

ZŁOMREX S.A.

15th Annual Leveraged Finance Conference

London

June 8, 2011





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ZŁOMREX S.A.

Introduction

Section 1





Introduction

Speaker



Krzysztof Zola

CFO, Member of the Board

Age – 39

9 years with Złomrex



ZŁOMREX S.A.

History

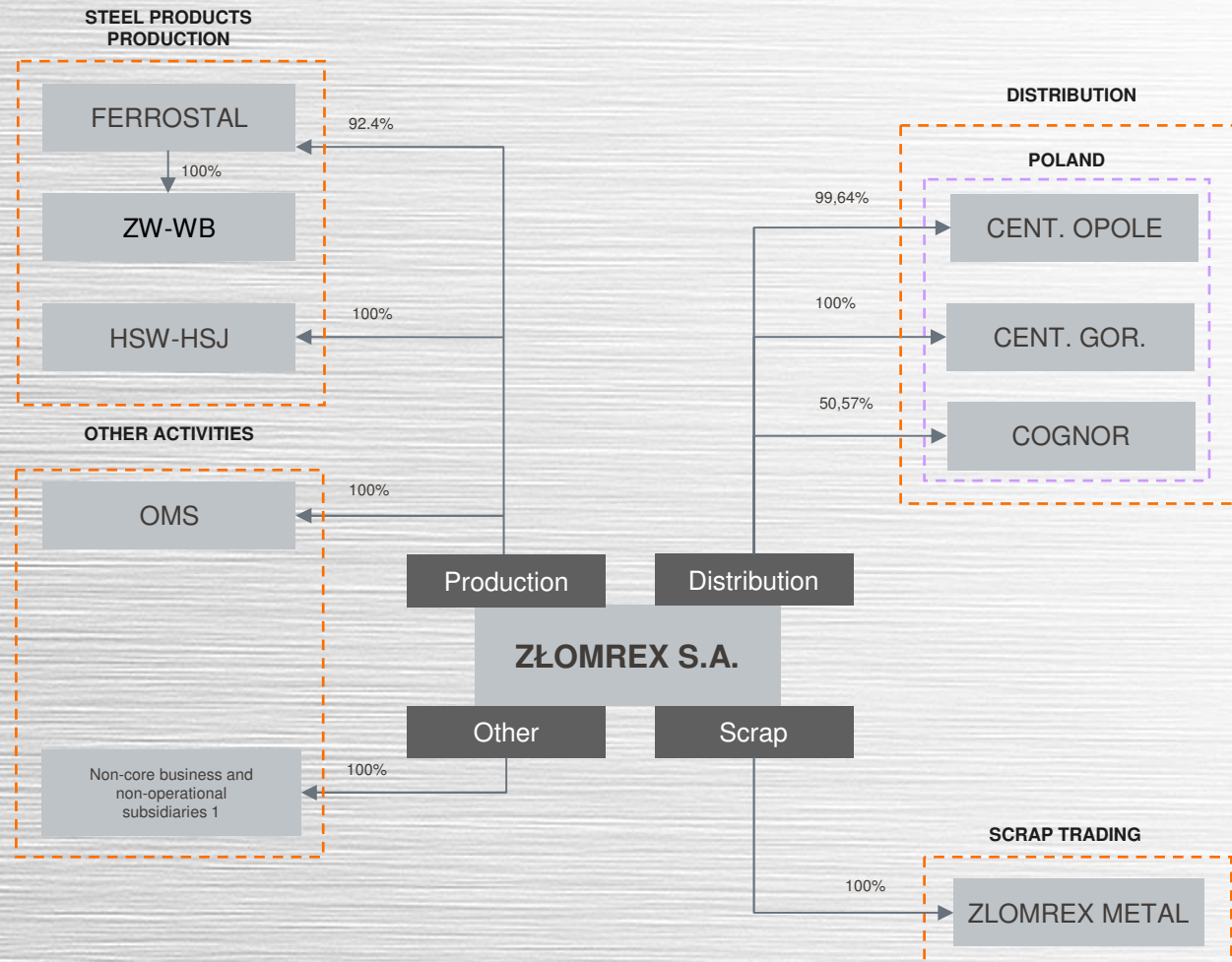
Section 2





History

Złomrex prior to HY issuance – Y 2006





History

Acquisitions and HY issuance: 2007 - 2008

❑ CLOSING OF THREE BIG ACQUISITIONS:

- Cognor Stahlhandel GmbH, Austria (formerly: voestalpine Stahlhandel GmbH) - March 2007; for an EV valuation of EUR105 million. EUR 93,4 million spent (share price + parent loans) in Q1 2007; the rest was deferred till 2009-2010;
- Stalexport S.A., Poland - October 2007; PLN 138,7 million purchase price payment in Q1 2008;
- Zeljezara Split d.d., Croatia - December 2007; EUR 45 million spent (parent loans) in Q1 2008;

TOTAL EXPENSES: ca EUR 175 million

❑ FINANCING OF THE ACQUISITIONS :

- VASTH: ca EUR 90 million out of EUR 170m high yield bonds issuance: January 2007;
- STX: Cognor's secondary public offering: PLN 73 million of net proceeds: April 2007;

TOTAL FINANCING: ca EUR 110 million





History

Result of the acquisitions on the company's numbers

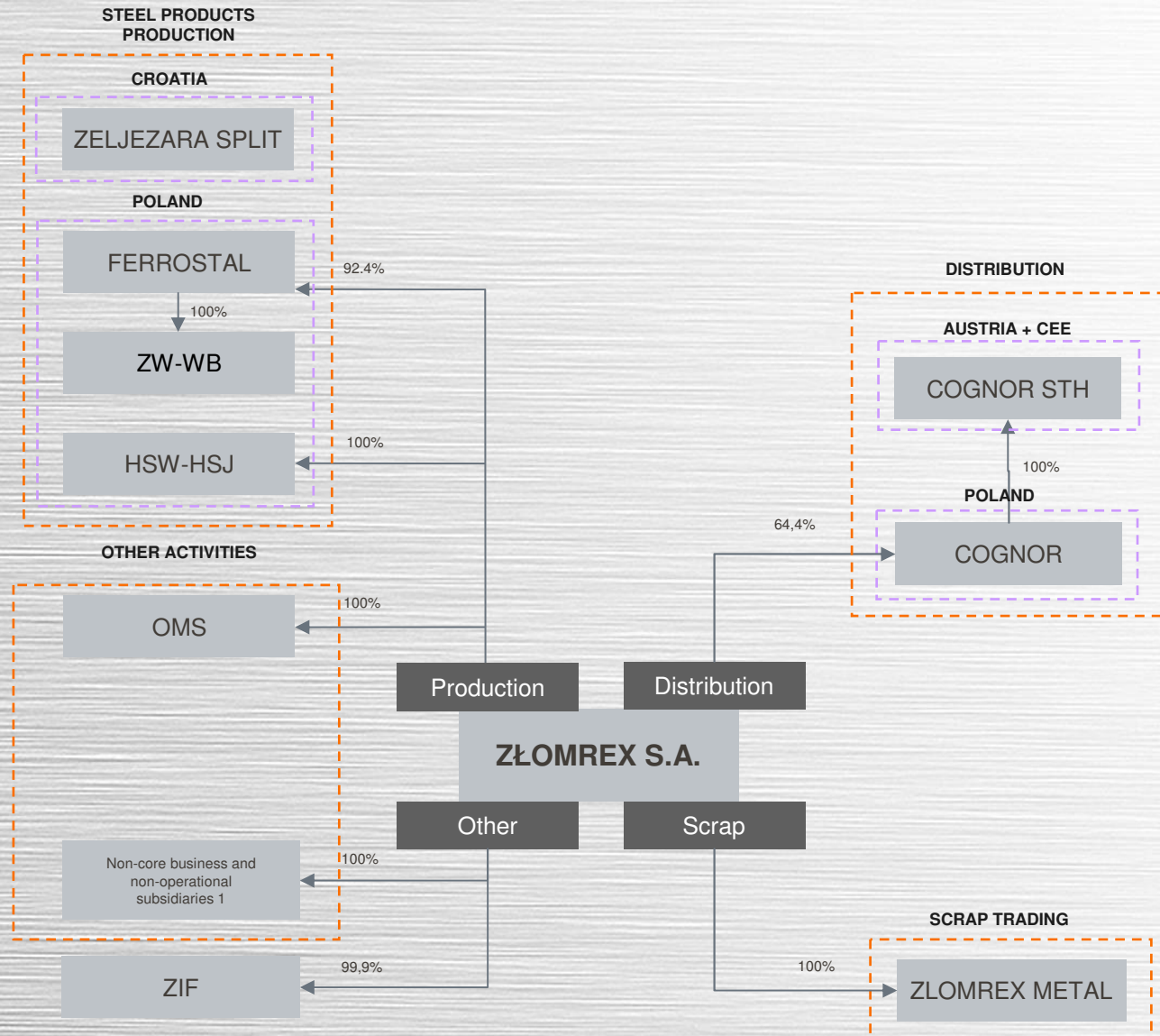


	Y 2008	Y 2006	2008 / 2006
<i>Sales (tonns)</i>			
Scrap	177 338	297 484	-40%
Billets	214 080	207 168	3%
Products Bulk	615 341	395 247	56%
Products Retail	598 861	101 820	488%
<i>('000 pln)</i>			
Revenue	4 027 950	1 942 514	107%
EBITDA	209 648	172 880	21%
<i>('000 pln)</i>			
Long-term indebtedness:	741 312	99 845	642%
- bonds	625 635		
- bank debt	45 569	36 588	
- finance lease	28 175	27 098	
- deferred payment for acquired entities	36 676	33 515	
- other	5 257	2 644	
Short-term indebtedness:	358 005	368 028	-3%
- bank debt	234 825	293 218	
- finance lease	22 591	13 715	
- factoring	60 062	48 856	
- deferred payment for acquired entities	40 527	12 239	
TOTAL DEBT	1 099 317	467 873	135%



History

Złomrex in 2008 – post HY and the acquisitions





History

2008-2010 economy collapse

- ❑ In September 2008 a sharp drop in prices and demand for steel products occurred. The real economy crisis started following the financial industry collapse in late 2007.
- ❑ Utilization of Zlomrex production capacities fell down to 55% in 2009.
- ❑ Since Q4 2008 until Q4 2009 Zlomrex was generating negative EBITDA and net loss until Q2 2010.

❑ Over the crisis the Company brought the following results:

	('000 pln)	H1 2010	Y 2009	Y 2008
net result		-34 694	-289 240	-199 788

- ❑ The Company struggled to maintain its liquidity amid loss making operations and increased pressure from creditors to reduce the financing. Zlomrex lost its insurance coverage capacities its and had to negotiate reduction of its bank overdrafts and revolver lines.
- ❑ Adverse business conditions hampered integration of the businesses acquired in 2007 and 2008; in particular the Croatian Zeljezara Split steel mill failed to regain sustainable profitability and had to be closed down causing most of the losses suffered by Zlomrex in 2008.





History

2009-2010 restructuring measures - temporary

- ❑ Extensive cost reduction in every respect of the Group's operations,
- ❑ Development of new products and markets,
- ❑ Identification of assets available for sale. In 2009 and 2010 we concluded several transactions raising approximately EUR 30 million of net proceeds. The transactions comprised in particular of:
 - sale of joint-venture stakes in Austria: ca EUR 10 million,
 - sale of non-operational real properties in Poland: ca EUR 10 million,
 - sale of small stakes in Cognor's equity: ca EUR 10 million.
- ❑ Buy-back of the bonds at the time of the worst crisis in financial markets. At the turning of 2008 and 2009 we repurchased our own bonds representing the principal amount of EUR 43 million for a price of approximately 25% of par.
- ❑ Optimization of working capital: reduction of stock levels; acceleration of debt collection cycle.
- ❑ Maintaining relations with major short-term lenders and the bondholders by providing comprehensive insight into the Company's results as well as current feedback on both temporary and structural restructuring efforts.





History

2009-2010 restructuring measures - structural

- ❑ In December 2008 a decision to put Zeljeara Split on sale was taken. The process resulted in the Croatian Government's offer on repurchase of all Zlomrex's shares in Zeljeara Split together with all our claims against that entity for a price of EUR 10 million. The agreed terms were thereafter not honored by the new Government therefore we have recently decided to initiate enforcement procedures. In response a demand for bankruptcy procedure was filed by one of state owned companies and the process was opened in March 2011. It is difficult to predict when the dispute will be closed and the consideration received by Zlomrex.
- ❑ In April 2009 we started a process of raising new equity at the parent company level (Zlomrex). Due to an appalling situation in financial markets at that time our efforts brought no success.
- ❑ To back up the equity raising process in Summer 2009 we started negotiations on sale of all our distribution activities. We expected to be able to raise considerable proceeds from such a transaction even in deep crisis environment. On top that the divestiture of this business would result in reduction of indebtedness as distribution companies were considerably leveraged.
- ❑ In November and December 2010 we managed to enter into the agreements:
 - on sale of Polish distribution assets to Arcelor Mittal,
 - on sale of Cognor Stahlhandel's shares (international distribution) to a third party investor.



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Restructuring

Section 3





Restructuring

distribution division divestiture

- At the beginning of February the transaction regarding the international part of our Distribution Division was closed and the domestic transaction was finalized at the beginning of May.
- Both transactions are about to bring in total EUR 80million of proceeds
- Closing of both transactions will leave Złomrex without any steel distribution capacities however, we view this step as a necessary sacrifice to bring the Company's financials back in order, reduce indebtedness, improve liquidity and build a foundation for the future development.

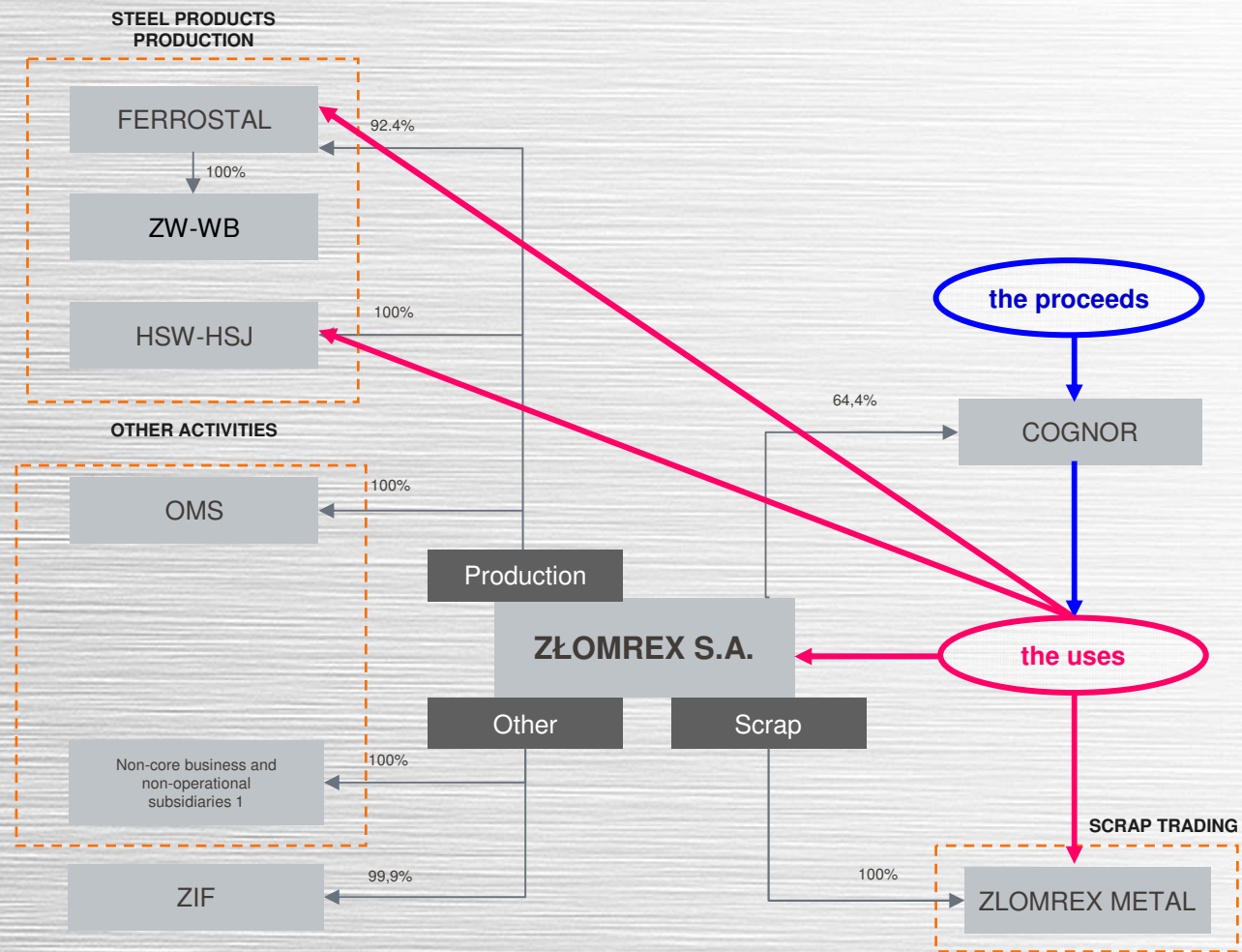
	(<i>'000 pln</i>)	Y 2009	Y 2008	Y 2007
Consolidated revenues		1 969 813	4 027 950	3 366 004
Consolidated EBITDA		-205 395	209 648	216 759
Distribution Division revenues		948 968	2 298 368	1 657 212
% of consolidated		48,2%	57,1%	49,2%
Distribution Division EBITDA		-93 996	43 082	37 219
% of consolidated		neg.	21%	17%
Distribution Division Indebtedness		113 211	132 923	154 807





Restructuring

Złomrex post the divestitures and Zeljezara Split deconsolidation





Restructuring

Next steps - reorganization rationale

- ❑ All the transaction proceeds appear at Cognor's level while funds are needed in Złomrex's steel production and scrap companies. Transfer of all shares in Ferrostal, HSW-HSJ and Złomrex Metal to Cognor (the reorganization) would eliminate trouble with application of those
- ❑ Cognor still remains part of Złomrex Group, listed on Warsaw Stock Exchange with an access to equity investors.
- ❑ Cognor's shareholders expect a new strategy for the company given it got rid of all its core business operations.
- ❑ The investors have welcomed positively the idea of Cognor taking over steel and scrap operations from Złomrex valued at a price of PLN 703 million which resulted in rebound of Cognor's shares trading.
- ❑ The new structure would bring certain tax benefits resulting from utilization of the tax shield accrued at parent company level (Złomrex S.A.) and tax optimization going forward





Restructuring

Next steps - milestones

- ❑ In December 2010 the bondholders' consent to the transfer of all shares in Ferrostal, HSW-HSJ and Złomrex Metal from Złomrex to Cognor was obtained. Further analysis of available structures for such a transfer led us to the conclusion that an amendment to the consent is necessary for Złomrex to apply an optimal transaction structure and to comply with the covenants of the Indenture

- ❑ Only the currently considered structure enables Złomrex to obtain all the tax benefits while it remains safe for all parties involved both from fiscal and corporate governance risks perspective.

- ❑ In the proposed structure we expect the following stages:
 - (i) All shares in Złomrex would be contributed to a newly formed entity (Holdco),
 - (ii) Złomrex would reduce its share capital by about a half
 - (iii) Złomrex would transfer all its shares (64,4%) in Cognor to Holdco [together with all its shares (100%) in OMS and some other non-material entities]
 - (iv) Holdco would sell all its shares in Złomrex to Cognor
 - (v) Złomrex would merge with HSW-HSJ, (with Złomrex as the surviving entity)

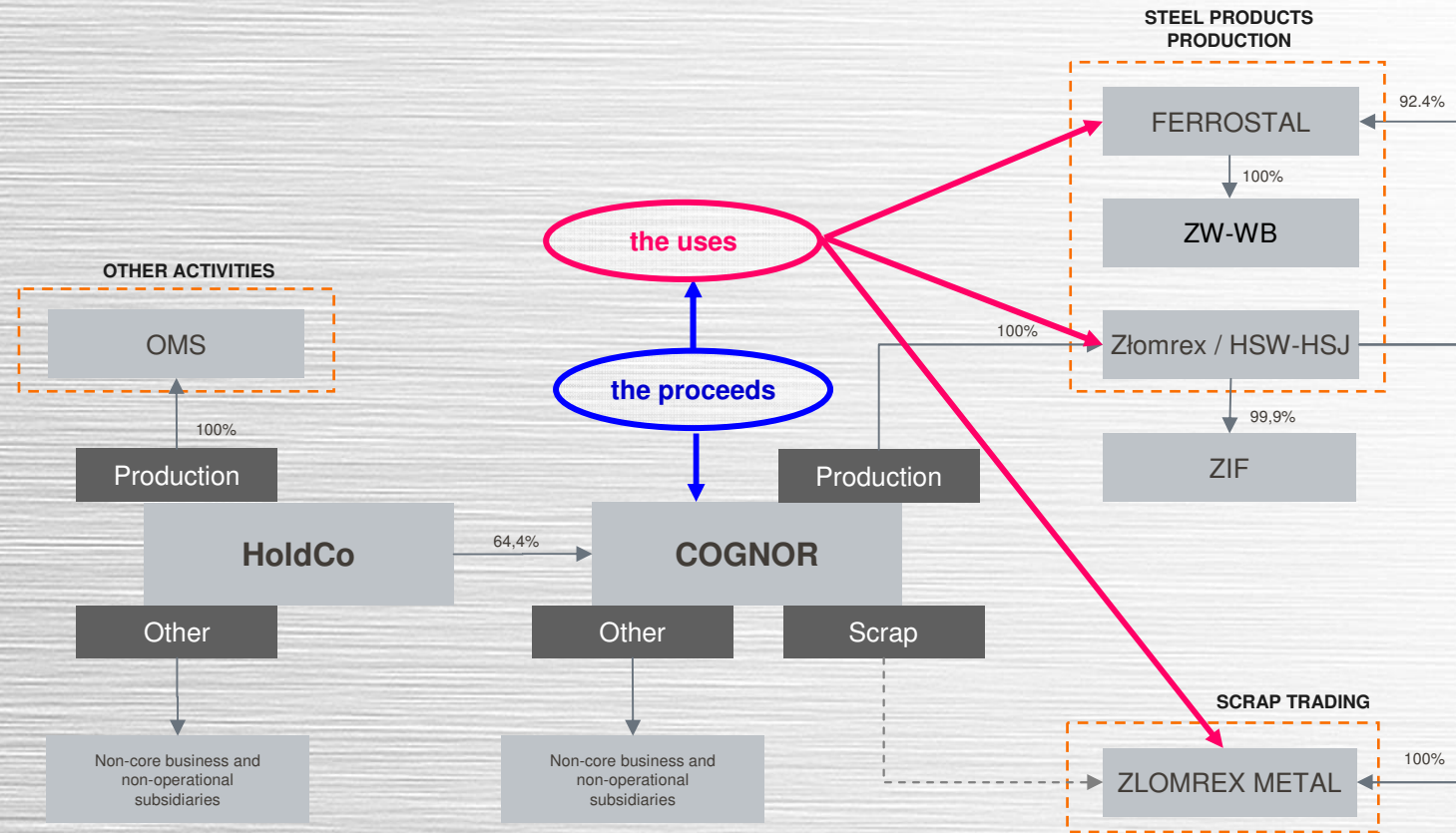
- ❑ The reorganization has no adverse impact on the bondholders security – no pledge and no guarantee get released; Cognor would assume all obligations under Złomrex's senior secured notes and would become a new reporting and parent company. Złomrex would remain an obligor under Intercompany Proceeds Notes and Cognor a co-obligor. Złomrex's shares would be pledged. No change of control would occur.





Restructuring

Złomrex Post Reorganization



ZŁOMREX S.A.

Outlook

Section 4





Outlook

- During the crisis the Company has managed to navigate through very extreme conditions. Market challenges were coupled by a pressure from creditors, insurance companies and rating agencies. It was a very difficult period especially for a relatively small and leveraged business. Our dedication to everyday's work and restructuring efforts let us go through it.

- Though the market remains difficult and future uncertain we have a strong conviction that the crisis times are over. First quarter results already brought some confidence with respect to meeting our financial targets in 2011

INCOME STATEMENT	Q1 2011	Y 2010	Q1 2010
	<i>'000 PLN</i>		
Revenue	332 073	994 465	171 645
EBIT	16 184	-18 210	-12 997
Net financing costs	-19 534	-51 679	6 110
Profit/loss for the period from discontinued operations	35 903	-88 118	4 420
Profit for the period	27 778	-166 977	-15 647
Depreciation and amortization	-11 148	-46 348	-13 035
EBITDA	27 332	28 138	38

METRICS	Q1 2011	Y 2010	Q1 2010
Liquidity ratio	1,39	1,19	0,98
Quick ratio	0,94	0,97	0,65
Equity	110 901	98 360	220 141
Net debt	683 529	688 043	759 310





Outlook

- ❑ In 2011 we expect a very substantial improvement in revenues and profits. Our production units are now back working at close to full capacities levels.

- ❑ Our 2011 financial targets for continued operations range (in '000 000 pln):
 - revenues: 1,300 – 1,400
 - EBITDA: 120-150
 - Capex: 15-25
 - Net debt: 490-530

- ❑ We stay focused on free cash flow generation in order to build adequate financial resources for any future financial needs.



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THANK YOU FOR THE ATTENTION

