produce Waelz oxide, a product that is typically comprised of between 60% and 68% zinc. We sell the Waelz oxide we produce to zinc smelters, or return recovered metals, mainly nickel, chromium and molybdenum, to stainless steel producers for a tolling fee or sell such recovered metals on the market. In the steel waste recycling segment, we derive

our revenues mainly from the collection fees we charge for collecting crude steel waste, the tolling fees we charge for collecting stainless steel dust, and sales of Waelz oxide and recovered metals on the market.

We own and operate eleven steel waste recycling plants (including two plants through joint ventures). Our six crude steel dust recycling plants have a total aggregate annual recycling capacity of approximately 670,300 tons of crude steel dust. Two of them are located in Germany and one in Spain. One plant is operated in Turkey through a joint venture with Silvermet in which we own a 51% stake and another plant is operated in France through a joint venture with Recylex in which we own a 50% stake. In addition, in March 2013, operations started in the Hankook plant in South Korea, in which we had acquired a 25% stake in September 2012 and another 30% stake for a purchase price of €18.9 million in August 2013, resulting in a total stake currently of 55%. Our two stainless steel dust recycling plants, located in France and Sweden, have a total aggregate annual recycling capacity of 174,000 tons of stainless steel dust. Our two galvanized steel waste recycling plants located in Spain have a total aggregate annual recycling capacity of 19,000 tons of galvanized steel waste. In addition, we own and operate a leaching facility in France with an annual leaching capacity of 100,000 tons of leached Waelz oxide.

For the twelve-month period ended June 30, 2013, we processed 637,602 tons of crude and stainless steel dust, produced 183,935 tons of Waelz oxide and recovered 54,766 tons of metal (mainly nickel, chromium and molybdenum) through the recycling of stainless steel waste. For the twelve-month period ended June 30, 2013, €259.5 million of our revenues and € 79.9 million of our EBITDA (representing 67.8% of our total EBITDA) were generated in our steel waste recycling segment.

2.2 Recent Developments and Trading Update

a) Hankook

In connection with and for the purpose of financing the increase of our equity interest in Hankook, which owns and operates the South Korean steel waste recycling plant, by 30% from 25% to our current 55% in August 2013, on August 13, 2013 we entered into a super senior term loan facility agreement in an amount of €20.0 million (the “*Hankook Facility*”). Based on current zinc prices, foreign exchange rates, and budgeted operating assumptions, we expect Hankook to contribute approximately €6.5 million of EBITDA on a fully consolidated basis in the fiscal year 2014.

b) Trading Update

Based on preliminary management accounts, our operating performance, including revenue and Adjusted EBITDA, for the three-month period ended September 30, 2013 was in line with our expectations and in line with the average of our revenue and Adjusted EBITDA generated for the six-month period ended June 30, 2013. We estimate our revenues for the three-month period ended September 30, 2013 to be approximately €151.0 million, compared to revenues for the three-month period ended September 30, 2012 of €156.9 million. In addition, we estimate our Adjusted EBITDA for the three-month period ended September 30, 2013 to be approximately €31.0 million, compared to Adjusted EBITDA for the three-month period ended September 30, 2012 of €31.5 million.

The slight decrease in revenues in the three-month period ended September 30, 2013, as compared to the three-month period ended September 30, 2012, was mainly due to a decrease in revenues in our steel waste recycling and aluminum waste recycling segments, which decrease was primarily attributable to a decline of the prices of zinc, aluminum and nickel in the comparable periods. Our Adjusted EBITDA is expected to remain flat due to the improved performance of our industrial waste management segment, which off-set the decrease in our steel waste recycling and aluminum waste recycling segments.

The foregoing information is based on estimates and our internal management accounts. We caution you that the foregoing information has not been audited or reviewed by our independent auditors and should not be regarded as a representation or forecast by us or any other person regarding our results that will be reported for the nine-month period ended September 30, 2013.

3. OUR BUSINESS

We believe we are the leading European steel dust and salt slag recycling company with a market share of over 40% (measured by installed capacity). We specialize in the recycling of steel and aluminium waste with recycling facilities (both directly owned and through joint ventures) in Germany, Spain, Sweden, France, the United Kingdom, Turkey and a plant in South Korea which commenced operations in March 2013. In addition, we provide waste management services for industrial waste in Spain and in certain countries in Latin America. For the twelve-month period ended June 30, 2013, we generated total revenues of €627.1 million and Adjusted EBITDA of €126.0 million.

Approximately 89.7% of our total EBITDA was derived from our steel and aluminium waste recycling businesses (including steel dust and salt slag recycling, which are our highest margin contributors). In the twelve-month period ended June 30, 2013, we generated approximately 18%, 22% and 47% of our total EBITDA in Germany, Spain and other European countries, respectively.

In our steel waste recycling operations, we collect and recycle steel waste (typically in the form of dust) generated in the production of crude, stainless and galvanized steel. In the recycling process of the crude steel dust, we produce Waelz oxide, a product that is typically comprised of between 60% and 68% zinc. We sell the Waelz oxide we produce to zinc smelters, or return recovered metals, mainly nickel, chromium and molybdenum, to stainless steel producers for a tolling fee or sell such recovered metals on the market. In the steel waste recycling segment, we derive our revenues mainly from the collection fees we charge for collecting crude steel waste, the tolling fees we charge for collecting stainless steel dust, and sales of Waelz oxide and recovered metals on the market.

We own and operate eleven steel waste recycling plants (including two plants through joint ventures). Our six crude steel dust recycling plants have a total aggregate annual recycling capacity of approximately 670,300 tons of crude steel dust. Two of them are located in Germany and one in Spain. One plant is operated in Turkey through a joint venture with Silvermet in which we own a 51% stake and another plant is operated in France through a joint venture with Recylex in which we own a 50% stake. In addition, in March 2013, operations started in the Hankook plant in South Korea, in which we had acquired a 25% stake in September 2012 and another 30% stake for a purchase price of €18.9 million in August 2013, resulting in a total stake currently of 55%. Our two stainless steel dust recycling plants, located in France and Sweden, have a total aggregate annual recycling capacity of 174,000 tons of stainless steel dust. Our two galvanized steel waste recycling plants located in Spain have a total aggregate annual recycling capacity of 19,000 tons of galvanized steel waste. In addition, we own and operate a leaching facility in France with an annual leaching capacity of 100,000 tons of leached Waelz oxide.

For the twelve-month period ended June 30, 2013, we processed 637,602 tons of crude and stainless steel dust, produced 183,935 tons of Waelz oxide and recovered 54,766 tons of metal (mainly nickel, chromium and molybdenum) through the recycling of stainless steel waste. For the twelve-month period ended June 30, 2013, €259.5 million of our revenues and € 79.9 million of our EBITDA (representing 67.8% of our total EBITDA) were generated in our steel waste recycling segment.

3.1 Steel Waste Recycling Segment

We provide essential waste recycling services to crude steel producers that use electric arc furnaces (mainly mini-mill producers) and to stainless steel producers. In particular, we recycle steel dust generated in the production of crude and stainless steel, sell the Waelz oxide we produce in the recycling process of crude steel dust to zinc smelters and return the metals (mainly nickel, chromium and molybdenum) recovered in the recycling of stainless steel waste to stainless steel producers in exchange for a tolling fee or sell such recovered metals on the market. We also provide transportation and logistics services ancillary to our steel waste recycling activities.

We own and operate six crude steel waste recycling plants with a total aggregate recycling capacity of 670,300 tons of crude steel dust per year. Two of the plants are located in Germany, one in Spain, one in Turkey and one in France. In March 2013, we commenced the operation of a crude steel dust recycling plant in Gyeongju, South Korea, with an annual recycling capacity of 110,000 tons. In addition, we own and operate a leaching plant in France with an annual leaching capacity of 100,000 tons of leached Waelz oxide. We own and operate two stainless steel dust recycling plants located in France and Sweden, with a total aggregate annual recycling capacity of 174,000 tons of stainless steel dust per year. We also own and operate two galvanized steel recycling plants in Amorebieta and Sondika (Spain), with a total aggregate annual recycling capacity of 19,000 tons of galvanized steel waste per year.

Our revenues from the steel waste recycling segment are mainly attributed to the sale of Waelz oxide, the collection fees we charge for processing steel waste, the tolling fee we charge for processing stainless steel waste and the sale of recovered metals on the market. For the twelve-month period ended June 30, 2013, approximately 50% of the revenues within the steel waste recycling segment were attributed to the sale of Waelz oxide, and 11% of revenues were attributed to collection fees.

In the twelve-month period ended June 30, 2013, 75% and 25% of our total steel waste recycling revenue was attributed to revenues from steel waste and stainless steel waste, respectively. Steel and stainless steel waste accounted for 97% and 3%, respectively, of our EBITDA for the steel waste recycling segment in the twelve-month period ended June 30, 2013.

3.2 Facilities and Production

a) Our Current Steel Waste Recycling Facilities

Our European steel waste recycling plants are strategically located in close geographic proximity to our main European mini-mill producer customers, which are required under EU regulations to manage or recycle their residues of steel waste, due to its classification as waste or hazardous waste, either at their own facilities or with an authorized manager, in order to recover the waste or hazardous waste for another use. Although there is no specific obligation on our customers to deliver steel waste to us for recycling solely for reasons of geographic proximity, because transportation of steel waste requires permits and authorizations and is a relatively expensive and burdensome activity, it is often more economical to transport to and recycle steel waste at facilities located nearby.

The following table provides further details on our steel waste recycling plants as of June 30, 2013:

Plant location	Technology	Recycled waste	Annual installed recycling capacity (in tons) (unaudited)
Germany			
Duisburg	Waelz kiln	Crude steel dust	86,700
Freiberg.....	Waelz kiln, leaching	Crude steel dust	193,600
Spain			
Erandio.....	Waelz kiln, leaching	Crude steel dust	160,000
Amorebieta	Rotary oven	Galvanized steel waste	8,000
Sondika	Indirect method (oxidation)	Galvanized steel waste	11,000
France			
Fouquières-lès-Lens ⁽¹⁾	Waelz kiln	Crude steel dust	55,000
Gravelines	Submerged arc welding furnace	Stainless steel dust	110,000
Gravelines ⁽²⁾	Leaching	—	100,000
Turkey			
Iskenderun ⁽³⁾	Waelz kiln, leaching	Crude steel dust	65,000
South Korea			
Gyeongju ⁽⁴⁾	Waelz kiln	Crude steel dust	110,000
Sweden			
Landskrona	Plasma furnace	Stainless steel dust	64,000
Total			963,300

- (1) The Group owns 50% of the joint venture company Recytech, which owns the plant in Fouquières-lès-Lens (France). The other 50% is owned by Recylex, S.A. The recycling capacity presented in the table represents 50% of the total annual recycling capacity of the plant, which is 110,000 tons.
- (2) This facility leaches Waelz oxide produced at our plant in Duisburg (Germany) and some of the Waelz oxide produced at our plant in Freiberg (Germany), which also has its own leaching facility.
- (3) The Group owns a 51% interest in Befesa Silvermet, which owns and operates a crude steel dust recycling plant in Iskenderun (Turkey). Silvermet, the Group's joint venture partner in Turkey, holds a 49% interest in the venture, currently through Silvermet Malta Limited. In addition, we acquired a 10% interest in Silvermet, as a result of which our indirect holding in Befesa Silvermet increased to 55.9%. Befesa Silvermet is wholly consolidated in our results of operations and the recycling capacity presented in the table represents 100% of the annual recycling capacity of the crude steel dust recycling plant in Iskenderun.
- (4) The Group owns a 55% equity interest in Hankook, a South Korean steel waste recycling company, which operates the crude steel dust recycling plant in Gyeongju (South Korea). The recycling capacity presented in the table represents 100% of the total annual recycling capacity of the plant, which is 110,000 tons.

Each of our plants functions on a stand-alone basis and can handle the various tasks of our steel waste recycling operation, including the collection, storage and processing of the steel waste. At each of our plants we are able to store steel waste in closed silos that have average storage capacities of one to two months of annual recycling capacity at 100% utilization.

Steel Waste Recycling. The table below shows key production data for our steel waste recycling activities for the five-year period (2008–2012) ended December 31, 2012 as well as for the twelve-month period ended June 30, 2013:

	Year ended December 31,				Twelve-month period ended
	2008	2009	2010	2011	2012
					June 30, 2013
	(unaudited)				

Crude steel waste recycling

Installed crude steel dust recycling capacity (in tons).....	495,300	495,300	495,300	560,300	560,300	620,800 ⁽¹⁾
Crude steel dust processed (in tons).....	473,574	406,198	470,126	543,071	529,432	525,142
Waelz oxide produced (in tons).....	174,386	148,644	169,251	188,420	188,314	183,935
Waelz oxide sold (in tons).....	170,568	152,115	170,413	179,722	188,707	182,878
Zinc content in sale (in tons).....	109,499	100,901	110,871	117,961	123,358	120,706
Utilization ⁽²⁾ (%).....	95.6	82.0	94.9	96.9	94.5	93.7

Stainless steel waste recycling

Installed stainless steel dust recycling capacity (in tons).....	174,000	174,000	174,000	174,000	174,000	174,000
Stainless steel dust processed (in tons).....	150,129	95,016	85,708	88,658	123,618	112,460
Metal recovered ⁽³⁾ (in tons).....	75,891	48,333	40,691	39,514	61,882	54,766
Average tolling fee (€/tn).....	451.0	457.0	499.1	537.2	548.0	557.1
Tolling fee contracts ⁽⁴⁾ (%).....	98.0	98.0	95.0	89.0	74.0	77.4
Elimination contracts ⁽⁵⁾ (%).....	2.0	2.0	5.0	11.0	26.0	22.6
Metal alloy sold (in tons).....	4,942	1,165	2,465	3,645	11,962	14,995
Utilization ⁽²⁾ (%).....	86.3	54.6	49.3	51.0	71.0	64.6

- (1) The installed crude steel waste recycling capacity includes 55% (the current stake owned in Hankook) of the total annual recycling capacity of Hankook.
- (2) Utilization represents crude steel or stainless steel waste, as applicable, processed against annual installed capacity.
- (3) Mainly nickel, chromium and molybdenum.
- (4) Represents the percentage of our total stainless steel contracts under which we return the metals (mainly nickel, chromium and molybdenum) recovered in the recycling of stainless steel waste to stainless steel producers for a tolling fee.
- (5) Represents the percentage of our total stainless steel contracts under which we collect the stainless steel waste and sell the recovered metals on the market.

In the second quarter of 2012 we opened a new leaching facility near our stainless steel dust recycling plant in Gravelines (France). This facility commenced operation in April 2012 and increased our Waelz oxide annual leaching capacity by 100,000 tons. This facility leaches Waelz oxide produced at our plant in Duisburg (Germany) and some of the Waelz oxide produced at our plant in Freiberg (Germany), which also has its own leaching facility.

b) New production facilities

In September 2012 we entered the South Korean steel waste recycling market by acquiring 25% of Hankook, a South Korean steel waste recycling company, for a purchase price of €15 million. In March 2013, operations commenced at its crude steel dust recycling plant in Gyeongju (South Korea). The plant has an annual recycling capacity of 110,000 tons of crude steel dust. Hankook has entered into a purchase agreement with Korea Zinc, whereby Hankook will sell to Korea Zinc the entire amount of unleached Waelz oxide produced by the Gyeongju plant over the next ten years. In August 2013, we acquired another 30% stake in Hankook for a purchase price of €18.9 million, resulting in a total current stake of 55%.

Through our joint venture with Silvermet, we plan to construct two additional steel dust recycling facilities in Izmir and Adana (Turkey), with a total additional recycling capacity of 220,000 tons of steel dust, and a total annual production capacity of 80,000 tons of leached Waelz oxide, split equally between the two plants. We expect both of these crude steel dust recycling facilities to be completed in 2015, with operations commencing at the beginning of 2015. We are in various stages of formalizing arrangements with customers for these facilities.

3.3 Customers and Pricing

We have two types of customers in our crude steel waste recycling operations:

- mini-mill producers which generate steel waste that we collect and recycle for a collection fee; and
- zinc smelters who buy the Waelz oxide we produce in our recycling process.

Mini-mill producers. Our mini-mill producer customers generate steel dust, which we collect and recycle in exchange for a collection fee. Most of our mini-mill producer customers are subsidiaries of international steel production companies with operations in the countries in which we have operating facilities (i.e., Germany, Spain, Sweden, France and Turkey) or in the neighboring countries (i.e., Portugal, Austria, Netherlands and Luxembourg).

For recycling at our European plants, our mini-mill producer customers pay us a fee for the collection of their steel dust, which we charge per ton of waste collected for processing. Our collection fees typically range from €40–60 per ton of steel waste. We believe our fees are generally lower than the cost of alternative steel dust disposal solutions, such as landfill (estimated to be an average of approximately €100 per ton); moreover, recycling has a lower impact on the environment and is a required method of waste management whenever that is an economically viable alternative to landfill. The location of our plants in close proximity to our main mini-mill producer customers helps minimize transportation expenses both for us and our customers. We estimate that our crude steel dust collection fees accounted for approximately 15% of our revenues from our crude steel waste recycling operations in the twelve-month period ended June 30, 2013.

Most of our contracts with our mini-mill producer customers are long-term ones (which we define as contracts with a term of at least one year). The average length of our commercial relationships with our four main mini-mill producer customers, all of which are located in the European Union and which accounted for approximately 39% of our crude steel waste recycling revenues from collection fees in the twelve-month period ended June 30, 2013, exceeds 15 years.

Zinc Smelters. Our zinc smelter customers buy the Waelz oxide we produce in our recycling process. Most of our zinc smelter customers are located in Germany, Spain, France, Finland, Norway, the Netherlands, Belgium and South Korea, which together accounted for the substantial majority of our revenues from zinc smelters. We have also made particular efforts to diversify our customer base of zinc smelters by expanding to Poland and Japan in the wake of the global economic downturn.

Waelz oxide typically has a zinc content between 60% and 68%. We are paid only for a percentage of the zinc contained in the Waelz oxide (typically 85% of the relevant price for zinc) and are subject to an additional deduction or treatment charge. The price used to calculate the value of the payable zinc is the prevailing LME price for zinc. A treatment charge is then deducted from the amount payable to us. This treatment charge represents the fees that miners pay smelters to refine zinc concentrate into metal. The treatment charge is linked to the LME price for zinc. As a result, the higher the LME price of zinc is over the base reference price, the larger the treatment charge deducted will be, and vice versa. The treatment charge deduction typically results in a net payment to us. The benchmark treatment charge is negotiated annually between major zinc concentrate producers and smelters.

The table below illustrates the calculation of the treatment charge at different LME prices of zinc:

Calculation of the Treatment Charge at Different LME Zinc Prices

Parameter	Formula code				
LME price (US\$/ton)	A	1,000	1,500	2,000	3,000
Base treatment charge ⁽¹⁾ (US\$/ton)	B	208	208	208	208
Basis (reference) price (US\$/ton).....	C	2,000	2,000	2,000	2,000
Escalator	E	5%	5%	5%	5%
Descalator	F	2%	2%	2%	2%
Treatment charge⁽²⁾ (US\$/ton)	G	198	198	208	263
Percentage of LME price		19.8%	13.2%	10.4%	8.8%

(1) Base treatment charge represents a fixed component of the treatment charge.

(2) The treatment charge is calculated on the basis of the following formulas, depending on whether the LME price is higher or lower than the basis price of zinc:

- If LME price < Basis price $B + (A - C) \times F$
- If LME price > Basis price $B + (A - C) \times E$

We believe that we are able to keep our revenues stable year on year due to our zinc hedging policy, despite the fact that the price of Waelz oxide is linked to the fluctuating price of zinc quoted on the LME. Our zinc hedging policy aims to minimize our exposure to fluctuations in the price of zinc quoted on the LME without, at the same time, limiting any upside opportunities in case of increasing zinc prices. Under our current policy, we fix the price per ton of zinc for approximately 60–70% of the expected volume of zinc to be extracted from our Waelz oxide by entering into financial swap and option agreements with several financial institutions. While the duration of these hedges is usually between twelve and 24 months, we have in the past maintained hedges for up to five years, and we always seek to hedge at least the expected sales volumes in the upcoming twelve months.

These zinc price hedges are settled at the beginning of each month based on the average euro-denominated zinc price of the prior month. They are settled in cash, and we receive a payment to the extent that zinc prices are below the hedge level, or pay our hedge counterparty to the extent zinc prices are above the hedged level. Our Price per Ton of

Waelz oxide is set in euro and we hedge our zinc prices in euros in order to help mitigate our exposure to exchange rate risk, because the price of zinc on the LME is quoted in U.S. dollars. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results of Operations—Zinc hedging policies*” and “*Description of Certain Other Financing Arrangements—Zinc Hedging Agreements.*”

Approximately 75% of the volume of Waelz oxide we sell is purchased by customers with whom we have maintained strong commercial relationships for over 15 years, including Nyrstar and Xstrata. We estimate that the sale of Waelz oxide accounted for approximately 66% of revenues (of, if also taking into account revenues generated by hedging activities, 100%) from our crude steel waste recycling operations in the twelve-month period ended June 30, 2013 (with approximately 100% of our crude steel waste recycling operations revenues from the sale of Waelz oxide coming from our top four zinc smelter customers in the twelve-month period ended June 30, 2013).

In our stainless steel waste recycling operations, we have an additional type of customer: international stainless steel producers with operations in Europe and South Africa who pay us a tolling fee for collecting their stainless steel waste, processing it at our plants and returning to them the recovered metals (mainly nickel, chromium and molybdenum). Not all of our stainless steel producer customers require recovered metals to be returned to them, and in such cases we sell the recovered metals in the market.

International Stainless Steel Producers. Our stainless steel waste recycling customers are principally international stainless steel producers with operations in Europe, such as Outokumpu, ThyssenKrupp Nirosta, Sandvik and Acerinox. Certain international stainless steel producers pay us a tolling fee for collecting their stainless steel waste, processing it at our plants and returning to them the recovered metals (mainly nickel, chromium and molybdenum). Our tolling fee is based on an agreed level of metal recovery and depends on the metal composition of the stainless steel waste and the metal recovery level at our plants. As part of our tolling fee, we are typically able to pass through to our stainless steel customers the cost of electricity and coke related to stainless steel waste recycling as well as transportation costs. Because the value of metals recovered from stainless steel waste recycling is higher than the tolling fee charged, it is therefore economically beneficial for stainless steel producers, particularly for our main customers located in Europe, to recycle rather than to dispose of stainless steel waste.

Not all of our stainless steel producer customers require recovered metals to be returned to them, and in such cases we sell the recovered metals in the market. In these cases we do not charge stainless steel producers a tolling fee, because we recover our recycling costs from the price of metals sold. In the twelve-month period ended June 30, 2013, we sold all of our annual volume of recovered metals from our “elimination” residues in the market.

Our contracts with stainless steel producers typically have durations of one to five years and are typically renewed for the same term. However, some of our relationships with stainless steel producer customers date back as far as 1989. We believe that we offer our customer base a high level of metal recovery, reliable waste disposal services and closely integrated services with their stainless steel operations to reduce on-site waste inventories.

Stainless steel recycling accounted for 25% of revenues from our steel waste recycling segment in the twelve-month period ended June 30, 2013 (with approximately 67% of the revenue of our stainless steel waste recycling operations coming from our top four stainless steel waste customers (Outokumpu, ThyssenKrupp, Sandvik and Acerinox) in 2012).

c) *Input Materials and Transportation*

Input Materials. We receive crude steel dust and stainless steel dust from our mini-mill and stainless steel producer customers, as part of our recycling arrangements with them. In our recycling processes we also use additional input materials such as electricity, coke and, to a more limited extent, lime. Electricity, coke and lime are readily available from a large number of suppliers. We obtain these input materials from a small number of strategic suppliers; however, we do not believe that we have a significant concentration in our supply sources for any single input material. In addition, to maintain steady recycling process, we typically maintain inventories of one to two months’ supply of our input materials, which we manage based on estimates of future demand for our products and services.

Transportation. We transport the steel waste from steel waste generators’ facilities to our recycling plants, the Waelz oxide we produce to zinc smelters and the metals we recover to stainless steel producers. We typically do not charge separately for transporting stainless steel waste, Waelz oxide and recovered metals, because our related transportation expenses are included in the collection fee and the tolling fee. Waelz oxide is transported to our zinc smelter customers by third party transportation companies.

d) *Competitors*

Overall, steel waste recycling is a concentrated niche industry with a strong regional nature and high barriers to entry for new players due to regulatory requirements and the high levels of time and capital investment required. For this reason, competition in this aspect of our business is primarily limited to local competitors in close regional proximity. We believe that our competitors in the steel waste recycling business are mainly steel producers who have their recycling facilities integrated into their steel production businesses, typically their zinc smelter businesses. Our competitors typically use the same steel waste recycling technologies as we do, although some use alternative technologies such as plasma technology.

We believe that our main European competitors for steel waste recycling include Portovesme S.p.A., in Sardinia (Italy), Pontenossa S.p.A., located in Ponte Nossa (Italy), and Harz-Metall GmbH, in Goslar (Germany), which—based on our estimates of their plants’ installed capacity—have a market share of approximately 20%, 15% and 7% of the European steel waste recycling market, respectively. Our main competitor in Turkey is Cincom (Kayseri).

We believe that we are the leading crude steel dust recycler in Europe, with an estimated market share of more than 40% in terms of installed crude steel dust recycling capacity, based on our own estimates. We are not aware of any official reports, publications or independent public sources containing data on this market, market share or our main competitors.

3.4 Sales and Marketing

Our steel waste recycling sales and marketing teams are based in Duisburg (Germany) and Erandio (Spain) and cover all of our European and Turkish sales and marketing needs.

3.5 Property

We own and lease land and properties in various regions including Germany, Spain, France, Poland, Sweden, the United Kingdom, Turkey, South Korea and Latin America. Some of our borrowings are secured by charges over certain of our property, plant and equipment.

The table below sets forth the location, type of facility and approximate size of our principal properties:

Plant location	Services provided	Approximate size (in square meters) (unaudited)
Spain		
Erandio.....	EAFD recycling	25,323
Sondika (leased).....	Galvanization waste recycling	4,025
Amorebieta (leased).....	Galvanization waste recycling	7,497
Les Franqueses del Vallés.....	Aluminium waste recycling	20,121
Erandio.....	Aluminium waste recycling	14,452
Valladolid	Salt slag and SPLs recycling	106,750
Nerva	Landfill	60,000
Cartagena	Landfill	19,200
La Puebla	Transfer station of industrial waste	649
Deba.....	Transfer station of industrial waste	2,500
Ajalvir.....	Treatment of non-hazardous waste	1,600
Paterna	Transfer station of industrial waste	5,379
Alhama de Murcia	Agriculture and used greenhouse plastic recycling plant and glass fibre recovery plant	25,200
Cartagena	PCBs (polychlorinated biphenyls) recycling plant	8,644
Zierbena (concession).....	Sulphur valorization	21,850
Arganda del Rey (leased).....	Treatment of hazardous industrial waste	6,472
Getafe (leased)	Treatment of hazardous industrial waste	13,052
Guarromán (leased).....	Final station and physical-chemical treatment of hazardous waste	600
Lucena	Transfer station of industrial waste	1,334
Montornés del Vallés (leased)	Transfer station of industrial waste and solvents distillations unit	7,900
Germany		
Duisburg	EAFD recycling	27,980

Freiberg.....	EAFD recycling	43,915
Hannover	Salt slag recycling	23,706
Lünen (leased)	Salt slag recycling	34,800
Töging (currently idle).....	Salt slag recycling	18,806
France		
Fouquières-lès-Lens.....	EAFD recycling	137,139
Gravelines (concession).....	Leaching of Waelz Oxide	20,000
Gravelines (concession).....	Stainless steel dust recycling	99,319
Turkey		
Iskenderun.....	EAFD recycling	10,246
South Korea		
Gyeongju-si.....	EAFD recycling	52,474
Sweden		
Landskrona	Stainless steel dust recycling	55,625
Argentina		
Campana	Landfill	16,870
Pacheco.....	Industrial waste activities	32,130
United Kingdom		
Whitchurch	Salt slag and SPLs recycling	56,000
Peru		
Chilca.....	Landfill	85,000
Chile		
Antofagasta.....	Landfill	37,000

We own all our steel waste recycling plants and land upon which such plants are situated, except for (i) the land upon which our stainless steel recycling plant and our leaching facility in Gravelines (France) are situated, which we lease and operate pursuant to an administrative concession valid until 2037; and (ii) the land upon which two galvanized steel recycling plants in Sondika (Spain) and Amorebieta (Spain) are situated, which we lease.

We own all of our secondary aluminium production and salt slag and SPLs recycling plants and the land upon which such plants are situated, except for the land where our salt slag recycling plant in Lünen (Germany) is situated. We rent the land on which our plant in Lünen is situated pursuant to a lease agreement valid until December 31, 2029.

We conduct our industrial waste management activities through plants in Spain and Latin America. Of these, in Spain we own all of our plants and land upon which such plants are situated, except for our storage facility in Paterna (Valencia), where we own the storage facility and lease the land upon which such facility is situated, and a sulphur valorization plant in Vizcaya, where we own the plant and have a port concession enabling us to use the land upon which the plant is located. Two of our four treatment plants in Spain (Nerva and Cartagena) have landfill (final disposal) facilities. Out of six plants in Latin America, we own two plants in Argentina and one in Chile and lease one plant in Argentina and two plants in Peru.

3.6 Litigation and Regulatory Proceedings

From time to time in the ordinary course of our business, we are party to various governmental, regulatory, legal and arbitration proceedings. With the exception of the formal regulatory proceedings opened by the CNC on July 12, 2013 in relation to possible anti-competitive behavior involving, inter alia, market-sharing arrangements by 37 companies, including Befesa Gestion de Residuos Industriales, S.L., a member of the Group, in the waste management and urban sanitation sector in Spain (for further information with respect to the CNC investigation, see “*Risks Relating to Our Business—There is an industry-wide antitrust investigation into the waste management and urban sanitation sector in Spain*”), we are not currently, nor have been in the past twelve months, party to any governmental, regulatory, litigation or arbitration proceedings (including any such proceedings that are pending or threatened of which we are aware) which may have, or have had in the recent past, significant effects on our financial position or profitability.

4. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

4.1 Overview

We believe we are the leading European steel dust and salt slag recycling company with a market share of over 40% (measured by installed capacity). We specialize in the recycling of steel and aluminium waste with recycling facilities (both directly owned and through joint ventures) in Germany, Spain, Sweden, France, the United Kingdom,

Turkey and a plant in South Korea which commenced operations in March 2013. In addition, we provide waste management services for industrial waste in Spain and in certain countries in Latin America. For the twelve-month period ended June 30, 2013, we generated total revenues of €627.1 million and Adjusted EBITDA of €126.0 million. Approximately 89.7% of our total EBITDA was derived from our steel and aluminium waste recycling businesses (including steel dust and salt slag recycling, which are our highest margin contributors). In the twelve-month period ended June 30, 2013, we generated approximately 18%, 22% and 47% of our total EBITDA in Germany, Spain and other European countries, respectively.

In our steel waste recycling operations, we collect and recycle steel waste (typically in the form of dust) generated in the production of crude, stainless and galvanized steel. In the recycling process of the crude steel dust, we produce Waelz oxide, a product that is typically comprised of between 60% and 68% zinc. We sell the Waelz oxide we produce to zinc smelters, or return recovered metals, mainly nickel, chromium and molybdenum, to stainless steel producers for a tolling fee or sell such recovered metals on the market. In the steel waste recycling segment, we derive our revenues mainly from the collection fees we charge for collecting crude steel waste, the tolling fees we charge for collecting stainless steel dust, and sales of Waelz oxide and recovered metals on the market.

We own and operate eleven steel waste recycling plants (including two plants through joint ventures). Our six crude steel dust recycling plants have a total aggregate annual recycling capacity of approximately 670,300 tons of crude steel dust. Two of them are located in Germany and one in Spain. One plant is operated in Turkey through a joint venture with Silvermet in which we own a 51% stake and another plant is operated in France through a joint venture with Recylex in which we own a 50% stake. In addition, in March 2013, operations started in the Hankook plant in South Korea, in which we had acquired a 25% stake in September 2012 and another 30% stake for a purchase price of €18.9 million in August 2013, resulting in a total stake currently of 55%. Our two stainless steel dust recycling plants, located in France and Sweden, have a total aggregate annual recycling capacity of 174,000 tons of stainless steel dust. Our two galvanized steel waste recycling plants located in Spain have a total aggregate annual recycling capacity of 19,000 tons of galvanized steel waste. In addition, we own and operate a leaching facility in France with an annual leaching capacity of 100,000 tons of leached Waelz oxide.

For the twelve-month period ended June 30, 2013, we processed 637,602 tons of crude and stainless steel dust, produced 183,935 tons of Waelz oxide and recovered 54,766 tons of metal (mainly nickel, chromium and molybdenum) through the recycling of stainless steel waste. For the twelve-month period ended June 30, 2013, €259.5 million of our revenues and € 79.9 million of our EBITDA (representing 67.8% of our total EBITDA) were generated in our steel waste recycling segment.

4.2 Factors Affecting Our Results of Operations

Our results of operations are dependent on a number of factors, which mainly include the following:

a) Industrial Production Levels of Steel and Aluminium Affect Our Own Production Levels

Our results of operations are substantially dependent on the levels of industrial production of crude and stainless steel, as well as primary and secondary aluminium. In particular, among a number of industries that are heavy users of steel and aluminium, industrial output in the automotive and construction industries is a key driver of the input of our business. In addition, the appliance, machinery, equipment and transportation industries are also significant markets for our products and drivers of our business. When demand for and production of crude steel, stainless steel and primary and secondary aluminium declines, the volume of steel and aluminium waste we collect and recycle is adversely affected and, therefore, our production volume (including Waelz oxide, metals we recover from the recycling of stainless steel waste, secondary aluminium alloys and other products of recycling of aluminium waste) also declines.

Output levels of many of these industries, including automotive, construction, transportation and others, are closely linked to general macroeconomic conditions and therefore general macroeconomic conditions affect the demand for and pricing of our services. In addition, macroeconomic conditions affect the levels and fluctuations of commodities prices, including those of steel and aluminium, which can also affect our financial results even though we have in place a hedging policy to mitigate this risk. A large part of our operations are located in Europe and are therefore subject to the on-going adverse macroeconomic conditions. If gross domestic product growth continues to decline or is negative as a result of the current adverse economic crisis or otherwise, it may have an adverse effect on the utilization levels of our plants.

Our steel waste recycling activities are uniquely affected by reductions in industrial output, specifically in crude steel production. Our steel waste recycling activities produce Waelz oxide, which we in turn sell to zinc smelters. Zinc smelters use it to make, among other things, galvanized steel. Because galvanized steel accounts for an estimated 58–

59% of the global demand of zinc, a downturn in the level of industrial output of galvanized steel decreases the demand for the Waelz oxide we produce, and therefore affects the results of operations of our steel waste recycling segment.

In our aluminium waste recycling segment we recycle salt slag and SPLs which are supplied by secondary and primary aluminium producers, respectively. Our aluminium waste recycling activities are adversely affected by reductions in the production of primary and secondary aluminium. When the production of primary and secondary aluminium declines, we recycle lesser amounts of salt slag and SPLs and produce lesser amounts of secondary aluminium alloys. Consequently, our results of operations are adversely affected when our aluminium waste recycling and secondary aluminium alloys production volumes decrease. We expect that the relative importance of the salt slag business (which has higher profit margins than secondary aluminium production) within our aluminium waste recycling segment will increase over time as a percentage of the segment, as compared to secondary aluminium production.

b) *Capacity and Utilization*

In our steel waste segment we own and operate ten steel dust recycling plants (including through joint ventures). Our six crude steel waste recycling plants have a total aggregate annual capacity of 670,300 tons of crude steel dust. Two of the plants are located in Germany and one is in Spain. We also operate a plant in Turkey through a joint venture that is 51% owned by us, a plant in France that we operate through a joint venture that is 50% owned by us and a plant in South Korea through a joint venture that is currently 55% owned by us. In addition, we own and operate a leaching facility in France with an annual leaching capacity of 100,000 tons of leached Waelz oxide. Our two stainless steel dust recycling plants, located in France and Sweden, have a total aggregate annual recycling capacity of 174,000 tons of stainless steel waste. Our two galvanized steel waste recycling plants, located in Spain, have a total aggregate annual recycling capacity of 19,000 tons of galvanized steel waste. We expect our total capacity levels to increase as we implement our expansion strategy.

In the twelve-month period ended June 30, 2013, we processed 637,602 tons of crude and stainless steel waste, produced 183,935 tons of Waelz oxide and recovered 54,766 tons of metal (mainly nickel, chromium and molybdenum) through the recycling of stainless steel waste. In the six-month period ended June 30, 2013, we processed 310,734 tons of crude and stainless steel waste compared to 327,334 tons in the six-month period ended June 30, 2012, corresponding to a utilization rate of 85.3% during the six-month period ended June 30, 2013. In the six-month period ended June 30, 2013, we produced 85,991 tons of Waelz oxide and recovered 25,645 tons of metal (mainly nickel, chromium and molybdenum) through the recycling of stainless steel waste compared to 90,371 tons and 32,762 tons, respectively, in the six-month period ended June 30, 2012.

In our aluminium waste recycling segment we own six plants (of which five are in operation). We operate two secondary aluminium production facilities in Spain with an aggregate annual production capacity of 120,000 tons of secondary aluminium alloys and four salt slag and SPLs recycling facilities (two in Germany, one in Spain and one in the United Kingdom) with an aggregate annual recycling capacity of 530,000 tons of aluminium waste per year. In addition, we have a salt slag recycling plant in Töging (Germany), currently idle, with a recycling capacity of 100,000 tons per year.

In the twelve-month period ended June 30, 2013, we treated 598,792 tons of aluminium waste (including salt slag and SPLs) and produced 107,646 tons of secondary aluminium alloys, corresponding to a utilization rate of 89.7%. In the six-month period ended June 30, 2013, we treated 311,451 tons of aluminium waste (including salt slag and SPLs) and produced 58,803 tons of secondary aluminium alloys compared to 329,376 tons and 65,630 tons, respectively, in the six-month period ended June 30, 2012, corresponding to a utilization rate of 98.0% during the six-month period ended June 30, 2013.

We aim to operate our plants at utilization levels that allow for efficient operation and ensure that production levels correspond to demand for Waelz oxide, secondary aluminium alloys and other products from steel and aluminium waste recycling, as well as for our steel and aluminium waste recycling services. Utilization levels of our plants depend on the volumes of our main inputs, steel waste and aluminium scrap, which vary depending on the levels of industrial production of crude and stainless steel and primary and secondary aluminium, especially in the geographic areas in which we operate. See “—*Industrial Production Levels of Steel and Aluminium Affect Our Own Production Levels.*” In particular, our stainless steel waste recycling plants operate at lower but increasing utilization levels due to the slowing stainless steel production currently experienced in the European market. We usually tend to adjust utilization levels of our plants according to the amount of inputs we receive from our steel and aluminium waste recycling customers, which affects our results of operations.

Because most of the aluminium waste was collected and the secondary aluminium sold in Germany, we decided to close an aluminium waste recycling plant in Valladolid (Spain) on June 30, 2012 with an installed capacity of 50,000 tons and have commenced the construction of a new, more efficient plant in Bernburg (Germany), which will benefit from lower transportation costs. We have also increased the installed capacity of our secondary aluminium production

plants in Erandio (Spain) and Franqués del Vallés (Spain) to a total of 60,000 tons each. These plants' recent openings and the closure of our plant in Valladolid had an impact on the aggregate installed capacity and utilization levels of our plants. See “—Factors Affecting Our Results of Operations—Production Facilities Openings and Closures” above.

Annual installed capacity refers to the amount of steel waste or aluminium waste our plants could recycle or treat per year, if operated at 100% of their production capacity. We do not operate our plants at their full installed capacity, due to planned maintenance stoppages and fluctuations in demand for our services.

The table below shows installed capacity and utilization levels of our fully operating plants, and production input and output volumes for our key product streams, namely steel waste recycling, and stainless steel waste recycling for our steel waste recycling segment; and salt slag and SPLs recycling and secondary aluminium production for our aluminium waste recycling segment for the five-year period (2008–2012) ended December 31, 2012, the six-month periods ended June 30, 2012 and June 30, 2013 and for the twelve-month period ended June 30, 2013:

	Year ended December 31,					Six-month period ended June 30,		Twelve-month period ended June 30, 2013
	2008	2009	2010	2011	2012	2012	2013	
	(unaudited)					(unaudited)		
Crude steel waste recycling								
Installed crude steel dust recycling capacity (in tons).....	495,300	495,300	495,300	560,300	560,300	560,300	670,300	670,300
Crude steel dust processed (in tons).....	473,574	406,198	470,126	543,071	529,432	262,616	257,174	525,142
Waelz oxide produced (in tons).....	174,386	148,644	169,251	188,420	188,314	90,371	85,991	183,935
Waelz oxide sold (in tons)....	170,568	152,115	170,413	179,722	188,707	90,482	84,711	182,878
Zinc content in sale (in tons)	109,499	100,901	110,871	117,961	123,358	59,072	56,419	120,706
Utilization ⁽²⁾ (%).....	95.6	82.0	94.9	96.9	94.5	94.0	92.6	93.7
Stainless steel waste recycling								
Installed stainless steel dust recycling capacity (in tons).....	174,000	174,000	174,000	174,000	174,000	174,000	174,000	174,000
Stainless steel dust processed (in tons).....	150,129	95,016	85,708	88,658	123,618	64,718	53,560	112,460
Metal recovered ⁽³⁾ (in tons) ..	75,891	48,333	40,691	39,514	61,882	32,762	25,645	54,766
Average tolling fee (€/tn).....	451.0	457.0	499.1	537.2	548.0	523.6	539.1	557.1
Tolling fee contracts ⁽⁴⁾ (%).....	98.0	98.0	95.0	89.0	74.0	74.2	80.5	77.4
Elimination contracts ⁽⁵⁾ (%)..	2.0	2.0	5.0	11.0	26.0	25.8	19.5	22.6
Metal alloy sold (in tons).....	4,942	1,165	2,465	3,645	11,962	3,811	6,845	14,995
Utilization ⁽²⁾ (%).....	86.3	54.6	49.3	51.0	71.0	74.6	62.1	64.6
Salt slag and SPLs recycling								
Installed salt slag/SPLs recycling capacity ⁽⁶⁾ (in tons).....	230,000	380,000	630,000	630,000	630,000	630,000	630,000	630,000
Salt slag recycled (in tons) ...	193,146	221,632	394,143	428,834	438,400	229,338	217,175	426,237
SPLs recycled (in tons).....	—	—	—	25,972	29,243	15,699	14,473	28,017
Aluminium concentrate produced (in tons).....	15,841	17,004	29,417	30,683	33,168	16,019	17,486	34,635
Aluminium salt produced (in tons).....	81,790	93,457	173,755	185,446	185,274	98,279	92,667	179,662
Utilization ⁽⁷⁾ (%).....	84.0	58.3	74.4	85.8	88.2	92.5	87.4	85.7
Secondary aluminium production								
Installed secondary aluminium production capacity ⁽⁸⁾ (in tons).....	160,000	160,000	160,000	160,000	120,000	120,000	120,000	120,000
Scrap aluminium recycled ⁽⁹⁾ (in tons).....	159,880	88,904	136,404	154,878	149,074	84,339	79,803	144,538
Secondary aluminium alloys produced ⁽¹⁰⁾ (in tons).....	118,681	68,345	104,493	118,071	114,472	65,630	58,803	107,646
Average high-grade aluminium price (€/ton)....	1,716.2	1,188.7	1,637.2	1,721.7	1,569.4	1,385.8	1,459.7	1,499.3
Utilization ⁽¹¹⁾ (%).....	74.2	42.7	65.3	73.8	96.4	82.0	98.0	89.7
Sulphur valorization								
Installed sulphuric acid production capacity (in tons).....	343,100	343,100	343,100	343,100	343,100	343,100	343,100	343,100
Sulphur treated (in tons).....	94,018	71,384	84,501	57,229	58,911 ⁽¹³⁾	23,749 ⁽¹³⁾	43,353	78,515 ⁽¹³⁾

Sulphuric acid produced (in tons)	285,720	218,111	261,186	188,875	177,520	73,035	103,566	208,052
Utilization ⁽¹²⁾ (%)	83.3	63.6	76.1	55.0	51.7 ⁽¹³⁾	42.6 ⁽¹³⁾	60.4	60.6 ⁽¹³⁾

- (1) The installed crude steel waste recycling capacity includes 100% (the current stake owned in Hankook amounts to 55%) of the total annual recycling capacity of Hankook.
- (2) Utilization represents crude steel or stainless steel waste, as applicable, processed against annual installed capacity.
- (3) Mainly nickel, chromium and molybdenum.
- (4) Represents the percentage of our total stainless steel contracts under which we return the metals (mainly nickel, chromium and molybdenum) recovered in the recycling of stainless steel waste to stainless steel producers for a tolling fee.
- (5) Represents the percentage of our total stainless steel contracts under which we collect the stainless steel waste and sell the recovered metals on the market.
- (6) Includes the 100,000 tons of capacity at our Töging (Germany) plant, which is currently idle.
- (7) Utilization represents the volume of salt slag and SPLs received by our plants for recycling against annual installed capacity (not including the 100,000 tons of capacity at our Töging (Germany) plant, which is currently idle).
- (8) Annual installed production capacity for the 2012 and 2013 periods does not include the secondary aluminium production plant in Valladolid, which was closed in June 2012. Annual installed production capacity of the remaining secondary aluminium production plants in Erandio and Franqueses del Vallés (Spain) was increased to 60,000 tons each as of June 2012.
- (9) The amount of scrap aluminium recycled in 2012 and 2013 includes the scrap aluminium recycled at a secondary aluminium production plant in Valladolid (Spain), which we closed in June 2012.
- (10) The amount of secondary aluminium produced in 2012 and 2013 includes the secondary aluminium produced at a secondary aluminium production plant in Valladolid (Spain), which we closed in June 2012.
- (11) Utilization represents secondary aluminium produced against annual installed capacity. Utilization of secondary aluminium production in the year ended December 31, 2012 and the six-month periods ended June 30, 2012 and 2013 has been calculated including the Valladolid plant.
- (12) Utilization represents sulphuric acid produced against annual installed capacity.
- (13) Reflects the impact of the failure of an electric energy co-generation turbine at our sulphur valorization plant which occurred during performance tests in February 2012. This turbine was temporarily replaced in July 2012 with an electric energy co-generation turbine that operated at 40% of its capacity. Since the replacement of the temporary turbine with a permanent turbine in February 2013, the new electric energy co-generation turbine has run at full capacity.

c) Pricing and impact of volatility in the price of zinc and aluminium

The principle source of revenue of our steel and aluminium waste recycling operations is the production and sale of Waelz oxide, which contains zinc, and secondary aluminium alloys, respectively. In 2012, the sale of Waelz oxide and secondary aluminium alloys accounted for approximately 24% and 43%, respectively, of our total revenue. The prices we charge for Waelz oxide and secondary aluminium alloys depend on the prices of zinc and aluminium, which are raw materials.

Zinc Prices. Waelz oxide typically has a zinc content between 60% and 68%. We are paid only for a percentage of the zinc contained in the Waelz oxide (typically 85% of the relevant price for zinc) and are subject to an additional deduction or treatment charge. The price used to calculate the value of the payable zinc is the prevailing LME price for zinc. A treatment charge is then deducted from the amount payable to us. This treatment charge represents the fees that miners pay smelters to refine zinc concentrate into metal. The treatment charge is linked to the LME price for zinc. As a result, the higher the LME price of zinc is over the base reference price, the larger the treatment charge deducted will be, and vice versa. See “*Our Business—Business Segments—Steel Waste Recycling Segment—Customers and Pricing—Zinc Smelters.*”

The following table shows information regarding the LME price of zinc in U.S. dollars for the twelve-month period ended June 30, 2013, the six-month periods ended June 30, 2013 and June 30, 2012, and the fiscal years ended December 31, 2012, 2011 and 2010:

Year	Average	High	Low
		(unaudited)	
		(US\$/mT)	
Twelve-month period ended June 30, 2013	1,928.8	2,111.7	1,758.5
Six-month period ended June 30, 2013	1,840.0	1,924.4	1,774.7
Six-month period ended June 30, 2012	1,928.4	1,991.2	1,810.7
2012	1,947.0	2,145.7	1,765.9
2011	2,193.3	2,551.5	1,737.2
2010	2,162.7	2,630.8	1,629.7

Source: LME monthly average prices.

Our zinc sales, including those under our zinc hedging arrangements, are denominated in euro, although, as explained above, prices are set in reference to the U.S. dollar LME price of zinc. The following table provides information regarding the price of zinc in euro in the twelve-month period ended June 30, 2013, the six-month periods ended June 30, 2013 and June 30, 2012, and the fiscal years ended December 31, 2012, 2011 and 2010:

Year	Average	High (unaudited) (€/mT)	Low
Twelve-month period ended June 30, 2013	1,490.1	1,631.3	1,358.5
Six-month period ended June 30, 2013.....	1,408.4	1,473.1	1,358.5
Six-month period ended June 30, 2012.....	1,501.8	1,550.6	1,410.1
2012	1,514.7	1,657.3	1,381.8
2011	1,575.6	1,877.0	1,267.5
2010	1,625.7	1,839.7	1,334.7

Aluminium Prices. The price per ton of secondary aluminium alloy we collect is set by reference to the price of aluminium quoted on the LME. Depending on the quality of the alloy, the price will be referenced to the LME high grade aluminium or to the aluminium alloy price. The final price charged to the customer is the LME reference price plus a premium.

The following table provides information regarding the LME price of high- grade aluminium in U.S. dollars for the twelve-month period ended June 30, 2013, the six-month periods ended June 30, 2013 and June 30, 2012, and the fiscal years ended December 31, 2012, 2011 and 2010:

Year	Average	High (unaudited) (US\$/mT)	Low
Twelve-month period ended June 30, 2013	1,940.2	2,151.3	1,706.5
Six-month period ended June 30, 2013.....	1,834.7	1,939.0	1,723.4
Six-month period ended June 30, 2012.....	1,976.0	2,041.4	1,861.5
2012	2,018.9	2,202.7	1,839.0
2011	2,398.4	2,666.5	2,019.2
2010	2,172.9	2,349.4	1,931.3

Source: LME monthly average prices.

The following table provides information regarding the price of high-grade aluminium in euro in the twelve-month period ended June 30, 2013, the six-month periods ended June 30, 2013 and June 30, 2012, and the fiscal years ended December 31, 2012, 2011 and 2010:

Year	Average	High (unaudited) (€/mT)	Low
Twelve-month period ended June 30, 2013	1,499.3	1,662.5	1,318.7
Six-month period ended June 30, 2013.....	1,404.0	1,483.8	1,318.7
Six-month period ended June 30, 2012.....	1,540.2	1,591.2	1,451.0
2012	1,569.4	1,666.1	1,483.0
2011	1,721.7	1,846.4	1,529.3
2010	1,637.2	1,776.6	1,497.1

The following table provides information regarding the LME price of aluminium alloy in U.S. dollars for the twelve-month period ended June 30, 2013, the six-month periods ended June 30, 2013 and June 30, 2012, and the fiscal years ended December 31, 2012, 2011 and 2010:

Year	Average	High (unaudited) (\$/mT)	Low
Twelve-month period ended June 30, 2013	1,836.5	2,036.1	1,686.2
Six-month period ended June 30, 2013.....	1,789.4	1,839.2	1,702.8
Six-month period ended June 30, 2012.....	1,889.7	1,960.1	1,784.3
2012	1,919.0	2,121.2	1,746.6
2011	2,263.1	2,413.4	1,919.0
2010	2,076.0	2,255.9	1,842.6

Source: LME monthly average prices.

The following table provides information regarding the price of aluminium alloy in euro in the twelve-month period ended June 30, 2013, the six-month periods ended June 30, 2013 and June 30, 2012, and the fiscal years ended December 31, 2012, 2011 and 2010:

Year	Average	High	Low
		(unaudited)	
		(€/mT)	
Twelve-month period ended June 30, 2013.....	1,419.2	1,573.4	1,303.0
Six-month period ended June 30, 2013.....	1,369.3	1,407.4	1,303.0
Six-month period ended June 30, 2012.....	1,473.0	1,527.9	1,390.8
2012.....	1,491.7	1,604.5	1,408.5
2011.....	1,625.2	1,714.4	1,456.7
2010.....	1,565.8	1,705.9	1,376.8

Global demand for zinc and aluminium has been cyclical historically, and the prices of zinc and aluminium (including on the LME) are volatile; affected by numerous factors beyond our control, including international economic, social and political conditions, changes in global supply and demand, the availability of substitutes and actions of participants in the commodities markets. Moreover, zinc and aluminium prices are sensitive to trends in cyclical industries, such as the automotive, construction, industrial, appliance, machinery, equipment and transportation industries, which are significant markets for our products. These industries have been historically characterized by cyclical fluctuations in overall demand, which result in corresponding fluctuations in demand for our products. Fluctuations of the prices of zinc and aluminium (including on the LME) affect our financial results.

d) Zinc Hedging Policies

We use a combination of zinc swaps and options to hedge a portion of our production capacity of Waelz oxide. Such hedges affect our financial results and we believe that in recent years this hedging has reduced our exposure to volatility in zinc prices and enabled us to keep revenues and margins relatively stable and cash flows predictable.

In particular, under our current zinc hedging policy we both fix the price per ton of zinc for approximately 60–70% of the expected volume of zinc to be extracted from our Waelz oxide by entering into financial swap agreements with several financial institutions and also use option floors in order to benefit from potential zinc price increases, particularly to have downside protection in case the price of zinc decreases. While the duration of these hedges is usually for 12 to 24 months, we have in the past maintained hedges for up to five years. While our currently existing zinc hedges expire in December 2014, we intend to continue our hedging zinc through the use of swaps and options.

The table below provides the price per ton of zinc at which we hedged, the volume of zinc contained in Waelz oxide sold we hedged in the fiscal years ended December 31, 2012, 2011 and 2010, and the expected volumes of zinc contained in expected Waelz oxide sales in 2013 and 2014:

	Swaps				Options			
	Year ended December 31,				Quarter ended		Quarter ended	
	2010	2011	2012	2013	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	(unaudited)				(unaudited)		(unaudited)	
Zinc contained in expected Waelz oxide sales hedged (in tons).....	60,892	70,026	62,400	67,920	18,000	18,000	18,300	18,300
Hedged price per ton of zinc (in €).....	1,560	1,560	1,703	1,700	1,550	1,500	1,300	1,300

During the years ended December 31, 2011 and 2012, our portfolio of zinc hedges resulted in an increase of revenues by €0.6 million and €12.7 million, respectively, as a result of zinc market prices being lower than the hedged prices. Because zinc market prices were higher than our zinc hedges during 2010, we recorded a €4.4 million loss in respect of our hedges in the year ended December 31, 2010.

In our aluminium waste recycling business, we have occasionally hedged the aluminium price for the volumes of aluminium expected to be recovered in the recycling of salt slag. These volumes are not meaningful, and as of December 31, 2012 there were no positions open due to the low price of aluminium.

e) *Foreign Currency Fluctuations*

Our functional currency is the euro. However, we have subsidiaries and operations in a number of jurisdictions, including the United Kingdom, Sweden, Turkey, South Korea, Argentina, Chile and Peru, where we generate revenues in currencies other than the euro and, in light of our growth plans, in the future we may operate in additional jurisdictions with currencies other than the euro. For the fiscal year ended December 31, 2012, 28.3% of our consolidated revenues were denominated in currencies other than the euro, principally the U.S. dollar, the pound sterling, the Swedish krona and the Argentine peso. We also incur expenses and liabilities in these currencies. The results of operations of our foreign subsidiaries and our products priced in currencies other than the euro are translated into euro at the applicable exchange rate for inclusion in our Consolidated Financial Statements. See Note 4 to the 2012 Audited Financial Statements for information about the functional currency of certain of the Group's subsidiaries and joint ventures. We aim to minimize the effect of foreign exchange fluctuations by matching revenues, expenses and liabilities in each currency, to the extent commercially practicable.

In addition, in our recycling business we produce and sell Waelz oxide (which contains zinc), secondary aluminium alloys, nickel, chromium, molybdenum and other metals. As is typical for such products, we price them by reference to relevant commodities prices quoted on the LME in U.S. dollars, while a substantial portion of our operating costs are incurred in euro. To limit our exposure to the U.S. dollar/euro exchange rate we use zinc swaps (which are denominated in euro) (see the discussion under “—Zinc Hedging Policies” above).

f) *The Acquisition and the New Financings*

The Acquisition, the New Facilities and refinancing of the Outstanding Local Facilities, the Hankook Facility, the Offering and the use of proceeds therefrom, and the payment of fees and expenses relating thereto, will have a significant effect on our results of operations in a number of respects. In particular:

- we incurred significant indebtedness and thereby increased our total liabilities;
- our future results of operations, and in particular our finance costs, will be significantly affected by obligations under our increased amount of indebtedness, including the interest we pay on this indebtedness. The increase in our finance costs will have a negative impact on our cash balance;
- our future amortization expenses relating to intangible assets and other assets such as capitalized finance fees will increase as a result of the Acquisition and the other transactions referred to above and will also be affected by newly acquired intangible assets through the impact of the purchase price allocation for the Group; and
- in connection with the New Facilities, we are required to maintain hedging arrangements.

g) *Ongoing Expansion of Our Business*

We plan to continue growing our business organically, through selective acquisitions and by entering into joint ventures in our current and new markets, which will affect our financial results.

Through Befesa Silvermet, in which we hold a 51% interest, we plan to construct two additional crude steel dust recycling facilities, in İzmir and Adana (Turkey). These two plants are expected to have a total recycling capacity of 220,000 tons of crude steel dust and a total annual production capacity of 80,000 tons of leached Waelz oxide, split equally between the two plants. We expect both of these crude steel dust recycling facilities to be completed in 2015, with operations commencing at the beginning of 2015.

In September 2012, we acquired 25% in Hankook, a South Korean steel waste recycling company for a purchase price consideration in an amount of € 15.0 million. In March 2013, operations commenced at its crude steel dust recycling plant in Gyeongju, South Korea, which has an annual recycling capacity of 110,000 tons of steel waste. In August 2013, we acquired another 30% stake in Hankook for a purchase price of €18.9 million, resulting in a total stake of currently 55%.

We have also commenced the construction of a secondary aluminium waste recycling plant in Bernburg (Germany). This facility is expected to have an annual production capacity of 70,000 tons of secondary aluminium alloys, and it is planned to come into operation in the first half of 2014.

In addition, we plan to enter the Persian Gulf region aluminium waste recycling market through a joint venture with General Holding Corporation PJSC, a subsidiary of SENAAT, a company in the Persian Gulf region focused on the

development of the industrial sector in that region, in order to construct an SPLs recycling plant in the region. We expect our interest in the joint venture will be up to 50%. We expect the new SPLs recycling plant to have an annual recycling capacity of 120,000 tons of aluminium waste and to come into operation in the first half of 2015. We believe that the relative importance of the salt slag business (which has higher profit margins than secondary aluminium production) within our aluminium waste recycling segment will increase over time as a percentage of this segment, compared to secondary aluminium production.

We expect that the aggregate cost for these projects will be approximately €250 million. We intend to fund these projects with cash currently available to us, cash generated from operations, through bank financing, or raising capital on the capital markets and contributions from our partners. See “—*Capital Expenditures*” for further discussion.

h) Supplies and Input Materials

Our business model relies on customers providing us with, and paying us for, the majority of our main input materials, which are steel and aluminium waste. We also receive approximately 13% of our main input materials required for secondary aluminium production from our salt slag and SPLs recycling plants. Therefore, our exposure to fluctuations in input material prices is limited due to this feature of our business model.

However, we are required to pay for some of our other inputs, particularly electricity and coke. In the twelve-month period ended June 30, 2013, our consumption of electricity and coke accounted for 12% and 9%, respectively, of our total operating expenses. We procure electricity and coke and our other ancillary input materials from a small number of suppliers, but we do not have any significant concentration in the supply of any one input material. The supply and prices of input materials we purchase have in the past and can in the future fluctuate widely as a result of a number of factors beyond our control, including government regulations and legislation affecting the production or transportation of coke, unpredictable short-cuts in electricity supply, the consolidation or closure of suppliers and speculative movements in the commodities markets.

Furthermore, we contract with third-party transportation companies for the transportation to our plants of steel and aluminium waste and to our customers of Waelz oxide, secondary aluminium alloy, recovered metals and other products of our recycling processes. While we are generally able to pass through the related transportation costs to our customers, we might not be able to do so or our costs might increase in the future.

i) Environmental Laws and Regulations

Our results of operations are affected and are expected to be affected by environmental laws and regulations in most of the jurisdictions in which we operate.

Our results of operations are substantially dependent on the availability of steel and aluminium waste, which is the industrial output of a number of industries, including the automotive, construction, industrial, appliance, machinery, equipment and transportation industries. Environmental laws and regulations governing disposal, treatment and recycling of industrial waste, particularly in the European Union, have affected in the past and are expected to continue to affect these industries, including by prioritizing recycling over disposal. As relevant laws and regulations continue to impose stricter requirements regarding the environmentally safe disposal, treatment and recycling of industrial waste, we expect demand for our services to increase.

We also operate (or plan to operate in the near future) in a number of countries outside the European Union, particularly in Turkey, South Korea, Argentina, Chile and Peru. We believe that environmental laws and regulations in these countries, and in other emerging markets in which we may operate in the future, will become stricter over time.

In addition, we believe that stricter environmental laws and regulations would also create additional compliance barriers and related expenses for new entrants in the niche recycling markets in which we operate. Moreover, we believe that our experience in complying with EU environmental laws and regulations, which tend to be among the strictest in the world, will create opportunities for developing our business in the non-EU countries in which we currently operate, and plan to operate, and provide us with an advantage over potential competitors lacking such experience.

Furthermore, we incur significant expenses related to compliance with environmental laws and regulations, and particularly with the conditions of our permits and authorizations. As environmental laws and regulations governing our business become stricter, both inside and outside the European Union, the cost of our environmental compliance may increase, which may lead to increased operating expenses and capital expenditures. We are also exposed, in particular in the European Union, to significant liabilities, fines and penalties if found responsible for releases of hazardous substances and pollution of the soil, water, underground water, air or other type of contamination. Any occurrence of non-compliance could materially adversely affect our business and result of operations in the future. See “*Risks Relating*

to our Business—Our operations are subject to stringent laws and regulations, particularly under applicable environmental laws.”

4.3 Results of Operations

The tables and discussions set forth below provide an analysis of selected items from our consolidated statements of income for each of the periods described below:

	Year ended December 31,					Six-month period ended June 30,		
	2010 ⁽¹⁾	2011 ⁽¹⁾	Change	2012	Change	2012	2013	Change
	(restated)	(restated)	2011 v	(audited)	2012 v	(unaudited)	(unaudited)	
	(€ million)		(%)	(€ million)	(%)	(€ million)		(%)
Continuing operations:								
Revenue	547.0	613.7	12.2	642.4	4.7	332.8	317.5	(4.6)
Changes in inventories of finished goods and work in progress.....	3.3	0.7	(78.8)	0.5	(28.6)	5.7	8.3	45.6
Procurements	(286.4)	(302.8)	5.7	(307.3)	1.5	(173.8)	(160.1)	(7.9)
Other operating income	41.4	24.0	(42.0)	18.2	(24.2)	5.2	6.5	25.0
Staff costs	(83.5)	(87.0)	4.2	(89.8)	3.2	(45.2)	(44.6)	(1.3)
Other operating expenses.....	(117.6)	(130.9)	11.3	(141.8)	8.3	(65.2)	(72.5)	11.2
Depreciation and amortization charge and provisions.....	(35.2)	(27.8)	(21.0)	(29.9)	7.6	(14.7)	(15.8)	7.5
Profit from operations	69.0	89.8	30.1	92.3	2.4	44.9	39.3	(12.5)
Finance income.....	0.8	10.4	—	3.0	(71.2)	2.0	16.7	—
Finance costs.....	(25.9)	(36.2)	40.2	(52.1)	43.5	(24.4)	(29.5)	20.9
Exchange differences (gains and losses).....	0.1	(2.0)	—	1.3	—	0.6	(0.1)	(116.7)
Financial costs (net)	(25.0)	(27.9)	11.6	(47.8)	71.3	(21.7)	(12.9)	(40.6)
Result of companies accounted for using the equity method	0.2	0.3	0.0	0.2	(33.3)	0.1	0.1	0.0
Profit before tax	44.3	62.1	40.2	44.7	(28.0)	23.3	26.5	13.7
Tax	(11.5)	(20.3)	76.5	(11.8)	(41.9)	(7.6)	(5.6)	(26.3)
Profit for the year from continuing operations	32.8	41.9	27.7	32.8	(21.7)	15.7	20.9	33.1
Discontinued operations:								
Profit for the year from discontinued operations	12.8	100.2	—	0.5	—	1.0	0.0	—
Profit for the year	45.6	142.0	211.4	33.3	(76.5)	16.7	20.9	25.1

(1) Reflects the income statement set forth in Note 31 to the 2011 and 2010 Audited Financial Statements, which presents the Water Concession business as discontinued operations.

Comparison of Operating Results for the Six-Month Period Ended June 30, 2013 and the Six-Month Period Ended June 30, 2012 and the Years Ended December 31, 2012, 2011 and 2010

a) Revenue

Our revenue from continuing operations was €317.5 million for the six-month period ended June 30, 2013, as compared to €332.8 million for the six-month period ended June 30, 2012, representing a decrease of 4.6% (or €15.3 million) between the two periods. The decrease in the six-month period ended June 30, 2013, as compared to the six-month period ended June 30, 2012, was principally due to a decrease in our revenues from steel waste recycling and a decrease in revenues from our aluminium waste recycling segment.

Our revenue from continuing operations was €642.4 million for the fiscal year ended December 31, 2012, as compared to €613.7 million and €547.0 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 4.7% (or €28.7 million) in 2012 compared to 2011, and an increase of 12.2% (or €66.7 million) in 2011 compared to 2010.

The increase in 2012 compared to 2011 was principally due to an increase in our revenues from our steel waste recycling segment, mainly due to higher prices as a result of our hedging arrangements and an increase in zinc content in sales, and partially an increase in revenues from our aluminium waste recycling segment, mainly due to increases in the volume of salt slag recycled, despite a decline in prices.

The increase in 2011 compared to 2010 was principally due to the increased production and sales volumes of Waelz oxide, mainly due to the acquisition in October 2010 of our 55.9% indirect interest in BSI, which operates a steel waste recycling plant in Iskenderun (Turkey), which was partially offset by declining prices.

The following table sets forth the steel waste recycling segment breakdown, including for our operations under such segment, for the periods indicated:

Segment	Year ended December 31,					Six-month period ended June 30,		
	2010	2011	Change	2012	Change	2012	2013	Change
	(unaudited)	(unaudited)	2011 v 2010	(unaudited)	2012 v 2011	(unaudited)	(unaudited)	(%)
	(€ million)		(%)	(€ million)	(%)	(€ million)		(%)
<i>Crude steel waste recycling</i>	175.4	187.8	7.1	201.4	7.2	97.2	90.7	(6.7)
<i>Stainless steel waste recycling</i>	46.1	48.6	5.4	63.3	30.2	29.5	30.9	4.7
Steel waste recycling segment ⁽¹⁾	221.6	236.4	6.7	264.6	11.9	126.7	121.6	(4.0)

(1) Including steel galvanization.

The table below shows production and sales volumes for the key product streams in our steel waste recycling segment (crude steel waste recycling and stainless steel waste recycling) for the twelve-month period ended June 30, 2013 and the years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,			Twelve-month period ended June 30, 2013 (unaudited)
	2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	
Crude steel waste recycling				
Crude steel waste processed (in tons)	470,126	543,071	529,432	525,142
Waelz oxide produced (in tons)	169,251	188,420	188,314	183,935
Waelz oxide sold (in tons)	170,413	179,722	188,707	182,878
Zinc content in sale (in tons)	110,871	117,961	123,358	120,706
Stainless steel waste recycling				
Stainless steel waste processed (in tons)	85,708	88,658	123,618	112,460
Average tolling fee (€/ton)	499.1	537.2	548.0	557.1
Metal recovered ⁽¹⁾ (in tons)	40,691	39,514	61,882	54,766
Average zinc price collected (€/ton)	1,624.8	1,573.0	1,512.7	1,490.1

(1) Mainly nickel, chromium and molybdenum.

Our revenue from steel waste recycling was €121.6 million for the six-month period ended June 30, 2013, as compared to €126.7 million for the six-month period ended June 30, 2012, representing a decrease of 4.0% (or €5.1 million) between the two periods.

Revenue from crude steel waste recycling decreased to €90.7 million for the six-month period ended June 30, 2013, from € 97.2 million for the six-month period ended June 30, 2012, due to a 6.4% decline in the volumes of Waelz Oxide sold. Zinc hedging prices remained at similar levels in both periods (€1,700 per ton in 2013 compared to €1,703 per ton in 2012), with 60%-70% of our zinc sales hedged in both periods. In addition, average LME zinc prices in euro collected for zinc sales decreased by 3.3% (€1,474 per ton in the first half of 2013 compared to €1,523 per ton during the same period of 2012).

Revenue from stainless steel waste recycling increased to €30.9 million for the six-month period ended June 30, 2013, from € 29.5 million for the six-month period ended June 30, 2012, principally due to a 80% increase in the metal

alloys sold. This increase was partially offset by a 17.0% decrease in volumes of stainless steel dust processed, a reduction in our inventory and a 13% decrease in nickel prices.

Our revenue from steel waste recycling was €264.6 million for the fiscal year ended December 31, 2012, compared to €236.4 million and €221.6 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 11.9% (or € 28.2 million) in 2012, compared to 2011, and an increase of 6.7% (or €14.8 million) in 2011 compared to 2010. Revenue from crude steel waste recycling increased to €201.4 million for the fiscal year ended December 31, 2012, from €187.8 million and € 175.4 million for the years ended December 31, 2011 and 2010, respectively, while revenue from stainless steel waste recycling increased to €63.3 million for the fiscal year ended December 31, 2012, from €48.6 million and €46.1 million for the years ended December 31, 2011 and 2010, respectively.

The increase of 11.9% (or €28.2 million) in 2012, as compared to 2011, was principally due to an increase of 5.0% in Waelz oxide sold in 2012 compared to 2011 (to 188,707 tons in 2012 from 179,722 tons in 2011), although the volume of Waelz oxide produced in 2012 compared to 2011, was relatively stable. The 11.9% increase was also due to an increase of 9% in our average zinc hedging price to €1,703 in 2012, from €1,560 in 2011 (this hedging price related to approximately 60% of our zinc sales in 2012, which were hedged), while the average price in euro we collected for zinc sales in 2012 declined compared to 2011 (the average LME price of zinc in U.S. dollars also declined in 2012 compared to 2011).

The increase in 2012 was also supported by an increase of 39.4% in the volume of stainless steel waste processed in 2012 due to a new contract signed for the treatment of 20,000 tons of such waste, compared to 2011 (to 123,618 tons in 2012 from 88,658 tons in 2011) and an increase of 56.5% in the volume of metal recovered in 2012 compared to 2011.

The increase in 2012 was partially offset by a decline in average tolling fees collected in 2012 compared to 2011.

The increase of 6.7% (or €14.8 million) in 2011, as compared to 2010, was principally due to an increase of 5.5% in the volume of Waelz oxide sold in 2011 compared to 2010 (to 179,722 tons in 2011 from 170,413 tons in 2010) and an increase of 6.4% in zinc content in Waelz oxide sales, while our zinc hedging price remained relatively stable at €1,560 in both 2011 and 2010; the average price in euro we collected in 2011 declined by 3.1% compared to 2010, and the average LME price of zinc in U.S. dollars remained relatively stable as compared to 2010.

The increase was also supported by a small increase in the volume of stainless steel waste processed and in average tolling fees collected in 2011 compared to 2010.

The increase in the volume of Waelz Oxide sold in 2011 was mainly due to the acquisition in October 2010 of our 55.9% indirect interest in BSI, which operates a steel waste recycling plant in Iskenderun (Turkey) with an annual installed capacity of 65,000 tons; the impact on revenue resulting from the consolidation of BSI amounted to €10.6 million in 2011.

Our zinc sales, including those under our zinc hedging arrangements, are denominated in euro, although, as explained above, prices are set in reference to the U.S. dollar LME price of zinc.

b) Changes in inventories of finished goods and work in progress

Our change in inventories of finished goods was €8.3 million for the six-month period ended June 30, 2013 compared to €5.7 million for six-month period ended June 30, 2012. This represents an increase of 45.6% (or €2.6 million), principally due to the increase in work in progress from technology division of aluminium waste recycling segment.

Our change in inventories of finished goods was €0.5 million for the fiscal year ended December 31, 2012 compared to €0.7 million and €3.3 million for the years ended December 31, 2011 and 2010, respectively. This represents a decrease of 28.6% (or € 0.2 million) in 2012 as compared to 2011, and a decrease of 78.8% (or €2.6 million) in 2011 compared to 2010. The carrying amount of inventories of finished goods and work in progress remained approximately at the same levels as of December 31, 2012 and 2011.

c) Procurements

Our procurements were €160.1 million for the six-month period ended June 30, 2013 compared to €173.8 million for the six-month period ended June 30, 2012. This represents a decrease of 7.9% (or €13.7 million). The

decrease in the six-month period ended June 30, 2013 compared to the six-month period ended June 30, 2012, was principally due to a decrease in our purchases of raw materials and other supplies.

Our procurements were €307.3 million for the fiscal year ended December 31, 2012, as compared to €302.8 million and € 286.4 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 1.5% (or €4.5 million) in 2012 compared to 2011, and an increase of 5.7% (or €16.4 million) in 2011 compared to 2010.

The increase of 1.5% in 2012 was principally due to the increase in aluminium purchases and supplies, approximately in line with the increase in sales in our aluminium waste recycling segment in 2012. The increase of 5.7% in 2011 was mainly due to a rise in aluminium prices during the first half of 2011 as compared to 2010.

The following table sets forth the breakdown of our procurements for the periods indicated:

	Year ended December 31,				Six-month period ended June 30,			
	2010 ⁽¹⁾ (restated) (€ million)	2011 ⁽¹⁾ (restated)	Change 2011 v 2010 (%)	2012 (audited) (€ million)	Change 2012 v 2011 (%)	2012 (unaudited) (€ million)	2013 (unaudited)	Change (%)
Procurements								
Purchases of raw materials and other supplies	267.2	274.9	2.9	281.5	2.4	157.8	147.5	(6.5)
Changes in goods held for resale, raw materials and other inventories	(4.4)	2.8	—	(1.0)	—	2.4	1.1	(54.2)
Other external expenses	23.6	25.1	6.4	26.8	6.8	13.6	11.5	(15.4)
Total	286.4	302.8	5.7	307.3	1.5	173.8	160.1	(7.9)

(1) Not including the Water Concession Business as of and for the years ended December 31, 2011 and 2010.

Purchases of raw materials and other supplies. Our purchases of raw materials and other supplies was €147.5 million for the six-month period ended June 30, 2013 compared to €157.8 million for the six-month period ended June 30, 2012. This represents a decrease of 6.5% (or €10.3 million). The decrease in the six-month period ended June 30, 2013 compared to the six-month period ended June 30, 2012 was principally due to a reduction of purchases from our steel waste recycling segment and a reduction of purchases from our aluminium waste recycling segment, mainly due to a decrease of treated tons and a decrease of aluminium price.

Our purchases of raw materials and other supplies was €281.5 million for the fiscal year ended December 31, 2012 compared to € 274.9 million and €267.2 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 2.4% (or €6.6 million) in 2012 compared to 2011, and an increase of 2.9% (or €7.7 million) in 2011 compared to 2010. The increase in 2012 was principally due to the increase in aluminium purchases and supplies, approximately in line with the increase in the Group's sales during that year. The increase in 2011 was mainly due to a rise in aluminium prices in the first half of 2011 compared to 2010.

Changes in goods held for resale, raw materials and other inventories. Changes in goods held for resale, raw materials and other inventories were €1.1 million for the six-month period ended June 30, 2013 as compared to €2.4 million for the six-month period ended June 30, 2012. This represents a decrease of 54.2% (or €1.3 million). The increase was mainly due to the intensification of the activity of Befesa Valorización de Azufre.

Other external expenses. Other external expenses were €11.5 million for the six-month period ended June 30, 2013 compared to €13.6 million for the six-month period ended June 30, 2012. This represents a decrease of 15.4% (or €2.1 million). The decrease was mainly due to the starting up of Befesa Zinc Gravelines during 2012, leaching Waelz oxide from our plants and avoiding subcontracting of this service.

Other external expenses were €26.8 million for the fiscal year ended December 31, 2012, as compared to €25.1 million and €23.6 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 6.8% (or €1.7 million) in 2012 as compared to 2011, and an increase of 6.4% (or €1.5 million) in 2011 compared to 2010. Other external expenses includes mainly works performed by third parties and transport costs related mainly to our industrial waste management activities.

d) *Other operating income*

Other operating income was €6.5 million for the six-month period ended June 30, 2013 compared to €5.2 million for the six-month period ended June 30, 2012. This represents an increase of 25% (or €1.3 million). The increase in the six-month period ended June 30, 2013, as compared to the six-month period ended June 30, 2012 was principally due to an increase in capitalized work on non-current assets related to Befesa Plásticos.

Other operating income was €18.2 million for the fiscal year ended December 31, 2012, compared to €24.0 million and € 41.4 million for the years ended December 31, 2011 and 2010, respectively, representing a decrease of 24.2% (or €5.8 million) in 2012 compared to 2011, and a decrease of 42.0% (or €17.4 million) in 2011 compared to 2010.

The decrease in 2012, compared to 2011 was principally due to a decrease in capitalized costs on non-current assets and the reversal of a provision for €1.9 million related to depreciation of steel research and development. The decrease in 2011 was principally due to the inclusion in 2010 of the estimation of internally originated capital expenditures related to fixed assets of Befesa Valorización de Azufre, which amounted to approximately €30 million.

The following table sets forth the breakdown of our other operating income for the periods indicated:

	Year ended December 31,				Six-month period ended June 30,			
	2010 ⁽¹⁾ (restated)	2011 ⁽¹⁾ (restated)	Change 2011 v 2010	2012 (audited)	Change 2012 v 2011	2012 (unaudited)	2013 (unaudited)	Change
	(€ million)	(€ million)	(%)	(€ million)	(%)	(€ million)	(€ million)	(%)
Other operating income								
Capitalized costs on non-current assets	34.6	6.2	(82.1)	2.8	(54.8)	0.0	1.1	—
Income from grants	1.8	1.4	(22.2)	1.0	(28.6)	0.4	0.4	0.0
Services and other operating income	5.0	14.5	190.0	14.4	(0.7)	4.8	4.6	(4.2)
Reversal of provisions for contingencies and charges	—	1.9		—		0	0.4	—
Total	41.4	24.0	(42.0)	18.2	(24.2)	5.2	6.5	25.0

(1) Not including the Water Concession Business as of and for the years ended December 31, 2011 and 2010.

Capitalized costs on non-current assets. Capitalized costs on non-current assets were €1.1 million for the six-month period ended June 30, 2013 compared to €0.0 million for the six-month period ended June 30, 2012. This represents an increase of €1.1 million mainly related to capitalized costs on non-current assets of Befesa Plásticos. Capitalized costs on non-current assets were €2.8 million for the fiscal year ended December 31, 2012, compared to €6.2 million and €34.6 million for the years ended December 31, 2011 and 2010, respectively, representing a decrease of 54.8% (or €3.4 million) in 2012 compared to 2011, and a decrease of 82.1% (or €28.4 million) in 2011 compared to 2010.

The decrease in 2012 compared to 2011 and 2010 related mainly to the reclassification in 2012 of work carried out in 2011 and 2010 in relation to research and development (“R&D”), thereby reducing R&D expenses, because this line item previously included expenses related to the construction of the sulphur valorization plant of Befesa Valorización de Azufre; this amounted to approximately €4.1 million in 2011 and €30.0 million in 2010 (see also “— *Other operating expenses—Research and Development expenditure*”).

Income from grants. Income from grants was €0.4 million for the six-month period ended June 30, 2013 compared to €0.4 million for the six-month period ended June 30, 2012. Income from grants was €1.0 million for the fiscal year ended December 31, 2012, compared to €1.4 million and €1.8 million for the years ended December 31, 2011 and 2010, respectively, representing a decrease of 28.6% (or €0.4 million) in 2012 compared to 2011, and a decrease of 22.2% (or €0.4 million) in 2011 compared to 2010.

Services and other operating income. Services and other income was €4.6 million for the six-month period ended June 30, 2013 compared to €4.8 million for the six-month period ended June 30, 2012. This represents a decrease of 4.2% (or €0.24 million). Services and other operating income was €14.4 million for the fiscal year ended December 31, 2012, compared to €14.5 million and €5.0 million for the years ended December 31, 2011 and 2010, respectively, representing a decrease of 0.7% (or €0.1 million) in 2012 compared to 2011, and an increase of 190% (or €9.5 million) in 2011 compared to 2010. The increase in 2011 was principally due to payments from insurance

companies for approved claims, and for the revaluation of our interest in Befesa Perú, after acquiring the remaining 50% in its share capital we did not hold.

Reversal of provisions for contingencies and charges. Reversal of provisions for contingencies and charges was €0.4 million for the six-month period ended June 30, 2013 compared to €0.0 million for the six-month period ended June 30, 2012. The increase for the six-month period ended June 30, 2013 compared to for the six-month period ended June 30, 2012 was principally due to a reversal of a provision charges from Befesa Silvermet Iskenderum, due to a successful litigation.

Reversal of provisions for contingencies and charges was nil for the fiscal year ended December 31, 2012, compared to €1.9 million for the year ended December 31, 2011 and nil for the year ended December 31, 2010. The amount recorded in 2011 related to a provision made in previous years in connection with a non-consolidated subsidiary involved in steel research and development. In assessing this entity's expected future cash flows, there was no reason to maintain the provision and it was therefore reversed.

e) *Staff costs*

Our staff costs relating to continuing operations were €44.6 million for the six-month period ended June 30, 2013 compared to €45.2 million for the six-month period ended June 30, 2012. This represents a decrease of 1.3% (or €0.6 million).

Our staff costs relating to continuing operations were €89.8 million for the fiscal year ended December 31, 2012, compared to € 87.0 million and €83.5 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 3.2% (or €2.8 million) in 2012 as compared to 2011, and an increase of 4.2% (or €3.5 million) in 2011 compared to 2010.

The increase in 2012 compared to 2011 was principally due to added costs in 2012 as a result of the addition to our workforce of employees at our Gravelines (France) and Iskenderun (Turkey) plants, lay-off costs and salary increases, partially offset by the impact of a reduction in the average number of our employees for the year. The increase in 2011 was principally in relation to the Group's employee incentives plan, the addition to our workforce of employees at our Iskenderun (Turkey) plant (an estimated impact of €2.4 million in 2011) and salary increases, partially offset by the impact of a reduction in the average number of our employees for the year.

In 2012 the average number of employees was 1,858, compared to an average of 1,955 employees in 2011 and 2,010 in 2010.

The following table sets forth the breakdown of our staff costs for the periods indicated:

	Year ended December 31,				Six-month period ended June 30,			
	2010 ⁽¹⁾ (restated) (€ million)	2011 ⁽¹⁾ (restated)	Change 2011 v 2010 (%)	2012 (audited) (€ million)	Change 2012 v 2011 (%)	2012 (unaudited) (€ million)	2013 (unaudited)	Change
Staff costs								
Wages and salaries.....	67.7	69.5	2.7	72.2	3.9	37.4	35.7	(4.5)
Employer social security costs	14.5	15.8	9.0	16.0	1.3	7.2	8.2	14.0
Other employee benefit costs	1.3	1.7	30.8	1.6	(5.9)	0.6	0.7	17
Total	83.5	87.0	4.2	89.8	3.2	45.2	44.6	(1.3)

(1) Not including the Water Concession Business as of and for the years ended December 31, 2011 and 2010.

f) *Other operating expenses*

Other operating expenses were €72.5 million for the six-month period ended June 30, 2013 compared to €65.2 million for the six-month period ended June 30, 2012. This represents an increase of 11.0% (or €7.3 million). The increase was principally due to an increase in costs of supplies under outside services.

Other operating expenses were €141.8 million for the fiscal year ended December 31, 2012, compared to €130.9 million and € 117.6 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 8.4% (or €10.9 million) in 2012 compared to 2011, and an increase of 11.3% (or €13.3 million) in 2011 compared to 2010. The increase in 2012 was principally due to an increase in costs of supplies from outside services. The

increase in 2011 was principally due to the decommissioning expenses incurred in the Befesa Desulfuración plant and to the professional services expenses related to corporate transactions (including the delisting of the company from both the Madrid and Bilbao exchanges).

The following table sets forth a breakdown of our other expenses for the periods indicated:

	Year ended December 31,				Six-month period ended June 30,			
	2010 ⁽¹⁾ (restated)	2011 ⁽¹⁾ (restated)	Change 2011 v 2010	2012 (audited)	Change 2012 v 2011	2012 (unaudited)	2013 (unaudited)	Change
	(€ million)		(%)	(€ million)	(%)	(€ million)		(%)
Other operating expenses								
Research and development								
expenditure	1.0	3.5	250.0	0.2	(94.3)	0.1	0.0	(100.0)
Outside services	108.6	111.5	2.7	125.4	12.5	60.0	66.4	10.7
Taxes other than income tax	2.5	3.3	32.0	3.6	9.1	1.8	1.8	0.0
Losses on, impairment of and changes in allowances.....	—	0.5	—	0.6	20.0	0.0	0.3	—
Other current operating expenses.....	5.4	12.0	122.2	12.0	0.0	3.3	4.0	21.2
Total.....	117.6	130.9	11.3	141.8	8.4	65.2	72.5	11.0

(1) Not including the Water Concession Business as of and for the years ended December 31, 2011 and 2010.

Research and development expenditure. Our research and development expenses were nil for the six-month period ended June 30, 2013 as compared to €0.1 million for the six-month period ended June 30, 2012. Our research and development expenses were €0.2 million for the fiscal year ended December 31, 2012, as compared to €3.5 million and €1.0 million for the years ended December 31, 2011 and 2010, respectively, representing a decrease of 94.3% (or €3.3 million) in 2012 compared to 2011, and an increase of 250% (or €2.5 million) in 2011 compared to 2010. The decrease in 2012 was principally due to the inclusion of an amount of €4.1 million as a result of a reclassification of research and development activities carried out by Befesa which were recognized under “other operation income” until 2012, which reduced research and development expenses for in-house work on non-current assets we carried out (see Note 3 of the 2012 Audited Financial Statements). The increase in 2011 was principally due to dedicating more resources to research and development, principally in the industrial waste management segment.

Outside services. Our external services, comprising mainly supplies, independent professional services, maintenance and repair, transport, leases, insurance premiums and bank services development expenses were €66.4 million for the six-month period ended June 30, 2013, compared to €60.0 million for the six-month period ended June 30, 2012. This represents an increase of 10.7% (or €6.4 million). The increase for the six-month period ended June 30, 2013 was principally due to the increase of expenses related to corporate transaction and the increase in costs of some supplies. Our expenses for external services were €125.4 million for the fiscal year ended December 31, 2012, compared to €111.5 million and €108.6 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 12.5% (or €13.9 million) in 2012 compared to 2011, and an increase of 2.7% (or €2.9 million) in 2011 as compared to 2010. The increase in 2012 was principally due to an increase in supplies and transport costs. The increase in 2011 was principally due to the increase of expenses incurred in the decommissioning of Befesa Desulfuración, and the expenses related to corporate transactions (including delisting of the company from both the Madrid and Bilbao exchanges).

Taxes other than income tax. Our taxes other than income tax were €1.8 million for the six-month period ended June 30, 2013 compared to €1.8 million for the six-month period ended June 30, 2012. Our taxes other than income tax were €3.6 million for the fiscal year ended December 31, 2012, compared to €3.3 million and €2.5 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 9.1% (or €0.3 million) in 2012 compared to 2011, and an increase of 32.0% (or €0.8 million) in 2011 compared to 2010.

Losses on, impairment of and changes in allowances. Our losses on, impairment of and changes in allowances were €0.3 million for the six-month period ended June 30, 2013, compared to €0.0 million for the six-month period ended June 30, 2012. Losses on, impairment of and changes in allowances were €0.6 million for the fiscal year ended December 31, 2012, compared to €0.5 million and €0.0 million for the years ended December 31, 2011 and 2010, respectively, remaining flat in 2012 compared to 2011, and an increase of €0.5 million in 2011 compared to 2010.

Other current operating expenses. Our other current operating expenses, were €4.0 million for the six-month period ended June 30, 2013 as compared to €3.3 million for the six-month period ended June 30, 2012. This represents an

increase of 21.2% (or €0.7 million). The increase for the six-month period ended June 30, 2013 was principally due to an increase of expenses incurred in connection with higher electricity use. Our other current operating expenses, mainly that relating to the corporate fee that Befesa pays Abengoa for management and administrative services Abengoa provides, were €12.0 million for the fiscal year ended December 31, 2012, compared to € 12.0 million and €5.4 million for the years ended December 31, 2011 and 2010, respectively, representing no change in 2012 compared to 2011, and an increase of 122.2% (or €6.6 million) in 2011 compared to 2010. The increase in 2011 was principally due to the fact that this caption now includes the corporate fee paid to Abengoa mentioned above, which was previously included within outside services.

Depreciation and amortization charge and provisions. Our depreciation and amortization charge and provisions were €15.8 million for the six-month period ended June 30, 2013 as compared to €14.7 million for the six-month period ended June 30, 2012. This represents an increase of 7.5% (or €1.1 million). The increase for the six-month period ended June 30, 2013 was principally due to the depreciation and amortization charge of Gravelines and Befesa Valorización de Azufre. Gravelines was not fully consolidated in June 2012 and Befesa Valorización de Azufre was consolidated only starting 2013.

Our depreciation and amortization charge and provisions were € 29.9 million for the fiscal year ended December 31, 2012, compared to €27.8 million and €35.2 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 7.5% (or €2.1 million) in 2012 compared to 2011, and a decrease of 21.0% (or €7.4 million) in 2011 compared to 2010. The increase in 2012 was principally due to a provision of €0.6 million in Gravelines related to amortization, which was fully consolidated in 2012 and deterioration of commercial credit of Befesa Gestión de Residuos Industriales. In 2010, facilities located in Barakaldo (Spain), which until then had been used for sulphur valorization purposes, were shutdown, and thus the outstanding carrying amount of property, plant and equipment was fully depreciated. This effect amounted to €4.4 million in 2010. No further impairment loss was recognized under this caption in 2011.

g) *Profit from Operations*

As a result of the foregoing factors, our profit from continuing operations was €39.3 million for the six-month period ended June 30, 2013 compared to €44.9 million for the six-month period ended June 30, 2012. This represents a decrease of 12.5% (or €5.6 million). Operating margin was 12.4% for the six-month period ended June 30, 2013, compared to 13.5% for the six-month period ended June 30, 2012.

Also as a result of the foregoing factors, our profit from continuing operations was €92.3 million for the fiscal year ended December 31, 2012 compared to €89.8 million and € 69.0 million for the years ended December 31, 2011, and 2010 respectively, representing an increase of 2.8% (or €2.5 million) in 2012 as compared to 2011, and an increase of 30.1% (or €20.8 million) in 2011 as compared to 2010. Operating margin was 14.4% for the fiscal year ended December 31, 2012, as compared to 14.6% and 12.6% for the years ended December 31, 2010 and 2011, respectively.

h) *Finance income*

Our finance income was €16.7 million for the six-month period ended June 30, 2013 compared to €2.0 million for the six-month period ended June 30, 2012. This represents an increase of € 14.7 million. The increase in the six-month period ended June 30, 2013 compared to the six-month period ended June 30, 2012 was principally resulting from an agreement entered into between Befesa and Abengoa, S.A. in March 2013 in relation to the sale by Befesa of its shares in its Mexican subsidiaries, Befesa México and Sistemas de Desarrollo Sustentable, and an agreement entered into between Befesa and Abengoa, S.A in June 2012 in relation to the sale by Befesa of its shares in Befesa Desulfuración, S.A. The consolidated income generated by such transactions amounted to €6.9 million and 8.1 million, respectively.

Our finance income was €3.0 million for the fiscal year ended December 31, 2012, compared to €10.4 million and € 0.8 million for the years ended December 31, 2011 and 2010, respectively, representing an decrease of 71.2% (or €7.4 million) in 2012 compared to 2011, and an increase of €9.7 million in 2011 compared to 2010. The decrease in 2012 was principally due to the decrease in income related to interests in short-term deposits, due to lower interest rates (€0.4 million). In 2011, this caption included revenue arising in connection with the release of debt of Soluciones Ambientales del Norte (€3.7 million), and revenue for late payment interests of Befesa Gestión de Residuos Industriales (€5.0 million). The increase in 2011 was principally due to the increase of the financial income previously mentioned and related to an increase in short-term deposits held by subsidiaries of our aluminium waste recycling segment. The overall effect in the comparison of 2011 and 2010 amounted to €1.4 million

i) *Finance costs*

Our finance costs were €29.5 million for the six-month period ended June 30, 2013 compared to €24.4 million for the six-month period ended June 30, 2012. This represents an increase of 20.9% (or €5.1 million), basically due to an increase of costs related to our cash pooling with Abengoa resulting from an increase of both the exchange rate and our balance, and due to the consent fee that Befesa paid to bondholders of the Existing Senior Secured Notes in connection with the consent solicitation process made in connection with the Acquisition.

Our finance costs were €52.1 million for the fiscal year ended December 31, 2012, compared to €36.2 million and € 25.9 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 43.5% (or €15.9 million) in 2012 compared to 2011, and an increase of 40.2% (or €10.3 million) in 2011 as compared to 2010. The increase in 2012 was principally due to full-year interest payments in relation to the Proceeds Loan Agreement entered into by Befesa Zinc in connection with the Existing Senior Secured Notes issued in 2011 (while in 2011, interest only accrued from their issuance in May) and interest paid on financing obtained from Abengoa to purchase the 38% of BRRA in November 2011. The increase in 2011 compared to 2010 was due to the issuance in May 2011 of the €300 million Existing Senior Secured Notes (see “*Description of Certain Other Financing Arrangements*”). During 2011 the financial loss resulting from this non-recourse borrowing impacted the profit and loss account in the amount of €15.5 million. The effective interest rate is 8.87% and the maturity date is May 18, 2018. This effect was partially offset by a liquidity improvement that was allocated to amortize the cash pooling account held with Abengoa.

j) *Exchange differences (gains and losses)*

Our costs attributed to exchange difference were €(0.1) million for the six-month period ended June 30, 2013 compared to €0.6 million for the six-month period ended June 30, 2012. Exchange differences in the six-month period ended June 30, 2012 were principally due to the impact of exchange rates differences relating to dollar-denominated cash pooling maintained by Sistema de Desarrollo Sustentable, our Mexican subsidiary, with Abengoa México and Abengoa, S.A. The sale of Befesa México and its subsidiary Sistemas de Desarrollo Sustentable in 2013 has reduced this impact of exchange differences.

Our costs attributed to exchange differences were €1.3 million for the fiscal year ended December 31, 2012, compared to €(2.0) million for the year ended December 31, 2011, and were €0.1 million for 2010. Exchange differences in 2012 and 2011 were principally due to the impact of exchange rates differences relating to dollar-denominated cash pooling maintained by Sistema de Desarrollo Sustentable, our Mexican subsidiary, with Abengoa México and Abengoa, S.A.

k) *Financial costs—net*

As a result of the foregoing factors, our net financial costs were € 12.9 million for the six-month period ended June 30, 2013 compared to €21.7 million for the six-month period ended June 30, 2012, representing a decrease of 40.6% (or €8.8 million) between the two periods.

Also as a result of the foregoing factors, our net financial costs were €47.8 million for the year ended December 31, 2012, compared to €27.9 million and €25.0 million for the years ended December 31, 2011 and 2010, respectively, representing an increase of 71.3% (or €19.9 million) in 2012 as compared to 2011, and an increase of 11.6% (or €2.9 million) in 2011 as compared to 2010.

l) *Profit before tax*

As a result of the foregoing factors, our profit before tax from continuing operations was €26.5 million for the six-month period ended June 30, 2013, as compared to €23.3 million for the six-month period ended June 30, 2012, representing an increase of 13.7% (or € 3.2 million) between the two periods.

As a result of the foregoing factors, our profit before tax from continuing operations was €44.7 million for the fiscal year ended December 31, 2012, compared to €62.1 million and € 44.3 million for the years ended December 31, 2011, and 2010 respectively, representing a decrease of 28.2% (or €17.4 million) in 2012 compared to 2011, and an increase of 40.2% (or €17.8 million) in 2011 as compared to 2010.

m) *Tax*

Our tax expense was €5.6 million for the six-month period ended June 30, 2013 compared to €7.6 million for the six-month period ended June 30, 2012, representing a decrease of 26.3% (or € 2.0 million) between the two periods. The decrease was principally due to the reduction in profit before tax during the six-month period ended June 30, 2013.

The consolidated income due to the sale of the Mexican subsidiaries during 2013 had no tax impact and the consolidated income generated by the sale of Befesa Desulfuración in 2012 resulted in a decrease of tax expenses.

Our tax expense was €11.8 million for the fiscal year ended December 31, 2012, as compared to €20.3 million and € 11.5 million for the years ended December 31, 2011 and 2010, respectively, representing a decrease of 41.9% (or €8.5 million) in 2012 compared to 2011, and an increase of 76.5% (or €8.8 million) in 2011 compared to 2010. The decrease in 2012 was principally due to the reduction in profit before tax during the year. The increase in 2011 was principally due to the increase during 2011 of profit before tax. See “—Key Consolidated Income Statement Items—Tax” for further information about changes in our tax expense.

n) Profit for the year from continuing operations

As a result of the foregoing factors, our profit from continuing operations was €20.9 million for the six-month period ended June 30, 2013 compared to €15.7 million for the six-month period ended June 30, 2012, representing an increase of 33.1% (or €5.2 million).

As a result of the foregoing factors, our profit for the year from continuing operations was €32.8 million for the fiscal year ended December 31, 2012, compared to €41.9 million and € 32.8 million for the years ended December 31, 2011, and 2010 respectively, representing a decrease of 21.7% (or €9.1 million) in 2012 compared to 2011, and an increase of 27.7% (or €9.1 million) in 2011 compared to 2010.

o) Profit for the year from discontinued operations

Our profit from discontinued operations was nil for the six-month period ended June 30, 2013 compared to €1.0 million for the six-month period ended June 30, 2012. In the latter period, profit from discontinued operations reflects the results of operations generated during this period by the Water Concession Business, which was sold to Abengoa during 2012.

Our profit for the year from discontinued operations was €0.5 million for the fiscal year ended December 31, 2012, as compared to €100.2 million and €12.8 million for the years ended December 31, 2011 and 2010, respectively. In 2012 profit for the year from discontinued operations reflects the sale to Abengoa of the Water Concession Business (the sale price amounted to €10.9 million). In 2011 profit for the year from discontinued operations reflects the sale to Abeinsa of the EPC business in 2011 (the sale price amounted to € 147.2 million) and the results of operations generated during 2011 by the Water Concession Business, which was sold to Abengoa during 2012.

p) Profit for the year

As a result of the foregoing factors, our profit from continuing and discontinued operations was €20.9 million for the six-month period ended June 30, 2013 compared to €16.7 million for the six-month period ended June 30, 2012, representing an increase of 25.2% (or €4.2 million) between the two periods.

As a result of the foregoing factors, our profit for the year from continuing and discontinued operations was €33.3 million for the fiscal year ended December 31, 2012 compared to €142.0 million and €45.6 million for the years ended December 31, 2011, and 2010, respectively, representing a decrease of 76.5% (or €108.7 million) in 2012 compared to 2011, and an increase of 211.4% (or € 96.4 million) in 2011 compared to 2010.

q) EBITDA

As a result of the foregoing factors, our total EBITDA from continuing operations was €55.1 million for the six-month period ended June 30, 2013 compared to €59.6 million for the six-month period ended June 30, 2012, while our EBITDA margin was 17.4% for the six-month period ended June 30, 2013 compared to 17.9% for the six-month period ended June 30, 2012.

For the six-month period ended June 30, 2013 our EBITDA margin for our crude steel waste recycling activities was 39.8% (40.1% in the six-month period ended June 30, 2012), while our EBITDA margin for our stainless steel waste recycling activities was 0.0% (9.2% in the six-month period ended June 30, 2012). For the same period our EBITDA margin for our aluminium waste recycling segment was 8.1% (9.3% in the six-month period ended June 30, 2012).

As a result of the foregoing factors, our total EBITDA from continuing operations was €122.2 million for the fiscal year ended December 31, 2012, compared to €117.6 million and € 104.3 million for the fiscal years ended December 31, 2011, and 2010, respectively, while our EBITDA margin was 19.0% for the fiscal year ended December 31, 2012, as compared to 19.2% and 19.1% for the years ended December 31, 2011, and 2010, respectively.

For the fiscal year ended December 31, 2012, our EBITDA margin for our crude steel waste recycling activities was 39.9% (37.5% in 2011 and 38.9% in 2010), while our EBITDA margin for our stainless steel waste recycling activities was 8.2% (8.0% in 2011 and 7.2% in 2010). For the same year our EBITDA margin for our aluminium waste recycling segment was 10.5% (10.7% in 2011 and 10.8% in 2010).

The following table sets forth the EBITDA and the EBITDA margin of each of our operating segments, including the respective components of each of our segments, for the periods indicated:

Segment	Year ended December 31,						Six-month period ended June 30,			
	2010		2011		2012		2012		2013	
	EBITDA (unaudited) (€ million)	EBITDA Margin (unaudited) (%)	EBITDA (unaudited) (€ million)	EBITDA Margin (unaudited) (%)	EBITDA (unaudited) (€ million)	EBITDA Margin (unaudited) (%)	EBITDA (unaudited) (€ million)	EBITDA Margin (unaudited) (%)	EBITDA (unaudited) (€ million)	EBITDA Margin (unaudited) (%)
Crude steel waste recycling..	68.3	38.9	70.5	37.5	80.3	39.9	39.0	40.1	36.1	39.8
Stainless steel waste recycling	3.3	7.2	3.9	8.0	5.2	8.2	2.7	9.2	0	0.0
Steel waste recycling	71.6	32.3	73.9	31.3	85.5	32.3	41.7	32.9	36.1	29.7
Aluminium waste recycling	26.8	10.8	28.8	10.7	29.2	10.5	14.4	9.3	11.1	8.1
Industrial waste management ..	8.8	8.2	8.9	8.7	4.9	4.8	2.2	4.4	6.7	12.0
Corporate and eliminations	(2.8)	—	(6.0)	—	2.6	—	1.2	—	1.2	—
Total EBITDA	104.3	19.1	117.6	19.2	122.2	19.0	59.6	17.9	55.1	17.4

4.4 Liquidity and Capital Resources

Our principal liquidity and capital requirements consist of the following:

- costs and expenses relating to the operation of our businesses;
- capital expenditures for existing and new operations; and
- debt service requirements on our existing and future debt.

Historically, we have financed our liquidity and capital requirements through internally generated cash flows, debt financings (including our bond issuances) and borrowings from our parent, Abengoa.

a) Cash flows

Our cash flow statements in the 2011 and 2010 Audited Financial Statements reflect our cash flows from both our continuing operations (our recycling business) and the Water Concession Business for the full years 2011 and 2010, while our cash flow statement in the 2012 Audited Financial Statements reflects the fact that the Water Concession Business was disposed of in September 2012 and, therefore, the cash flows statement for 2012 reflects only nine months of operations of the Water Concession Business.

The following table sets forth a summary of our cash flows for the financial periods indicated:

	Year ended December 31,			Six-month period ended June 30,	
	2010 ⁽¹⁾	2011 ⁽¹⁾	2012 ⁽²⁾	2012	2013
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
	(€ million)			(€ million)	
Net cash flows from operating activities	47.9	90.3	21.9	(11.6)	(45.6)
Net cash flows from investing activities	(147.4)	(19.8)	(102.8)	(30.4)	4.6
Net cash flows from financing activities	89.8	(59.6)	58.2	34.5	(3.0)
Exchange gains/(losses) on cash and cash equivalents	(1.2)	(0.4)	(0.1)	0.0	0.0
Net increase/(decrease) in cash and cash equivalents	(10.9)	10.6	(22.8)	(7.4)	(44.0)
Cash and cash equivalents at beginning of year	102.2	91.2	101.8	101.8	79.0
Cash and cash equivalents at end of period	91.2	101.8	79.0	94.4	35.0

- (1) Includes the Water Concession Business for the year. See Note 31 to the 2011 and 2010 Audited Financial Statements for information about certain cash flows related to the Water Concession Business.
- (2) Includes the Water Concession Business for the nine months prior to our disposal of the Water Concession Business in September 2012.

b) Net cash flows from operating activities

Our net cash flows from operating activities were €(45.6) million for the six-month period ended June 30, 2013, compared to €(11.6) million for the six-month period ended June 30, 2012, representing a decrease of €34.0 million. This change was primarily due to the reduction of our confirming lines limit in the six-month period ended June 30, 2013.

Our net cash flows from operating activities were €21.9 million for the fiscal year ended December 31, 2012, compared to €90.3 million for the year ended December 31, 2011, representing a decrease of €68.4 million. This change was primarily due to the disposal of EPC Water Business; this disposal had an extraordinary effect on 2011 net profit of €103.4 million. On the other hand, working capital increased by €39.7 million in 2011, compared to €(29.2) million in 2012. Our net cash flows from operating activities, excluding the Water Concession Business, were €57.3 million and €47.0 million for the fiscal years ended December 31, 2012 and 2011, respectively.

Our net cash flows from operating activities were €90.3 million for the year ended December 31, 2011, as compared to €47.9 million for the year ended December 31, 2010, representing an increase of €42.4 million. The increase was primarily due to the disposal of the EPC Water Business, which had an effect on 2011 net profit of € 103.4 million. Working capital decreased by €(50.3) million in 2010 compared to an increase of €39.7 million in 2011. Our net cash flows from operating activities, excluding the Water Concession Business, were €47.0 million and €98.1.0 million for the years ended December 31, 2011 and 2010, respectively.

c) Net cash flows from investing activities

Our net cash flows from investing activities were €4.6 million for the six-month period ended June 30, 2013, compared to €(30.4) million for the six-month period ended June 30, 2012, representing an increase of €35.0 million. This change was primarily due to the fact that the six-month period ended June 30, 2012 included investments related to the Water Concession Business.

Our net cash flows from investing activities were €(102.8) million for the fiscal year ended December 31, 2012, compared to €(19.8) million for the year ended December 31, 2011, representing a decrease of €83.0 million. This principally reflects the fact that we had proceeds from the disposal of subsidiaries, net of cash of €129.2 million in 2011 as compared to €(21.8) million in 2012. On the other hand, the acquisition of intangible assets was €100.0 million in 2011 compared to €34 million in 2012. Our net cash flows from investing activities, excluding the Water Concession Business, were €(84.6) million and €(68.8) million for the fiscal years ended December 31, 2012 and 2011, respectively.

Our net cash flows from investing activities were €(19.8) million for the year ended December 31, 2011 compared to €(147.4) million for the year ended December 31, 2010, representing an increase of €127.6 million. The increase was primarily due to €129.2 million in proceeds from the disposal of subsidiaries in 2011. The acquisition of intangible assets and purchases of property, plant and equipment were quite similar in 2011 (€166.7 million) and in 2010 (€162.0 million). Our net cash flows from investing activities, excluding the Water Concession Business, were €(68.8) million and €(83.0) million for the years ended December 31, 2011 and 2010, respectively. This was primarily due to purchases of property, plant and equipment in the industrial waste management segment. The majority of the sulphur plant investment was made in 2010.

d) Net cash flows from financing activities

Our net cash flows from financing activities were €(3.0) million for the six-month period ended June 30, 2013 compared to €34.5 million for the six-month period ended June 30, 2012, representing a decrease of €37.5 million. This was primarily due to the fact that the six-month period ended June 30, 2012 includes proceeds resulting from non-current borrowings and other non-current liabilities related to the Water Concession Business.

Our net cash flows from financing activities were €58.2 million for the fiscal year ended December 31, 2012 compared to €(59.6) million for the year ended December 31, 2011, representing an increase of € 117.8 million. This difference was primarily due to the issuance of the Existing Senior Secured Notes (€300.0 million) in 2011. A significant part of these proceeds was used to repay borrowings and other non-current liabilities (approximately €185.0 million). On the other hand, dividends paid to shareholders were €90.0 million in 2011 compared to €18.0 million in 2012. Our net cash flows from financing activities, excluding the Water Concession Business, were €2.0 million and €40.2 million for the fiscal years ended December 31, 2012 and 2011, respectively.

Our net cash flows from financing activities were €89.8 million for the year ended December 31, 2010 and were primarily generated through our Befesa Valorizacion Azufre plant and our Water Business projects. Our net cash flows from financing activities, excluding the Water Concession Business, were €4.1 million in 2010.

e) *Cash management, pooling and restrictions*

Cash management and restrictions

The Parent Guarantor is a holding company, and substantially all of our assets are held in, revenues are derived from and operations are conducted through Befesa and its subsidiaries and joint ventures, some of which are based in foreign jurisdictions. Consequently, the Parent Guarantor and the Issuer rely on dividends, repayments of intercompany debt and interest arising therefrom and other transfers of funds from Befesa and its subsidiaries, including subsidiaries that are not wholly owned, to pay our expenses and meet any future obligations. Through our cash pooling system, we aim to provide liquidity to our subsidiaries and to increase flexibility in our daily cash management. Under our cash pooling system, the relevant intercompany lender charges the respective intercompany borrower's account with the amounts such entity requires and lodges the payments such company makes to reimburse the funds made available in this same account. The resulting daily account balance carries an annual interest rate (360/actual) in favor of the respective intercompany lender of 10.05% (2013 interest rate). We renew our cash pooling agreements on an annual basis.

In addition, certain of our subsidiaries are parties to various loan and credit agreements that contain, and future credit agreements may contain, covenants that take into account our consolidated financial condition or restrict movements of cash among the Group entities unless certain conditions are satisfied. In particular, the terms of the 2011 Proceeds Loan Agreement, the Senior Credit Facilities Agreement, the Hankook Facility Agreement and certain of our project financing agreements restrict movements of cash among Group entities unless certain conditions are satisfied. In addition, a certain amount of cash and cash equivalents on our balance sheet is effectively pledged in connection with a cash confirming line.

2011 Proceeds Loan. Under the 2011 Proceeds Loan Agreement, Befesa Zinc is obliged to pay interest on the loan semiannually and to repay the principle loan amount in 2018. The 2011 Proceeds Loan Agreement also prevents Befesa Zinc and certain of our other subsidiaries from declaring or paying dividends, or making other distributions to the Group in certain circumstances. Befesa Zinc can only distribute 50% of its net profit. To distribute this amount, its Net Debt/EBITDA ratio must be below 3.0. See "*Description of Certain Other Financing Arrangements—Existing Senior Secured Notes—€300 million 2011 Proceeds Loan due 2018*" for further information on the terms and conditions of the 2011 Proceeds Loan Agreement.

Project finance agreements. To finance a portion of the capital expenditure needed to expand existing plants or construct new ones, we often enter into project financing arrangement with lenders in connection with the specific project. These arrangements frequently contain covenants that restrict the relevant entities in our Group that are party to such arrangements from declaring or paying dividends or other distributions to the wider Group. Currently, our subsidiaries, Befesa Reciclaje de Residuos de Aluminio S.L and Befesa Valorización de Azufre S.L cannot distribute dividends to their parent companies.

Cash confirming lines. We have one cash confirming line, with UBI Banca International, which can be used by Befesa Zinc's subsidiaries. As of June 30, 2013, €1.3 million in cash was blocked in relation to this, and can only be released after the suppliers have been repaid.

f) *Factoring*

Our policy on factoring is to derecognize trade receivables for the amount of such receivables sold to banks (factors), provided that factors assume in full the bad and past-due debt risk relating to non-recourse factoring agreements. We do not derecognize collection rights factored, when substantially all of the risks associated with them are retained. The balances of non-mature receivables derecognized as a result of such non-recourse factoring transactions amounted to €40.3 million, €41.9 million and €49.8 million, as of June 30, 2013 and December 31, 2012 and 2011, respectively. We classify under Trade and other payables in our consolidated balance sheet accounts payable relating to balances that are implemented through non-recourse reverse factoring under agreements entered into with banks, when entities receiving reverse factoring amounts have collected the invoices early. Amounts so classified were €85.7 million and €125.4 million as of June 30, 2013 and December 31, 2012, respectively.

4.5 Capital Expenditures

The following table sets forth our capital expenditures and investments for our three continuing operations segments and for our discontinued operations for the twelve-month period ended June 30, 2013, the six-month period ended June 30, 2013; and the fiscal years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,			Six-month period ended June 30, 2013	Twelve-month period ended June 30, 2013
	2010	2011	2012		
	(unaudited) (€ million)			(unaudited) (€ million)	
Continuing Operations:					
Steel	5.6	15.9	24.1	4.2	21.9
Aluminium	8.3	10.0	6.1	1.7	6.5
Industrial Waste	43.2	44.7	14.8	2.9	12.8
Subtotal	57.1	70.6	45.0	8.8	41.2
Discontinued Operations:					
Water—EPC	10.1	—	—	—	—
Water Concession Business	92.1	96.2	18.4	—	1.7
Corporate & Eliminations	5.9	5.1	4.0	—	—
Total	165.1	171.9	67.4	8.8	42.9

The following table sets forth our capital expenditures and investments for our three continuing operations segments by segment and divided by maintenance and expansion capital expenditures for the twelve-month period ended June 31, 2013; the six-month ended June 30, 2013; and the fiscal years ended December 31, 2012, 2011 and 2010:

	Year ended December 31,						Twelve-month period ended June 30, 2013		Six-month period ended June 30, 2013	
	2010		2011		2012		(unaudited)		(unaudited)	
	(unaudited)		(unaudited)		(unaudited)		(unaudited)		(unaudited)	
	(€ million)						(€ million)			
	Maintenance	Growth	Maintenance	Growth	Maintenance	Growth	Maintenance	Growth	Maintenance	Growth
Steel waste recycling segment	5.3	0.3	11.6	4.3	9.4	14.7	8.3	13.6	2.8	1.4
Aluminium waste recycling segment	7.2	1.1	7.8	2.2	3.7	2.4	3.6	2.9	1.2	0.5
Industrial waste management segment	3.2	40.0	3.5	41.2	6.7	8.1	5.5	7.3	2.0	0.9
Corporate and eliminations	—	5.9	0.6	4.5	—	3.9	—	—	—	—
Total	15.7	47.3	23.5	52.2	19.8	29.1	17.4	23.9	6.0	2.8

Capital expenditure in 2012 principally related to a new IT system for the Group's corporate resources and to investments made in our leaching plant. In 2011, capital expenditure principally related to and to investments in the construction of a new plant of Befesa Valorización de Azufre, S.L.U. In 2010, it related mainly to investments in the construction of a new plant of Befesa Valorización de Azufre, S.L.U.

Capital expenditure for the six-month period ended June 30, 2013 was related to additional research and developments costs, the investment made in the leaching plant operated by Befesa Zinc Gravelines, S.A.S. and the final investment in the construction of the new plant of Befesa Valorización de Azufre S.L.U. In the six-month period ended June 30, 2012, capital expenditure was principally related to the investment in the new IT system for the Group's corporate resources.

We are also engaged in several ongoing capital expenditure projects, including the following:

South Korea. In September 2012, we entered the South Korean steel waste recycling market by acquiring 25% of Hankook, a South Korean steel waste recycling company, for a purchase price of €15 million. See "Our Business—Strategy" for further information on our relationship with Hankook. In March 2013, operations commenced at Hankook's steel waste recycling plant in Gyeongju (South Korea). The plant has an annual recycling capacity of 110,000 tons of crude steel waste. In August 2013, we acquired another 30% stake in Hankook for a purchase price of € 18.9 million, resulting in a total stake of currently 55%.

Germany. We are currently expanding our secondary aluminium production operations by constructing a secondary aluminium production plant in Bernburg (Germany). This plant is expected to have an annual production capacity of 70,000 tons and commence operations in the first half of 2014. We expect the total investment for the plant will be €34 million. We expect our total equity investment in this project will be €10.0 million. We anticipate that the remaining amounts needed for the Bernburg plant will be funded through project financing (which will consist of €8.5 million of subsidies and external debt for the remaining amounts). If industrial markets in Europe recover in the coming years, and with the addition of the salt slag that is expected to come from the new Bernburg secondary

aluminium waste recycling plant, we will also consider reopening operations at our salt slag recycling plant in Töging (Germany). We expect that our total capital expenditure in reopening the Töging plant would be €2.0 million.

Other capital expenditure projects. Other capital expenditure opportunities currently considered by us include, among others, a potential acquisition of up to a 100% equity interest in Hankook (which owns and operates the steel waste recycling plant in South Korea), the construction of two additional steel waste recycling plants in Turkey, one additional secondary aluminium production plant in Germany and a new aluminium waste recycling plant in the Gulf region. Depending on the development of market conditions in our industry and the operational performance of our new secondary aluminium waste recycling plant in Bernburg (Germany), we could also potentially reopen our salt slag plant in Töging (Germany), which has been idle since we acquired it in 2009 and which would not require significant capital expenditure.

We continuously monitor other regions, such as the United States, Asia, the Middle East and Latin America, for favorable regulatory changes that will allow us to strategically expand our business operations in the long term. We may also potentially consider certain acquisitions in the longer term. On February 27, 2013, we entered into a letter of intent with Sinosteel to explore the feasibility of constructing a stainless steel waste recycling facility in China through a joint venture. The commercial details regarding the project, including the capacity of the plant, total investment and funding structure, are subject to further discussions.

Our actual capital expenditures may vary significantly from our estimates and depend on a variety of factors, including market conditions, levels of demand for our services, the availability of funding, operating cash flow and other factors fully or partially outside our control. See “*Risk Factors—Risks Relating to our Business—Our growth strategy requires capital expenditures and we may not be able to obtain additional financing on favorable terms.*”

4.6 Contractual Obligations and Commitments

The table below sets forth the amount of our contractual obligations and commitments, as of June 30, 2013, based on contractual undiscounted payments and pro forma for the Transaction, the New Facilities.

	<u>Total</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Rest</u>
			(unaudited) (€ million)		
Existing Senior Secured Notes ⁽¹⁾	300.0				300.0
Recourse borrowings and finance lease obligations .	16.9	13.1	1.2	0.9	1.7
New Facilities ⁽²⁾	135.0	2.0	12.0	12.0	109.0
Hankook Facility ⁽³⁾	20.0	0.0	0.0	0.0	20.0
Purchase of property, plant and equipment ⁽⁴⁾	45.0	20.0	13.0	0.0	12.0
Notes offered hereby	150.0	0.0	0.0	0.0	150.0
Total	666.9	35.1	26.2	12.9	592.7

(1) Relates to the loan to Befesa Zinc in connection with the Existing Senior Secured Notes.

(2) Reflects the term loans under our New Facilities.

(3) Reflects our new Hankook Facility.

(4) Relates to the steel waste recycling plant in Gyeongju, South Korea.

4.7 Contingent Commitments and Off-Balance Sheet Arrangements

We and certain of our subsidiaries have provided various guarantees, pledges and mortgages in favor of third parties. Several of our Group companies had provided guarantees amounting to €33.5 million, €51.5 million and €48.0 million as of June 30, 2013, December 31, 2012 and December 31, 2011, respectively. See Note 23 to the 2012 Audited Financial Statements. The price of Waelz oxide is linked to the price of zinc, and in order to mitigate our exposure to fluctuations in the price of zinc we engage in certain zinc hedging transactions. See “*Description of Certain Other Financing Arrangements—Zinc Hedging Agreements.*”

5. OUR INDUSTRY AND MARKETS

The main type of waste we recycle in our steel waste recycling is *crude steel dust*. Crude steel dust is a hazardous residue resulting from mini-mill (electric arc furnace) crude steel production, which we are paid to collect and

process. Accordingly, the market for crude steel dust disposal and recycling is sensitive to the demand for crude steel products and to mini-mill steel production, in particular. Waelz oxide, which is the product resulting from the recycling process, is sold to zinc smelters who refine it into zinc. As a consequence we are highly exposed to demand for Waelz oxide and to the LME zinc price. We believe that the long-term outlook for recycling of crude steel dust is positive, driven by stricter environmental regulatory trends, the positive outlook for mini-mill steel production, and increasing demand for zinc.

In addition to crude steel dust we also recycle *stainless steel dust*. Stainless steel dust is a hazardous residue resulting from stainless steel production from which we recover certain metals (mainly nickel, chromium and molybdenum), and which we later return to stainless steel manufacturers or sell to the market. The market for stainless steel dust recycling is consequently sensitive to demand for stainless steel, and to market prices for the metals it contains.

Our steel dust recycling operations source their raw materials from local producers (mainly European, Turkish and South Korean); our plants are strategically located across Europe (in Spain, France and Germany), Turkey and South Korea but sell some of their end-products (mostly Waelz oxide) globally.

5.1 Enactment and Enforcement of Increasingly Stringent Environmental Legislation

Enactment and enforcement of increasingly stringent environmental legislation is a driver of demand and is particularly important for crude steel dust recycling and salt slag recycling as this increases the costs of conventional crude steel dust disposal. While such regulation also applies to stainless steel dust recycling, it is less of a relevant driver due to the higher intrinsic value of the metals recovered from the process.

Disposal of waste has drawn attention of governments and environmental regulators (particularly in Europe, our primary operating market) as mini-mill crude steel production and secondary aluminium production has increased. Historically, manufacturers typically disposed of hazardous residues such as crude steel dust and salt slag by specialized landfilling, which was historically the most cost-effective process. After European regulators designated the crude steel dust generated through mini-mill crude steel production as “*hazardous waste*,” however, specialized landfilling became increasingly difficult and expensive. In addition, specialized landfill space is becoming increasingly scarce. Accordingly, regulators in Europe have enacted rules that encourage recycling by (i) requiring crude steel manufacturers to recycle crude steel dust when possible, and (ii) enacting fees and other regulations that make disposal in specialized landfills more expensive. In the case of salt slag, landfilling has been banned by most Western European countries. Accordingly, manufacturers are seeking cost-efficient ways to re-use and recycle the waste produced as part of their operations.

Regulation is less pronounced in North America and in emerging markets, as regulators have been less active in this area than their European counterparties, but regulatory pressure has begun to increase in many of these markets, particularly as available specialized landfill space decreases and producers seek disposal options that will enable them to stay ahead of new regulation. Increasing environmental regulation in Eastern European and other emerging countries also represents a potential growth market for the recycling of salt slag. See “*Regulation*.”

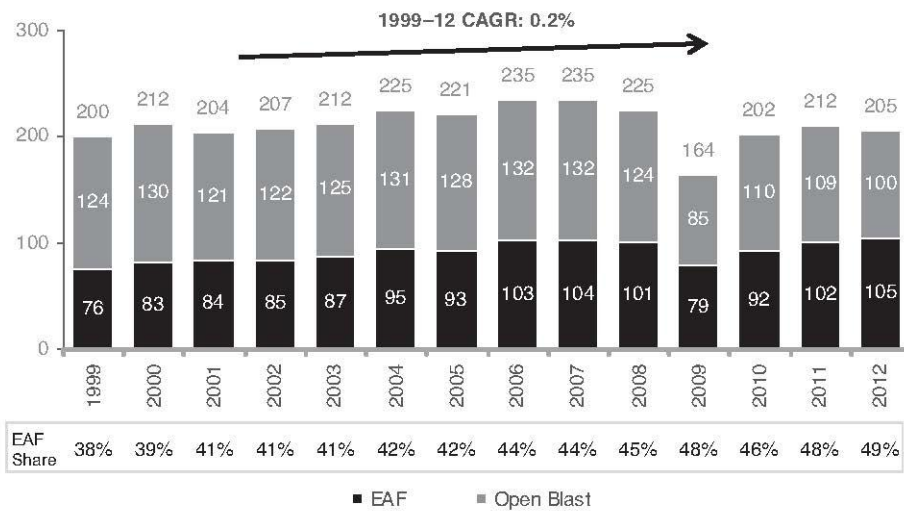
5.2 Crude Steel Dust Market Drivers

In addition to the impact from increasingly stringent environmental legislation, we believe that the growth of the crude steel dust recycling industry is supported by the migration of crude steel production from traditional blast furnaces to mini-mills (resulting in increased levels of crude steel dust production), and further growth in the global demand for zinc, particularly from secondary sources such as zinc oxides and zinc dust and other zinc concentrates.

a) Increasing Steel Production by Mini-mills

As crude steel dust is a hazardous residue resulting from the mini-mill crude steel production process, the crude steel dust recycling market is closely linked to the levels of mini-mill crude steel production. Although the mini-mill process has historically been considered to be a secondary method of crude steel production (second to iron ore blast furnaces), many of the world’s largest crude steel producers increasingly produce crude steel in mini-mills due to the several advantages they offer over traditional blast furnaces. For example, crude steel manufacturers obtain most of their iron from recycled scrap steel, which is then melted in an electric arc furnace, making mini-mill production an integrated part of steel recycling. In addition, electric arc furnaces can be started and stopped on a regular basis, whereas the energy cost and structural stress associated with heating and cooling a traditional blast furnace requires traditional mills to run on a continuous production campaign of several years’ duration, even during periods of low steel demand. Mini-mills therefore provide producers more flexibility and allow production variances according to demand, according to ArcelorMittal. Hence, mini-mill crude steel production has grown substantially over the past 15 years. For example, mini-mill crude steel production in Europe grew from 38% of all steel produced in Europe in 1999 to 49% in 2012, according to industry sources, and is expected to continue increasing.

EU 27 + Turkey European Crude Steel Production (Million tons)



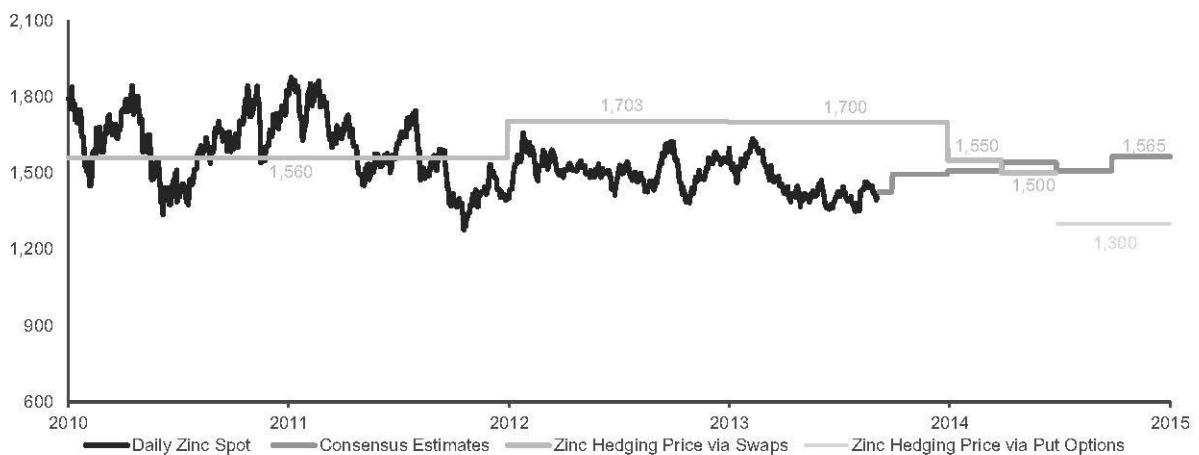
Source: World Steel Association, EUROFER

Between 2008 and 2012, total EU27 production of crude steel, together with Turkey, declined at a compound annual growth rate (“CAGR”) of approximately 2% compared to an increase of approximately 1% in EAF production.

b) Increased Worldwide Demand for Zinc, Particularly from Secondary Sources

Global zinc consumption grew at a 2.0% annual rate from 2006 through 2012, and we expect annual growth levels of at least 5% through 2016. Zinc prices have risen from approximately €600 per ton in 2004 to approximately €1,512 per ton in 2012. The chart below illustrates the evolution of LME zinc prices since 2010 and forecasts for future prices through 2015. Going forward, the zinc market is expected to fall into a deficit due to decreasing available stock in the short/mid-term, with the market consensus expecting pricing to increase to approximately €1,565 per ton in 2015.

Historical Zinc Price Evolution and Forecast (€/t)



Source: Bloomberg as of September 2013

Crude steel manufacturers use zinc to protect finished steel products from corrosion, a process called galvanization. Galvanization accounts for approximately half of the western world’s demand for zinc, according to the International Zinc Association. Crude steel producers obtain zinc from two sources, either mined ores or secondary sources such as zinc oxides, zinc dust or scrap from zinc slabs. Secondary sources currently account for approximately 40% of the zinc used worldwide, according to the International Zinc Association, and zinc obtained from Waelz oxide,

the main output of the crude steel dust recycling process, currently represents 15% of the secondary source market. Waelz oxide typically contains 60–68% zinc and is generally sold to zinc smelters. It is increasingly in demand as a source of zinc, because it is less expensive to purchase than zinc sulfide concentrates obtained from mining sites and it is easier and less expensive to use in the zinc smelting process.

5.3 Stainless Steel Dust Market Drivers

Stainless steel dust contains nickel (8–18% of the total composition of the dust), chromium (17–20% of the total composition of the dust) and molybdenum (approximately 2.5% of the total composition of the dust), with most of the rest of the dust consisting of iron. The recycling process removes these materials from the stainless steel dust, making them usable in new applications. The value of these metals in the quantities found in stainless steel dust is higher than the cost of the recycling process and consequently a significant number of customers retain ownership of the metal content, limiting our exposure to nickel, chromium, molybdenum, and iron prices.

Accordingly, the demand for stainless steel dust recycling is driven mainly by the level of stainless steel production and demand for the metals contained within the stainless steel dust. In cases where Befesa has ownership of the end products from stainless steel recycling, the demand for these metals is ultimately driven by stainless steel production, which is the key end-market.

Globally, demand for stainless steel is expected to grow, with an expected growth in EU 27 of 3.3% in 2014, according to the International Stainless Steel Forum and World Steel Association. Stainless steel is primarily used in construction, structural steel, transportation and mechanical engineering. Accordingly, stainless steel production is expected to increase in order to meet the demand for stainless steel, thereby increasing the amount of stainless steel dust available for tolling.

5.4 Befesa's Market Position

a) Crude Steel Dust Recycling

The crude steel dust recycling industry is globally fragmented, with activity and competition concentrated in a few regional clusters, including Europe (the most mature market), North America (where crude steel dust disposal is gradually shifting towards recycling) and Japan (where market dynamics are similar to those in Europe).

The European market's key players include Befesa Zinc, Portovesme, Pontenossa and Recylex (the sole shareholder of Harz-Metall GmbH). The market is mature and relatively stable, with Befesa being the largest player. We believe our market share to be over 40% based on our estimate of installed capacity.

In addition, Befesa has recently opened a plant in South Korea, where we are one of two players (the other one being ZincOx). We believe that we have a market share of at least 35% based on our estimate of the EAFD market size.

b) Stainless Steel Dust Recycling

We believe we are the leading independent stainless steel dust recycler in Europe. In 2012 we processed approximately 123,600 tons of stainless steel dust.

6. Risks Relating to Our Business

The downturn in the global economy has caused in the past and may continue to cause in the future a reduction in demand for our services and products.

Our waste recycling business (comprised of our steel dust and aluminium divisions) is dependent on the availability of steel waste, salt slag and aluminium waste. Historically, in periods of recession or periods of slowing economic growth, the industrial waste recycling industry has been materially and adversely affected. For example, during recessions or periods of slowing economic growth, the secondary steel and aluminium industries that generate the steel waste, salt slag and aluminium waste we recycle, such as the automotive and construction industries, typically experience major cutbacks in production, resulting in a reduction in demand for our services and products. In certain cases these industries have experienced or may experience overcapacity, which may result in closures of our customers' facilities and the consequent reduction in demand for our products and services. For example, our salt slag recycling plant in Töging (Germany) has been idle since 2009 due to overcapacity and an under-supply of input materials in the area. Zinc smelters, which are significant consumers of the Waelz oxide (an oxide used mainly in the production of zinc) we produce, typically experience major cutbacks in production due to a decline in demand from the automotive and

construction industries. Since we receive most of our aluminium waste from scrap dealers operating in Europe, our business is directly and indirectly dependent on the developments in the automotive and construction industries. Difficulties faced by the steel and secondary aluminium industries can lead to significant decreases in demand for and pricing of our services and products.

Beginning in 2008, a steep downturn in the global economy, sparked by uncertainty in credit markets and deteriorating consumer confidence, sharply reduced the demand for steel and aluminium products, particularly in Europe where we have generated the vast majority of our revenues in the twelve months ended June 30, 2013. As a result, generation of steel waste, salt slag and aluminium waste declined sharply, and demand for the Waelz oxide and secondary aluminium alloys we produce significantly declined, mainly because of a decline in industrial waste management following a slowdown in the European economy. This has had a material adverse effect on our industrial waste recycling and our industrial waste management business. If the global economy, and the European economy in particular, remains depressed or growth declines, generation of the steel waste, salt slag and aluminium waste we recycle will likely decline further or remain subdued relative to pre-2008 levels. Reduced availability of the steel waste, salt slag and aluminium waste we recycle not only reduces the amount of Waelz oxide and secondary aluminium alloys we produce, but also reduces the capacity utilization of our recycling facilities, which can impact our revenues and profit margins. Any declines in growth or a return to recessionary conditions, particularly in Europe, could have a material adverse effect on our business, assets, financial condition and results of operations.

The prices of Waelz oxide, aluminium and zinc are volatile, which can affect our results of operations.

Our waste recycling business produces primarily Waelz oxide and secondary aluminium alloys. The prices of zinc and aluminium (and hence the price of the Waelz oxide and secondary aluminium alloys we produce), are volatile and are affected by numerous factors beyond our control, including, but not limited to:

- international economic and political conditions;
- changes in global supply and demand;
- the availability and cost of substitutes for our products and services; and
- actions of participants in the commodities markets.

Moreover, such prices are sensitive to trends in cyclical industries such as the automotive, construction, industrial, appliance, machinery, equipment and transportation industries, which are significant markets for our industrial waste recycling products. These industries have historically been characterized by fluctuations in demand for their products, which have resulted in corresponding fluctuations in demand for our own products. In the past, substantial price decreases during periods of economic weakness have not always been offset by commensurate price increases during periods of economic growth.

We use zinc swaps and options to hedge a portion of our production capacity of Waelz oxide containing zinc. Under our existing policy, we hedge the zinc price for approximately 60-70% of the volume of zinc expected to be extracted from the Waelz oxide typically produced by us over the next 12 to 24 months. This has two inherent risks: (i) future dependence on risk appetite from our hedging counterparties to provide us with our hedging requirements; and (ii) due to our hedging policy, if we experienced a severe drop in the volumes of Waelz oxide produced by us, we would have open hedging positions and we would face difficulties repaying our hedging commitments in the event that the price of zinc rose above hedged prices.

In recent years, we believe our hedging arrangements have had a stabilizing effect on our revenues and operating profit year-on-year. Our hedging arrangements, however, do not cover the entirety of our production capacity. In addition, they expose us to the credit risk of our counterparties and limit our upside when zinc price rises in the case of using swaps, at least for the part of our production that is hedged. Furthermore, in the future, we may not be able to secure hedging arrangements at levels that will have such a stabilizing effect on our revenues and operating profit or at acceptable costs and other terms, or at all.

The average daily price per ton quoted on the LME as of December 31, 2010, 2011 and 2012 was US\$2,432, US\$1,828 and US\$2,034, respectively, per ton of zinc (with an average price for the year ended December 31, 2012 of US\$1,944 per ton of zinc). Prices of high-grade aluminium have been relatively stable while prices of aluminium alloy decreased in the past year. The average daily price per ton quoted on the LME as of December 31, 2010, 2011 and 2012 was US\$2,461, US\$2,395 and US\$2,016, respectively, per ton of high-grade aluminium (with an average price for the year ended December 31, 2012 of US\$2,016 per ton of high-grade aluminium) and US\$2,079, US\$2,264 and US\$1,916, respectively, per ton of aluminium alloy (with an average price for the year ended December 31, 2012 of US\$1,916 per

ton of aluminium alloy). On August 31, 2013, the average daily price was US\$1,895 per ton of zinc, US\$1,815 per ton of high-grade aluminium and US\$1,771 per ton of aluminium alloy. There can be no assurance that prices of zinc or aluminium will increase or, if they do increase, to what extent. Any prolonged recovery in prices will likely depend on a broad recovery from current global economic conditions, although the length and nature of business cycles affecting the zinc and aluminium industries have historically been unpredictable. There is no certainty that prices of zinc or aluminium will not decline significantly. A downturn in zinc and aluminium prices would decrease the sale price of the unhedged portion of Waelz oxide and secondary aluminium alloys produced by us, which in turn could have a material adverse effect on our business, assets, financial condition and results of operations.

We negotiate prices for Waelz oxide on an annual basis, and the final sale price of Waelz oxide depends on the treatment charge deducted by our zinc smelter customers.

The revenues from our steel waste recycling operations represented 41.4% of our total revenues in the twelve-month period ended June 30, 2013. The price for the Waelz oxide that we produce is based on the percentage of zinc contained in the Waelz oxide. The price paid by customers for Waelz oxide is generally negotiated with each customer on an annual basis. Waelz oxide typically has a zinc content of between 60% and 68%. We are paid only for a percentage of the zinc contained in the Waelz oxide (typically 85% of the relevant price for zinc) and are subject to an additional deduction or treatment charge. The price used to calculate the value of the payable zinc is the prevailing LME price for zinc. A treatment charge is then deducted from the amount payable to us. This treatment charge represents the fees that miners pay smelters to refine zinc concentrate into metal. The treatment charge is linked to the LME price for zinc. As a result, the higher the LME price of zinc is over the base reference price, the larger the treatment charge deducted will be, and vice versa.

Any failure to maintain the same or more favorable price terms for our Waelz oxide from year to year or any increase in the treatment charge deducted by zinc smelters (particularly as a result of an increase in the base reference price) could have a material adverse effect on our business, assets, financial condition and results of operations.

We are reliant on a small number of customers and failure to retain these customers could adversely affect our business.

A substantial portion of our revenue is derived from our largest customers, making our business dependent on them. In the twelve-month period ended June 30, 2013, approximately (i) 50% of our steel waste recycling revenues came from the sale of Waelz oxide to four customers; (ii) 26% of our revenue from the aluminium waste recycling segment came from a different set of four customers; and (iii) 17% of our revenue from managing industrial waste came from a different set of five customers.

In addition, steel waste, a main input for the Waelz oxide we produce and sell to our zinc smelter customers, is provided by our mini-mill producer customers who pay us a fee for recycling steel waste. In the twelve-month period ended June 30, 2013, approximately 11% of the revenue we generated from recycling steel waste came from collection fees paid by mini-mill producer customers. Any reduction in the amount of input we collect from our mini-mill producer customers will result in the reduction of revenues received from steel waste collection operations and will also affect the amount of Waelz oxide that we are able to produce and sell to zinc smelters.

We have lost customers in the past, and we cannot guarantee we will be able to maintain our relationships at all times with our largest existing or future customers. There are a number of factors, including, but not limited to, pricing and market demand for our products as well as availability of input materials (including those from our customers) that could result in the loss of customers, and these may not be predictable. For example, in 2009, a long-term purchase and sale agreement in respect of unleached Waelz oxide with a significant customer that was discontinuing its operations was terminated. In addition, some of our customers, such as mini-mills, have in-house steel or aluminium waste recycling capabilities, and if our customers were to develop these capabilities, we could lose all or part of their business. If we had to find alternate customers, there can be no assurance that we could obtain the same price for our products or maintain the same costs of servicing our existing customers. The loss of or a reduction in the business we transact with any of our largest customers and, in particular, with mini-mill producers and secondary aluminium producers, could have a material adverse effect on our business, assets, financial condition and results of operations.

Our operations are subject to stringent laws and regulations, particularly under applicable environmental laws.

The nature of our business subjects us to significant government regulation, including, but not limited to, increasingly stringent environmental laws and regulations in most of the jurisdictions in which we operate. Such laws and regulations also require permits or authorizations to be obtained and forms to be completed and delivered in connection with our operations including any shipment of prescribed materials, so that the movement and disposal of such material can be traced and the persons responsible for its mishandling of such material can be identified. In addition,

environmental laws and regulations impose significant liabilities, fines and penalties on persons found responsible for releases of hazardous substances and pollution or contamination of the soil, water, underground water, air or otherwise. Furthermore, we are required to comply with emissions regulations and to purchase allowances for certain emissions, such as greenhouse gas emissions, on an annual basis.

This regulatory framework imposes on us significant day-to-day compliance burdens, costs and risks. In particular, the violation of such laws and regulations may give rise to significant liability, including, but not limited to, fines and penalties, monetary and reputational damages, third-party liabilities, limitations on our business operations and site closures, and there can be no assurance that we will be in material compliance with all applicable laws and regulations governing the protection of the environment and human health, including, but not limited to, regulations concerning employee health and safety. Generally, relevant governmental authorities are empowered to clean up and remediate releases and environmental damage and to charge the costs of such remediation and clean-up to the owners of the property (regardless of their responsibility for the release), the person(s) responsible for the release, the producer of the contaminant and other parties, or to direct the responsible parties to take such action. These authorities may also impose tax and liens on the responsible parties to secure the parties' reimbursement obligations. Many of the sites that we own or occupy, or have owned or occupied in the past, have a long history of industrial use, including from our operations. They have been and could in the future be the subject of contamination remediation measures, at significant cost and liability. In addition, any failure or delay in obtaining, or the non-granting or non-renewal of, or a challenge to, a permit or authorization we are required to obtain, could adversely affect our business, assets, financial position and results of operations.

Due to the nature of our industrial waste recycling and industrial waste management businesses, in some instances we have been found not to be in compliance with certain environmental laws and regulations, have incurred fines and the loss of reputation associated with such violations and have also paid a portion of the costs of certain remediation actions at certain sites. It is possible that inquiries or claims based upon environmental laws and regulations may be made in the future by governmental bodies, other companies or individuals against us, and the location of some of our facilities in urban areas may increase the risk of such scrutiny and claims.

Moreover, environmental laws and regulations applicable to our business have changed in recent years. It is possible that we will be subject to even more stringent environmental standards in the future, including those that impose limitations on the processes or input materials we require in order to operate our business, in particular steel waste, salt slag or sulphur, or those that impose restrictions or limitations on our ability to recycle steel or aluminium waste (primarily salt slag and SPLs). The input materials for and waste produced by our operations are often hazardous and it is likely that additional materials or waste we use or produce will be designated as hazardous by regulatory authorities, resulting in more stringent operating conditions and requirements. We cannot predict the amounts of any increased capital expenditures or of any increases in operating costs or other expenses that we may have to incur in order to comply with applicable environmental requirements, or whether these costs can be passed on to customers through price increases. Any violation of environmental laws and regulations could give rise to significant liability, require us to pay fines and damages, clean-up and remediate environmental contamination at or close to our plants (even if not caused by us), result in the closure of one or more of our plants, or damage our reputation or ability to continue to conduct our business.

We are required to provide financial assurances and to maintain reserves on our balance sheet for the closure, aftercare and remediation of many of our facilities, particularly our industrial waste management sites. Although in some cases we are allowed to establish these assurances and reserves over the operational life of our facilities, it is possible that we have not established and will not in the future establish adequate amounts to cover or reflect the costs of closure, aftercare or remediation of contamination. Any unanticipated costs and liabilities in this regard could have a material adverse effect on our financial condition or results of operations.

The realization of one or more of these risks could have a material adverse effect on our business, assets, financial condition and results of operations.

If the European Monetary Union ceases to exist or one or more countries leave the European Monetary Union, our business, financial condition and results of operations may be materially adversely affected.

Recent economic events affecting European economies, including the sovereign debt crises in Greece, Ireland, Italy, Portugal and Spain, have raised a number of questions regarding the overall stability of the European Monetary Union. Despite measures taken by countries in the European Monetary Union to alleviate credit risk, concerns persist with respect to the ability of certain European Monetary Union countries to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual euro member states. The economic outlook is adversely affected by the risk that one or more European Monetary Union countries could come under increasing pressure to leave the European Monetary Union, or that the euro could cease to be the single currency of the European Monetary Union. The legal and contractual

consequences of such a development for the business of the Group and for holders of the Notes would be determined by applicable laws in effect at such time. Any of these developments, or a perception that any of these developments may be likely to occur, could have a material adverse effect on the economic development of the affected countries or lead to economic recession or depression that could jeopardize the stability of financial markets or the overall financial and monetary system. This, in turn, may have a material adverse effect on our business, financial condition and results of operations.

We operate in a number of emerging markets, which exposes us to economic and political risks in these markets.

In addition to our operations in the European Union, we currently have or in the foreseeable future anticipate commencing and expanding operations in a number of emerging markets, including Turkey, South Korea, Chile, Peru and Argentina, which may expose us to certain risks to a greater extent than in connection with our operations in more-developed markets. In the twelve-month period ended June 30, 2013, our revenue generated from these markets accounted for approximately 7.2% of our total revenue for these periods. Our operations in these markets are subject to a number of risks, including, but not limited to:

- political and governmental instability, social or labor unrest and crime;
- unstable macroeconomic environments, including with respect to growth rates, inflation, interest rates, unfavorable currency fluctuations, unemployment and other economic conditions;
- arbitrary government action, including by tax authorities, the risk of expropriation or nationalization of property and ineffective or corrupt public administration authorities;
- developing, complex and uncertain legal, regulatory and tax environments, unpredictable or ineffective judicial systems;
- adverse changes in international relations with foreign governments and international institutions, or boycotts and embargoes imposed by the international community;
- the introduction of exchange controls, restrictions on transfers of capital, foreign investment controls and other restrictions by foreign governments;
- inadequate or poorly maintained physical infrastructure, including roads, rail, ports, airports and other transportation infrastructure, power generation and transmission, water, sewerage and telecommunications systems; and
- underdeveloped banking systems and financial infrastructure.

Such factors could adversely affect the profitability of our operations, including by increasing the costs of building and operating new facilities and our business generally in those countries, as well as our ability to extract profits from those countries. Moreover, developments in certain emerging markets often affect other emerging markets and, accordingly, adverse changes in emerging markets elsewhere in the world could have a negative impact on the markets in which we operate or intend to operate in the foreseeable future. Any failure by us to effectively manage these or other risks could have a material adverse effect on our business, assets, financial condition and results of operations.

We are currently implementing a strategy for growth and there is no guarantee that this strategy will be successful.

We intend to continue to pursue our growth plans for our business for the foreseeable future through both the acquisition of existing and the construction of new facilities and plants. In particular, our strategy for growth envisages, among other items, ramping up operations of a new crude steel dust recycling plant in South Korea and the construction of two additional crude steel dust recycling plants in Turkey, one additional secondary aluminium waste recycling plant in Germany and a new aluminium waste recycling plant in the Persian Gulf region. Although we have already secured some contracts with customers who are interested in recycling their steel or aluminium waste at some of our planned plants prior to the completion of the construction of these plants, we cannot assure you that we will continue to be able to secure such commitments in the future.

Implementing our growth strategy may give rise to unanticipated contractual, construction, operational and other risks. Management of our growth will require, among other things:

- generating sufficient internal financial resources or attracting financing from banks, the capital markets or other financing sources at acceptable terms;

- adapting to operating, economic, political, social, legal and regulatory environments of the new markets we enter;
- successfully executing our plans to acquire existing or construct and operate new plants and other facilities in a timely and cost-effective manner;
- securing sufficient contractual commitments from customers interested in recycling their steel or aluminium waste at our plants when completed and in operation; and
- identifying, hiring, training, motivating and retaining qualified personnel in the new markets and countries into which we expand.

If we fail to achieve and maintain our anticipated growth strategy, including, in particular, securing sufficient financing, adapting and operating effectively in the new environments and markets, executing our expansion plans, securing sufficient demand for our business and hiring qualified personnel, this could have a material adverse effect on our business, assets, financial condition and results of operations.

Our growth strategy requires capital expenditures and we may not be able to obtain additional financing on favorable terms.

Our growth strategy envisages, among other items, ramping up operations of a new crude steel dust recycling plant in South Korea, the construction of two additional crude steel dust recycling plants in Turkey, one additional secondary aluminium waste recycling plant in Germany and a new aluminium waste recycling plant in the Persian Gulf region, all of which will require significant capital expenditure. However, there is no assurance that we will be able to generate sufficient internal cash flow, or that we will have access to sufficient debt or equity financing, to continue our development plans as currently intended. To date, we have been able to secure adequate financing on acceptable terms, although we can give no assurance that we will be able to continue to secure financing on acceptable terms, or at all, in the future. Various circumstances could affect our ability to raise adequate capital, including, among others, economic conditions, limited access to bank financing or capital markets, expansion at a faster rate or higher capital cost than anticipated, slower than anticipated revenue growth and regulatory developments. In addition, our exposure to the credit risk of our customers could also make it difficult for us to generate sufficient cash flow and therefore impact our working capital position and development plans. If we are unable to secure additional financing on favorable terms or at all to satisfy our future capital requirements, we may need to curtail or discontinue our development plans, which could slow our growth, lead to a loss of market share and otherwise have a material adverse effect on our business, assets, financial condition and results of operations.

Also, in addition to seeking funding for new projects, such as noted above, we may seek to refinance a portion of our existing debt through bank loans and debt offerings. We can give no assurance as to the availability of financing on acceptable terms to refinance our existing indebtedness upon maturity. If we are unable to refinance our existing debt on favorable terms or at all, it could have a material adverse effect on our business, assets, financial condition and results of operations.

Our growth may be inhibited if we fail to identify and secure sites for new facilities, or fail to secure permissions to construct new or expand our existing sites and facilities.

Our ability to maintain our competitive position and meet our growth objectives depends on our ability to upgrade existing sites or acquire or lease additional sites in strategically located areas. Our ability to obtain new sites and expand existing sites is limited, *inter alia*, by regulation and geographic considerations. Government restrictions, including environmental, public health and technical restrictions, limit where our waste recycling facilities can be located. The process of obtaining planning permissions and licenses or permits to build, operate or expand our industrial waste recycling facilities involves extended hearings and compliance with planning, environmental and other regulatory requirements. We may not be successful in obtaining the licenses or permits we require or such licenses or permits may contain onerous terms and conditions or cost-intensive additional requirements, or such licenses or permits might only be granted for a fixed period of time and will need to be renewed in the future. As a result, we may not be able to obtain extra site capacity where it is required. In some instances, it is necessary for us to negotiate separate additional agreements with local authorities and third parties, such as landowners, who can make demands for further payments or other obligations. Furthermore, objections from the local communities or groups of individuals or interests may delay, or may even prevent, the proposed construction of a new or expanded facility or its operation.

In addition, at some of our existing industrial waste recycling facilities, some licenses and other permits are provided for a fixed period of time only, and we must therefore apply to the relevant governmental entity for an extension of such licenses or permits in order to continue our business operations at such sites. There is no guarantee that an

extension will be granted. We would have to close sites for which extensions were not obtained. We also lease the land of some of our facilities. Some of the leases for these sites include provisions that allow the landlord to terminate the lease if we fail to comply fully with the terms of any permission, permit or license obtained for the site. Any failure to obtain a license or permit, or unduly onerous conditions contained in licenses or permits, or any successful termination of one or more leases could require us to cease operations at one or more of our sites. The realization of one or more of these risks could have a material adverse effect on our business, assets, financial condition and results of operations.

Competition from other materials could significantly reduce demand for the products we produce.

The products we produce, primarily Waelz oxide and secondary aluminium alloys, compete in many applications with other materials that may be used as substitutes, such as steel (particularly in the automotive industry), mineral zinc, primary aluminium, composites and plastic. Additional substitutes developed in the future or reduced costs of existing substitutes for our products could significantly reduce market prices and/or demand for our products, which could have a material adverse effect on our business, assets, financial condition and results of operations.

An increase in the cost of electricity or coke could negatively impact the profitability of our business.

Some of our activities require the consumption of electricity or coke and we are vulnerable to significant fluctuations in their prices. Although electricity and coke consumption costs account for a relatively small portion of our total operating expenses (for example, in the twelve-month period ended June 30, 2013, our consumption of electricity and coke accounted for 12% and 9% of our total operating expenses, respectively), the prices of electricity and coke are volatile and shortages sometimes occur, leading to unexpected price increases. While some of our contracts (including our stainless steel tolling fee contracts) include indexing mechanisms, we cannot guarantee that these mechanisms will cover all of the additional costs generated by an increase in electricity or coke prices. In addition, some of our agreements do not include indexing provisions for the prices of electricity or coke. Significant increases in the cost of electricity or coke, or shortages in their supply, could have a material adverse effect on our business, assets, financial condition and results of operations.

In addition, electricity is one of the key expenses of our mini-mill producer customers and significant increases in the cost of electricity could adversely affect mini-mill producers' profitability, leading to the closure of a number of mini-mill producers and the loss of several of our mini-mill producer customers, which could also have a material adverse effect on our business, assets, financial condition and results of operations.

Our business is exposed to operational risks.

Our industrial recycling and waste management businesses involve many operational risks, including, but not limited to, the risk of unanticipated equipment breakdown or failure at our facilities, a reduction in the supply of inputs or interruptions in the transportation of such inputs, sub-standard performance by our personnel or third party providers (e.g., transportation companies) and power loss, any of which could interrupt or cause a process shutdown of our operations. Our operations could also be interrupted as a result of catastrophic events such as fires, explosions, natural disasters and terrorism. The occurrence of any of these events could disrupt or severely curtail our operations, reduce our revenue and increase our costs. Moreover, we are reliant on our IT and systems, as we have operations in multiple markets, and such systems may be vulnerable to operational or security challenges such as telecommunications failures, interruptions and security breaches. Any interruptions in our operations or interference with our IT systems could have a material adverse effect on our business, assets, financial condition and results of operations.

Increases in interest rates could adversely affect our business.

Certain of our borrowings bear interest at variable interest rates, and we could therefore be adversely affected by increases in interest rates. As of June 30, 2013, after giving pro forma effect to the Transactions, the entering into the New Facilities and the repayment of the Outstanding Local Facilities, and the entering into the Hankook Facility, we would have had €326.1 million of debt, of which €75.9 million bore interest at variable rates generally linked to market benchmarks such as EURIBOR and LIBOR. Interest rates are highly sensitive to many factors, including, but not limited to, governmental monetary policies, domestic and international economic and political conditions, and other factors beyond our control. We use interest rate futures and swaps to hedge a portion of our interest rate risk. However, such hedges do not cover all of our risk. As of June 30, 2013, only €61.2 million of our pro forma debt which bore interest at a variable rate was hedged through hedging contracts. Additionally, such hedges may not be successful and expose us to the credit risk of our counterparties. Any increase in interest rates would increase our finance costs relating to our variable rate indebtedness and increase the costs of refinancing our existing indebtedness and issuing new debt, which could have a material adverse effect on our business, assets, financial condition and results of operations.

We are exposed to currency exchange rate risks.

Our functional currency is the euro. However, we have subsidiaries and operations in a number of jurisdictions, including the United Kingdom, Sweden, Turkey, South Korea, Argentina, Chile and Peru, in which we generate revenues in currencies other than the euro and, in light of our growth plans, in the future we may operate in additional jurisdictions with currencies other than the euro. For the fiscal year ended December 31, 2012, 28.3% of our consolidated revenues were denominated in currencies other than the euro, principally the U.S. dollar, the pound sterling, the Swedish krona and the Argentine peso. We also incur expenses and liabilities in these currencies. The results of operations of our foreign subsidiaries and our products priced in currencies other than the euro are translated into euro at the applicable exchange rate for inclusion in our Consolidated Financial Statements and Interim Consolidated Financial Statements. We aim to minimize the effect of foreign exchange fluctuations by matching revenues, expenses and liabilities in each currency, to the extent commercially practicable.

In addition, in our recycling business we produce and sell Waelz oxide, secondary aluminium alloys, nickel, chromium, molybdenum and other metal alloys. As is typical for such products, we price them by reference to relevant commodities prices quoted on the LME in U.S. dollars, while a substantial portion of our operating costs are incurred in euro. To limit our exposure to the U.S. dollar/euro exchange rate we use zinc swaps (which are denominated in euro). We typically hedge 60-70% of the expected volume of zinc to be extracted from our Waelz oxide and fix the price for this product in euro. However, such hedges do not cover the entire volume of the Waelz oxide that we produce, and, moreover, have led to losses in the past and might not be effective or lead to losses in the future.

Accordingly, exchange rate movements, particularly between the euro and the U.S. dollar and between the euro and other currencies, including the pound sterling, the Swedish krona and the Argentine peso, could have a material adverse effect on our business, assets, financial condition and results of operations.

Changes in technology may affect the industry in which we operate, and our failure to adapt to changes in technology could negatively impact our business activities.

We rely on relatively sophisticated technology in the operation of our business, including the Waelz kiln process, the submerged arc welding furnace, the plasma furnace and leaching processes and the salt slag chemical recycling process. While we believe that we currently benefit from some of the most advanced technological systems available in our industry, no assurance can be given that we will be able to adequately access, adapt to and take advantage of future technological advances. In addition, while we undertake research and development in an effort to develop new technologies and improve our processes and efficiency for our business, such activities are inherently uncertain and we might encounter practical difficulties in implementing our research results in an effective and efficient manner. Moreover, advances in technology, such as alternative methods for the disposal or recycling of steel and aluminium waste, could limit the need for our services or our customers could acquire some of the technology that we use in the operation of our business, which could reduce the need for our services. Our failure to adapt to technological advances, develop and introduce new technologies or respond to rapid market changes, or the adoption of recycling technology by our customers, could have a material adverse effect on our business, assets, financial condition and results of operations.

Our business and results may be impacted by our investments in joint ventures and/or the actions of our co-investors.

In some of the markets in which we currently operate or intend to operate, we hold our investments through joint ventures with third parties and we may continue to do so in the future. In particular, in Turkey, we operate a crude steel dust recycling plant and intend to construct two additional crude steel dust recycling plants through a joint venture, while in France we operate the Fouquières-lès-Lens crude steel dust recycling plant of Recytech through a joint venture. In addition, through a joint venture, we have also acquired and in March 2013 we commenced operations at our crude steel dust recycling plant in South Korea. As of today, we own an interest of 55% in Hankook, which owns and operates the South Korean steel waste recycling plant. Investments in joint ventures may, under certain circumstances, involve risks not present where a third party is not involved, including the possibility that our partners or co-investors might become bankrupt, fail to fund their required capital contributions, perform their obligations poorly or not at all, or that make us liable to our co-investors' creditors in respect of our partner's share of joint venture liabilities. Co-investors may have economic or other business interests or goals that are inconsistent or in conflict with our business interests or goals, and may be in a position to block action with respect to our common investments or take actions contrary to our policies, objectives or interests. Disputes between us and co-investors may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in the loss of business opportunities and growth. Furthermore, actions by our co-investors, which we may be unaware of, or unable to control, such as political affiliations, illegal or corrupt practices and other activities, may bring reputational damage to us or result in adverse consequences to our common investments, including incurring costs, damages, fines or penalties, construction delays reputational losses or the loss of key customer relationships. Consequently, actions by or disputes

with our co-investors might result in subjecting assets owned by the joint venture to additional risk. The above risk factors could have a material adverse effect on our business, assets, financial condition and results of operations.

Adverse developments in connection with governmental, legal or arbitration proceedings may have a material adverse effect on our business, financial position or profitability.

From time to time in the ordinary course of our business, we are party to various governmental, legal and arbitration proceedings. Although we are not currently, nor have been in the past twelve months, party to governmental, legal or arbitration proceedings which may alone or together have, or have had in the recent past, a material adverse effect on our financial position or profitability, we cannot assure you that any such proceedings may not be instituted against us, including, but not limited to, proceedings in connection with disposals of certain of our operations to any third party (such as our Water Concession Business or our bioethanol technologies development business), or, if they are, that we may not be found liable for such amounts that could have a material adverse effect on our business, assets, financial condition and results of operations.

Pending and future tax audits within our Group, disputes with tax authorities and changes in fiscal regulations could lead to additional tax liabilities.

We are subject to routine tax audits by the respective local tax authorities. Our German subsidiaries are currently subject to a tax audit by the German tax authorities covering income tax, trade tax, withholding taxes and VAT for the assessment periods 2005 through 2007. Since the tax audit has not yet been finalized, we cannot exclude that actual tax payment obligations arising from the tax audit may exceed the amount reflected in our financial statements. In addition, court proceedings are currently pending in Portugal concerning credits of input VAT. If the competent court decides in favor of the Portuguese tax authorities, we may receive lower input VAT refunds than we have anticipated. Future tax audits and disputes in Spain or other jurisdictions in which we conduct our business may result in additional tax and interest payments which would negatively affect our financial condition and results of operations. Changes in fiscal regulations or in the interpretation of tax laws by the courts or the tax authorities in Spain or foreign jurisdictions in which we conduct our business may also have adverse consequences for us. The realization of one or more of the above risks could have a material adverse effect on our business, assets, financial condition and results of operations.

There is an industry-wide antitrust investigation into the waste management and urban sanitation sector in Spain.

On July 12, 2013, the Investigation Division of Spain's National Competition Commission (the "CNC") announced that formal proceedings had been opened in relation to possible anti-competitive behavior involving, inter alia, market-sharing arrangements by 37 companies, including Befesa Gestion de Residuos Industriales, S.L., a member of the Group, in the waste management and urban sanitation sector in Spain. The CNC's investigation may last for up to 18 months or more. If the CNC were to find that our subsidiary had infringed Spanish antitrust laws this could, in theory, result in the imposition of a fine of up to a maximum of 10% of our former parent's annual group revenue. However, in practice, fines have been calculated by reference to sales in the relevant activities. Such a finding could also give rise to follow-on actions for damages. However, at this stage it is not possible to assess the likelihood of any actions or provide an estimate of the amount of any such fines or claims.

The Acquisition Agreement between SIEMA and LuxMidCo contains representation and warranty clauses which we expect would fully cover any potential fine that may result from the CNC's investigations. However, if, in the event of a fine, SIEMA refuses to compensate us and/or damages are claimed which in aggregate exceed the maximum amount permitted under the Acquisition Agreement, our business, assets, financial condition and results of operations may be materially adversely affected, which could in turn adversely affect our ability to fulfill our obligations under the Notes and the Parent Guarantee or cause the market price of the Notes to decline.

Our business is reliant on retaining and attracting key management and technical personnel.

We are highly dependent on certain key members of our management and key technical personnel, for example, our plant managers and certain employees operating our Waelz kilns, leaching plants, submerged arc furnaces, plasma furnaces, and salt slag chemical recycling process and involved in our research and development activities. The loss of the services of key members of our senior management or technical staff may significantly delay our achievement of business objectives or result in additional and unforeseen costs. In addition, we intend to continue to expand and develop our business, and as a result will need to hire additional employees with specific technical expertise in order to do so. The loss of the services of key members of our senior management or technical staff, and our inability to attract and retain sufficient and appropriately qualified managerial and technical personnel, could limit or delay our growth strategy or otherwise have a material adverse effect on our business, assets, financial condition and results of operations.

Our employees and other persons may be exposed to health and safety risks.

We conduct heavy-industrial activities at our facilities and also use hazardous substances in our working processes. Therefore there is, despite us making every effort to be in compliance with applicable security and health regulations, a risk of injury, illness or death to our employees and other persons, notwithstanding the safety precautions we take. In addition, although we have policies in place to minimize the risk of injury, illness or death at our facilities, we may nevertheless be unable to avoid material liabilities, or damage our reputation, for any death, illness or injury that may occur in the future. For example, two accidents at one of our aluminium recycling plants in Bilbao recently resulted in personal injury to two of our employees. Any death, illness or injury at our facilities could have a material adverse effect on our business, assets, financial condition and results of operations.

Most of our employees are subject to several collective labor agreements and are represented by labor unions. Any labor disputes could affect our operations, public reputation and relationships with our customers.

Most of our employees in the different jurisdictions in which we operate are represented by labor unions and are covered by collective labor or similar agreements in a number of jurisdictions, which are subject to periodic renegotiation. We have entered into collective labor agreements, including in Germany, Spain, France, Sweden, Turkey and Argentina, and believe that our present labor relations are good. However, there can be no assurance that work slowdowns, work stoppages or strikes will not occur prior to or during the renegotiation of any new collective labor agreements, or in connection with any future wage or benefit negotiations between management and employees, and we are unable to estimate the effect of any such slowdowns, stoppages or strikes on our operations. Any such slowdowns, stoppages or strikes could have a material adverse effect on our business, assets, financial condition and results of operations. In addition, there can be no assurance that any of the collective bargaining agreements that we might renegotiate would be on similar or better terms than our existing collective bargaining agreements, or that the terms of such renegotiated collective bargaining agreements would not otherwise have a material adverse effect on our business, assets, financial condition and the results of our operations.

Our insurance policies may not provide sufficient coverage, which may leave us with uninsured liabilities.

We maintain insurance on property and equipment in amounts that our management believes to be consistent with legal requirements and industry practice but, like other companies in our industry, we are not fully insured against all business risks. Our insurance policies generally cover physical loss or damage to our property and equipment on a reinstatement basis arising from a number of specified risks and certain consequential losses, including, in certain cases, business interruption. Each of our operating subsidiaries also maintains various other types of insurance, such as workers' compensation insurance. The occurrence of an event that is uninsurable or that causes losses in excess of limits specified under the relevant policy, or losses arising from events not covered by our insurance policies, could have a material adverse effect on our business, assets, financial condition and results of operations. If we are unable to implement our planned improvements successfully and achieve operational efficiencies, our growth and profitability could be harmed.

We could have liabilities in respect of acquired operations that have not and may not be identified through our due diligence.

It is possible that the corporate entities or sites we have acquired (including through the Acquisition), or which we may acquire in the future, have liabilities in respect of former or existing operations that we have not been able to identify and assess through due diligence. In some cases we have not received indemnities or obtained insurance covering all prior periods for environmental and other issues that may have existed at the time we made our acquisition, and the indemnities and insurance coverage that we have obtained are limited as to time, amounts paid and in other significant ways. Any substantial liability for remediation or damages as a result of such issues could require significant levels of expenditure and have a material adverse effect on our financial condition and results of operations.

The interests of our principal shareholder may be inconsistent with the interests of the holders of the Notes.

Following the completion of the Acquisition, our principal shareholder will indirectly own all of the Group's voting equity. The interests of our principal shareholder could conflict with your interests, particularly if we encounter financial difficulties or are unable to pay our debts when due. In addition, our principal shareholder may, in the future, own businesses that directly compete with ours.