

BEFESA

Innovative Solutions for Sustainability



BEFESA ZINC

Reporting of 1Q 2011 results

June 2011

Management's Discussion & Analysis of Results of Operations

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

	<u>2010</u>	<u>2011</u>
Consolidated Income Statement Data		
Revenue.....	48,690	53,747
Cost of Sales.....	(28,534)	(31,474)
Other operating income.....	684	865
Depreciation and amortization charges.....	(3,157)	(3,179)
General & Administrative expenses.....	(3,389)	(4,970)
Profit from operations.....	14,294	14,989
Finance income.....	80	99
Finance expense.....	(1,386)	(1,301)
Exchange differences (gains and losses).....	(579)	4
Net financial expense.....	(1,885)	(1,198)
Profit before tax.....	12,409	13,791
Income tax expense.....	(3,592)	(4,286)
Profit from continuing operations.....	8,817	9,505

Segment reporting

The following table shows the revenue, EBITDA and EBITDA margin of each of our reportable segments and of "corporate activities and consolidation adjustments" for the periods indicated, and is derived from the notes to our Consolidated Financial Statements.

	1Q2010			1Q2011		
	Revenue	EBITDA	EBITDA Margin	Revenue	EBITDA	EBITDA Margin
Steel dust.....	38,723	17,389	44.9%	41,441	17,656	42.6%
Stainless steel.....	9,967	62	0.6%	12,306	512	4.2%
Total.....	48,690	17,451	35.8%	53,747	18,168	33.8%

Comparison of periods ended March 31, 2011 and 2010

Revenues

The following table sets forth our revenue for the years ended March 31, 2011 and 2010 by operating segment.

	Period ended March 31		
	2010	2011	% Var.
	(in thousands of euros)		
Crude Steel dust	38,723	41,441	7.0%
Stainless Steel	9,967	12,306	23.5%
Total	48,690	53,747	10.4%

Revenues increased 10.4% in 1Q2011 compared to 1Q2010. This is due to several reasons depending on the segment.

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

	Period ended March 31		
	2010	2011	% Var.
	(in Dry Metric tons)		
Throughput crude steel dust.....	112,496.0	124,773.2	10.9%
Average Load factor	92.1%	100.0%	
Waelz Oxide Production	40,787.6	43,421.7	6.5%
Zinc contained in production	26,531.6	28,491.5	7.4%
Waelz Oxide Sold	41,874.5	37,148.7	-11.3%
Zinc contained in sales.....	26,964.2	24,160.8	-10.4%
LME Average Zinc Price (Euro)	1,753.1	1,652.9	6.1%

Our steel dust segment revenues increased by 7% due to a double effect:

1.- An increase in the volume of steel dust treated to 124.8 thousand tons in 1Q2011 from 112.5 thousand tons in 1Q2010 (+10.9%) and consequently an increase in the revenues for the treatment fees collected. This increase in volumes was mainly attributable to a maintenance standstill of our Spanish plant during first quarter 2010 and additionally to a recovery in the demand of our services.

2.- A decrease in the volumes of Waelz Oxide sold in the first quarter 2011 by 11.3% partly compensated by an increase in the LME zinc prices during 1Q 2011. Accordingly, there was an increase in our stocks of Waelz Oxide by about 6,273 tons.

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

	Period ended March 31		
	2010	2011	% Var.
	(in Dry Metric tons)		
Throughput stainless steel dust.....	21,007.6	19,073.5	-9.2%
Average Load factor	49.0%	44.5%	
Metal Alloys sold.....	462.8	1,987.6	329.5%

The stainless steel dust segment revenues increase by 23.5% despite the reduction of the stainless steel dust throughput in 9.2% mainly due to the increase in the metal alloys sold during this period compared to the first quarter 2010.

EBITDA

The following table sets forth our EBITDA and EBITDA margin for the periods ended March 31, 2011 and 2010 by operating segment.

	Year ended March 31,			
	2010		2011	
	<u>EBITDA</u>	<u>EBITDA Margin</u>	<u>EBITDA</u>	<u>EBITDA Margin</u>
	(in thousands of euros)			
Crude Steel dust	17,389	44.9%	17,656	42.6%
Stainless Steel	62	0.6%	512	4.2%
Total	<u>17,451</u>	<u>35.8%</u>	<u>18,168</u>	<u>33.8%</u>

Total EBITDA increased 4.1% to €18,168 thousand in the first quarter 2011 from €17,451 thousand in the same period in 2009.

Steel dust segment EBITDA increased 1.5% to €17,656 thousand in 2011 from €17,389 thousand in 2010, primarily due to the increased levels of production and partly compensated by the increase of some costs like energy costs.

Stainless steel segment EBITDA margin increased to 4.2% in 2011 from 0.6% in 2010, mainly due to the margin got from the sale of alloys partially offset by the reduction in the activity.

Liquidity and Capital Resources

Liquidity & Cash flows

As of March 31, 2011 our cash and cash equivalents amounted to €37,854 thousand.

The following table sets forth our consolidated cash flow information for the periods ended March 31, 2011 and 2010

	Period ended March 31,		
	2010	2011	Variation
	(in thousands of euros)		
Cash generated from operations	8,230	8,104	(126)
Taxes paid.....	(3,203)	(9,201)	(5,998)
Interest paid.....	(1,387)	(1,311)	76
Interest received.....	80	99	19
Net cash flows from operating activities (I)	3,720	(2,308)	(6,029)
Net cash flows from investing activities (II).....	(837)	(815)	22
Net cash flows from financing activities (III)	0	0	0
Effect in change of the perimeter (IV).....	0	51	51
Net increase in cash and cash equivalents (I+II+III+IV)	2,884	(3,072)	(5,956)
Cash and cash equivalents at beginning of the period	44,989	40,926	
Cash and cash equivalents at end of the period.....	47,873	37,854	

Operating activities. Net cash flows used in operating activities decreased in €6,029 Thousand, primarily due to the increase in the taxes paid during this period.

Investing activities. Net cash flows used in investing activities decreased slightly, by €22 thousand, not being anything significant to highlight.

Befesa Zinc, S.A. and Subsidiaries

Consolidated Balance Sheets (Thousands of Euros)

Assets	31.03.2011	31.12.2010	Equity and Liabilities	31.03.2011	31.12.2010
Non-current assets:			Equity:		
Intangible assets:			Of the Parent:		
Goodwill	267.850	267.850	Share capital	25.010	25.010
Other intangible assets	1.012	1.059	Unrealised Asset and Liability Revaluation Reserve	(2.063)	(14.309)
	268.862	268.909	Other reserves	162.791	122.563
Property, plant and equipment:			Translation differences	309	299
Property, plant and equipment in use	88.794	91.482	Net profit for the year	9.505	40.239
Property, plant and equipment in the course of construction	9.496	1.748		195.552	173.802
	98.290	93.230	Of minority interests	0	0
Investments accounted for using the equity method			Total equity	195.552	173.802
Non-current financial assets:			Non-current liabilities:		
Investments securities	1.670	1.721	Provisions for contingences and expenses	15.744	15.563
Other financial assets	751	406	Bank borrowings	138.562	138.562
	2.421	2.127	Capital Grants	3.949	4.136
Derivative financial instruments	0	0	Other non-current liabilities	13	13
Deferred tax assets	35.690	40.895	Derivative financial instruments	6.113	10.168
Total non-current assets	405.263	405.161	Deferred tax liabilities	22.407	22.436
			Total non-current liabilities	186.788	190.878
Current Assets:			Current liabilities:		
Inventories	10.743	7.097	Bank borrowings	46.685	46.695
Trade and other receivables	23.841	19.304	Current obligations under finance leases	0	0
Trade receivables, related companies	6.287	14.687	Trade payables, related companies	10.824	17.230
Tax receivables	3.992	3.341	Trade and other payables	24.170	25.302
Other receivables	2.056	1.724	Derivative financial instruments	6.707	20.458
Derivative financial instruments	0	0	Other payables:		
Cash and cash equivalents	37.854	40.926	Tax payables	10.291	8.521
Total current assets	84.773	87.079	Other current liabilities	9.019	9.354
			Total current liabilities	19.310	17.875
Total Assets	490.036	492.240	Total current liabilities	107.696	127.560
			Total Equity and Liabilities	490.036	492.240

Befesa Zinc, S.A. and Subsidiaries

Consolidated Income Statements (Thousands of Euros)

	(Debit)/Credit	
	March 2011	March 2010
Revenue	53.747	48.690
Cost of Sales	-31.474	(28.534)
Other operating income	865	684
Gross Profit	23.138	20.840
Depreciation and amortization charge	-3.179	-3.157
General and Administrative Expenses	-4.970	(3.389)
Income From Operations	14.989	14.294
Finance income	99	80
Finance costs	-1.301	(1.386)
Exchange differences (gains and losses)	4	(579)
Financial Loss	-1.198	-1.885
Profit before tax	13.791	12.409
Income tax	-4.286	(3.592)
Profit for the year from continuing operations	9.505	8.817
Profit for the year	9.505	8.817
Attributable to:		
Shareholders of the parent	9.505	8.817
Minority interests	0	

Befesa Zinc, S.A. and Subsidiaries

Consolidated Cash flow statements for the periods ended 31 March 2011 and 2010 (Thousand of euro)

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Profit for the period before tax	13.791	12.409
Adjustments due to		
Amortization/ Depreciation	3.179	3.157
Profit/(loss) on disposal of non-current assets	11	27
Change in provisions	181	139
Financial income	-99	-80
Financial expense	1.301	1.386
Income from government grants	-187	-201
Change in working capital:		
Change in trade receivables and other receivables	-4.537	-5.619
Change in inventories	-3.646	-286
Change other current assets	-502	299
Change in other current liabilities	-1.388	-3.001
Cash generated from operations	8.104	8.230
Taxes paid	-9.201	-3.203
Interest paid	-1.311	-1.387
Interest received	99	80
Net Cash Flows From Operating Activities (I)	-2.308	3.720
Cash flows from investing activities		
Purchase of intangible assets	-29	-7
Purchase of property, plant and equipment	-489	-833
Proceeds from disposal of assets	48	3
Purchase of securities and other non-current financial assets	-345	0
Net Cash Flows From Investing Activities (II)	-815	-837
Cash flows from financing activities		
Repayment of borrowings and other long-term debt	0	0
Net Cash Flows From Financing Activities (III)	0	0
Effect of change in the perimeter on cash and cash equivalents (IV)	51	0
Net Increase In Cash and Cash Equivalents (I+II+III+IV)	-3.072	2.884
Cash and cash equivalents at beginning of the period	40.926	44.989
Cash and cash equivalents at end of the period	37.854	47.873