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2011 Business and Financial Performance

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Introduction

Speaker



Krzysztof Zoła
CFO
Age – 40
10 years with the Company

2011 Highlights

- Improved demand, prices and margins for all products particularly in H1. H2 weaker in terms of automotive sectors (HSJ). Q4 zloty weakening made a positive contribution to sales of semi-products (Ferrostal)
- 59% yoy revenues increase; sharp increase of profitability; EBITDA at PLN 144,7m from PLN 10,4 million in 2010
- Better market conditions reflected in growth in capacities' utilization:

	ANNUAL CAPACITY Tonnes	UTYLIZATION RATE						
		Y 2011	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Y 2010	Y 2009
FERR	375 000	93%	105%	96%	86%	85%	64%	66%
HSJ	261 000	71%	58%	72%	86%	70%	52%	37%
COMBINED	636 000	84%	86%	86%	86%	79%	59%	54%

- GDP growth over 4% in Poland
- Polish steel production up by 10% yoy
- Closing of two major divestment transactions regarding distribution business and finalization of internal reorganization



Business Overview

Environment

CRUDE STEEL PRODUCTION (1)	Y 2011	% YoY	Y 2010	Y 2009
<i>mln tonnes</i>				
Poland	8,8	10%	8,0	7,2
EU (27)	177,4	3%	172,9	139,0
China	683,3	9%	626,7	567,8
Global	1 490,1	7%	1 395,5	1 220,0

UNIT PRICES (2)	2011	% YoY	2010	2009
<i>PLN / Ton</i>				
Scrap metal	1 017	17%	870	646
Billets (FERR)	2 038	25%	1629	1 312
billet / scrap diff.	1 021		759	666
Bars (flat, plain, squares)	2 285	31%	1750	1 423
bars / scrap diff.	1 268		880	777
Rebars (F18)	2 165	18%	1 829	1 439
rebars / scrap diff.	1 148		959	793

⁽¹⁾ Source: World Steel Association

⁽²⁾ Source: COGNOR SA

Segments

SCRAP METAL		Y 2011	Y 2010	Y 2009
PURCHASES FROM EXTERNAL SUPPLIERS	<i>Tonnes</i>			
FERR		158 537	90 855	86 839
ZLMET		429 488	332 240	351 289
HSJ		123 718	105 533	77 474
OTHER		0	620	1 106
INTERNAL USE	<i>Tonnes</i>			
FERR		410 545	286 270	286 700
HSJ		211 872	157 241	111 849
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
ZLMET		118 098	102 016	92 516
OTHER		0	975	1 841
SALES	<i>'000 PLN</i>			
CONSOLIDATED		120 064	88 355	56 309
TOTAL PURCHASES in TONNES		711 743	529 248	524 606
TOTAL INTERNAL USE in TONNES		622 417	443 511	407 736
TOTAL SALES in TONNES		118 098	102 991	94 357
TOTAL SALES in '000 PLN		120 064	88 355	56 309

Segments

BILLETS		Y 2011	Y 2010	Y 2009
PURCHASES	<i>Tonnes</i>			
EXTERNAL SOURCES		0	0	1 922
PRODUCTION	<i>Tonnes</i>			
FERR		348 596	240 043	248 823
HSJ		186 012	134 665	96 035
INTERNAL USE	<i>Tonnes</i>			
FERR		96 357	61 186	115 166
HSJ		169 103	132 256	95 648
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
ZLOM		0	0	129
FERR		252 239	178 857	133 657
HSJ		16 909	2 409	2 309
COG		0	24	15
SALES	<i>'000 PLN</i>			
CONSOLIDATED		551 525	295 338	178 520
TOTAL PURCHASES in TONNES		0	0	1 922
TOTAL PRODUCTION in TONNES		534 608	374 708	346 288
TOTAL INTERNAL USE in TONNES		265 460	193 442	212 235
TOTAL SALES in TONNES		269 148	181 290	136 119

Segments

FINISHED PRODUCTS		Y 2011	Y 2010	Y 2009
PRODUCTION	<i>Tonnes</i>			
ZWWB		82 322	53 767	66 549
FERR		0	0	33 472
HSJ		158 335	116 379	97 546
SALES TO EXTERNAL CUSTOMERS	<i>Tonnes</i>			
ZLOM		0	0	86
FERR		84 291	59 897	108 419
HSJ		147 282	122 337	92 954
SALES	<i>'000 PLN</i>			
CONSOLIDATED		718 070	478 102	407 763
TOTAL PRODUCTION in TONNES		240 657	170 146	197 567
TOTAL SALES TO EXTERNAL CUSTOMERS in TONNES		231 573	182 234	201 459
TOTAL SALES in '000 PLN		718 070	478 102	407 763



Financials

INCOME STATEMENT	Y 2011	Y 2010	Y 2009
	<i>'000 PLN</i>		
Revenue	1 549 647	975 282	782 015
Cost of sales	-1 377 076	-909 068	-809 392
Gross profit	172 571	66 214	-27 377
Other income	9 919	9 673	9 765
Distribution expenses	-36 171	-32 394	-27 073
Administrative expenses	-46 600	-50 718	-45 017
Other gains/(losses) – net	15 309	-10 118	1 126
Other expenses	-14 546	-18 080	-28 501
EBIT	100 482	-35 423	-117 077
Financial income	6 562	14 442	59 767
Financial expenses	-105 041	-66 167	-77 204
Net financing costs	-98 479	-51 725	-17 437
Profit before tax	2 003	-87 148	-134 514
Income tax expense	21 887	-8 887	23 641
Profit/loss for the period from discontinued operations	92 011	-88 118	-178 842
Profit for the period	115 901	-184 153	-289 715
Depreciation and amortization	-44 169	-45 788	-50 355
EBITDA	144 651	10 365	-66 722

- EBITDA adjusted for non-recurring items: PLN 131,2 m
- Net profit adjusted for non-recurring items: PLN 35,7 m

ASSETS	Y 2011	Y 2010	Y 2009
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	499 437	459 195	826 348
I. Intangible assets	17 067	20 487	42 175
II. Property, plant and equipment	342 734	373 818	663 451
III. Other receivables	44 583	241	3 295
IV. Investment property and other investments	4 377	4 608	14 488
V. Prepaid perpetual usufruct of land	19 850	19 257	45 857
VI. Deferred tax assets	70 826	40 784	57 082
B. TOTAL CURRENT ASSETS	480 180	976 983	732 302
I. Inventories	178 472	176 216	249 052
II. Receivables	237 834	143 220	211 775
1. Trade receivables	204 904	142 620	204 235
2. Current income tax receivable	7 744	590	2 004
3. Other investments	25 186	10	5 536
III. Cash and cash equivalents	47 166	9 280	32 422
IV. Assets classified as held for sale	16 708	103 733	43 039
V. Assets of disposal groups and disc. oper.	0	544 534	196 014
TOTAL ASSETS	979 617	1 436 178	1 558 650

- A.III. includes PLN 44.3 m in Croatian Claim
- A.VI. Increased due to additional tax asset creation due to internal reorganization

EQUITY AND LIABILITIES	Y 2011	Y 2010	Y 2009
	<i>'000 PLN</i>		
A. EQUITY	176 441	91 858	241 225
I. Issued share capital	132 444	132 444	102 374
II. Reserves and retained earnings	31 796	-49 389	125 928
III. Minority interest	12 201	8 803	12 923
B. LIABILITIES	803 176	1 344 320	1 317 425
I. Non-current liabilities	548 729	525 393	592 239
1. Employee benefits obligation	7 970	11 862	38 819
2. Interest-bearing loans and borrowings	532 138	503 162	534 110
3. Other	8 621	10 369	19 310
II. Current liabilities	254 447	447 826	570 254
1. Interest-bearing loans and borrowings	45 878	107 249	169 904
2. Bank overdraft	25 236	83 884	126 657
3. Trade payables	176 117	250 570	269 074
4. Deferred government grants	865	1 007	1 145
5. Employee benefits obligation	5 677	4 713	2 317
6. Current income tax payable	293	0	323
7. Provisions for payables	381	403	834
III. Liabilities of disposal group classified as held for sale	0	371 101	154 932
TOTAL EQUITY AND LIABILITIES	979 617	1 436 178	1 558 650

- Debt reduced by PLN 128.9 m
- Debt reduction offset by PLN 55.8m of net FX losses regarding indebtedness

CASH FLOW	Y 2011	Y 2010	Y 2009
A. FROM OPERATING ACTIVITIES	-32 697	30 769	-6 193
B. FROM INVESTING ACTIVITIES	-7 151	8 658	1 432
C. FROM FINANCING ACTIVITIES	-140 658	-31 651	-62 186
NET INCREASE IN CASH	-180 506	7 776	-66 947

MAIN METRICS	Y 2011	Y 2010	Y 2009
Liquidity ratio	1,89	1,19	1,01
Quick ratio	1,19	0,98	0,67
Inventories turnover (days)	47	71	112
Trade receivables turnover (days)	48	53	95
EBITDA margin	9,3%	1,1%	-8,5%
Net profit margin	7,5%	-18,9%	-37,0%
Equity	176 441	91 858	241 225
Net debt	556 086	685 015	798 249
Net debt / EBITDA	3,8	66,1	-12,0

- PLN 130,2 negative cash flow from working capital
- Metrics at optimal levels



Internal Reorganization

Divestiture of Distribution Division and Considerations Behind Internal Reorganization

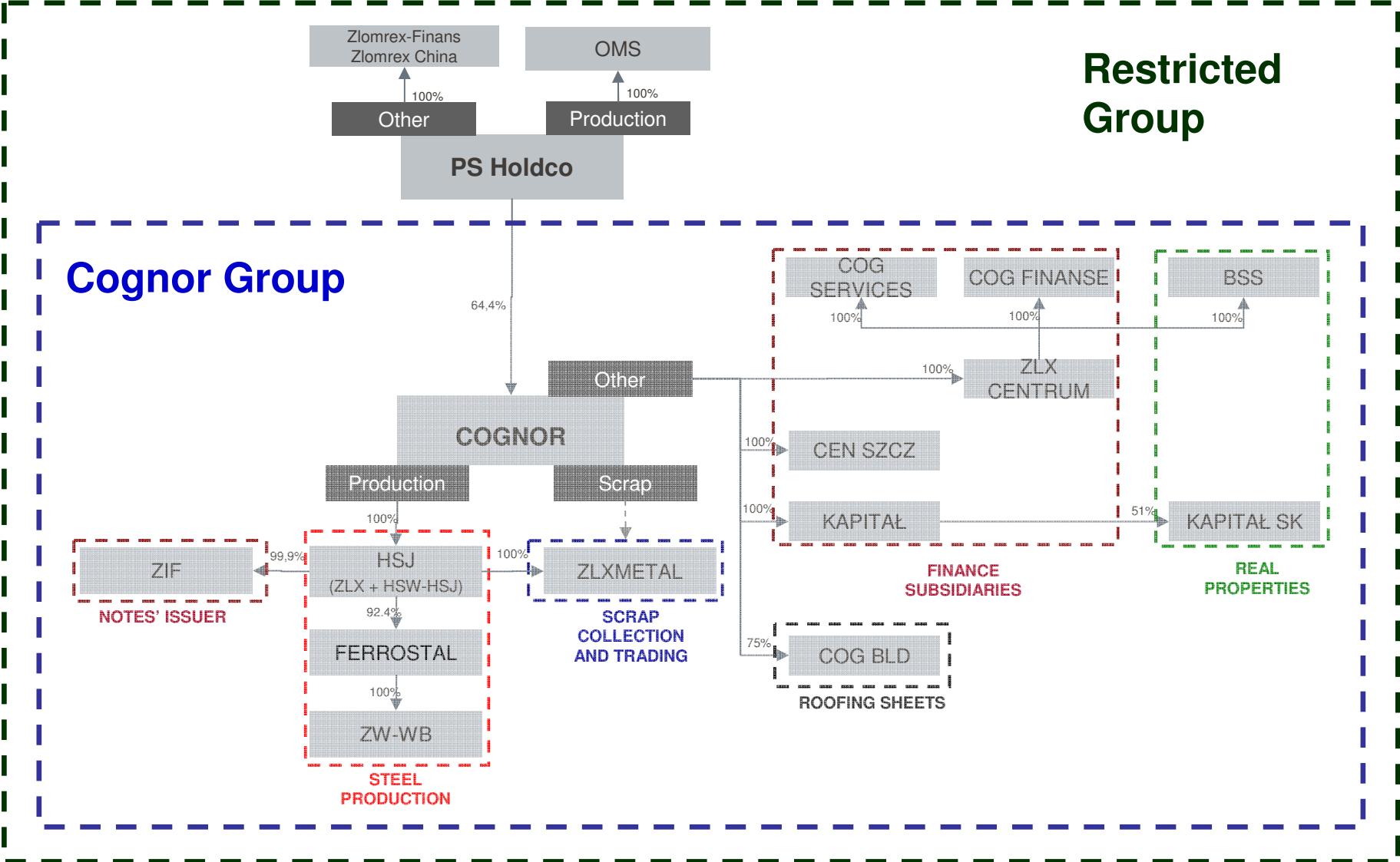
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- Sale of 100% of shares in Cognor Stahlhandel GmbH to Mechel
 - Conditional SPA – 09.12.2010, closing 31.01.2011 r.
 - Price for 100% of shares was set at EUR 32.8m and referenced to the company's figures as of 31.12.2009 r. Final price to be established based on Cognor Stahlhandel GmbH group equity difference between 31.12.2009 i 31.01.2011 r.
 - Part of the transaction was a repayment of intercompany loan extended by Złomrex S.A. (currently HSJ S.A.) at the amount of EUR 9.8m
 - Cognor S.A. (Cognor) has received and expects to receive the following proceeds:
 - EUR 24.6m – Feb 2011
 - EUR 0.9m – Feb 2012
 - **EUR 1.5 -2.0m** – H1 2012, the amount is subject to the dispute between Cognor and the buyer
 - HSJ S.A. has received and expects to receive the following amounts:
 - EUR 5.0m – Apr / Oct 2011
 - EUR 4.8m – Feb 2012
- Sale of the domestic distribution assets to Arcelor Mittal Distribution
 - Conditional APA – 16.11.2010, closing 04.05.2011 r. The transaction comprised of: inventories, real property and other fixed assets.
 - Total sale price accounted for PLN 181.2m net (PLN 197.2m VAT incl.)
 - Cognor has received and expects to receive the following proceeds:
 - PLN 168.8m – 04.05.2011,
 - PLN 4.1m – Jun 2011
 - PLN 2.0m – Q4 2011
 - **PLN 7.4m** – May 2012
 - **PLN 14.9m** – May 2013
- Internal reorganization of the Group
 - Acquisition of Złomrex S.A. by Cognor including an indirect acquisition of shares in (i) steel plants - Ferrostal + HSW-HSJ and (ii) scrap collection network - Złomrex Metal
 - Downstream application of proceeds and repayment of bank loans as well as working capital improvement
 - Simplification of the Group's structure by the following subsidiary companies' mergers aimed at increasing internal efficiencies and tax benefits
 - The whole of former Złomrex S.A. Group's business became listed on Warsaw Stock Exchange
 - Significant increase of Cognor's potential and profitability

Group's Structure Post Internal Reorganization

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2012 Outlook

Main factors

- Polish GDP around 3%
- Production expected to slightly fall in Europe with relatively strong Polish market. Demand, prices and margins likely to stabilize on 2011 levels with zloty to strengthen further against the EUR and the USD
- Utilization rates may continue to rise, at HSJ in particular
- Positive free cash flow, net debt to EBITDA towards 3x multiple by 2012 yearend
- Refinancing of the Notes
- Organic growth strategy



Q & A

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