



April 30, 2010

## 2009 Annual Report and Management Discussion & Analysis

The Management Board of ZŁOMREX S.A. (Złomrex, the Company) presents the Company's consolidated financial statement as at and for the year ended December 31, 2009.

### I. REPORTED STATEMENT

In 2009 global economy started to recover from the deepest and the longest post war crisis. Steel business belonged to the most severely hit with production output and prices falling to an unprecedented extent. It is still uncertain whether the observed recovery will be sustainable and how economy is going to behave with huge burden of sovereign debt and various stimulus programmes coming to an end.

REGION	2006	2007	2008	2009	YoY 09/08
<i>mln tones</i>					
<b>Europe</b>	<b>355</b>	<b>365</b>	<b>344</b>	<b>266</b>	<b>-22,8%</b>
UE (27)	207	210	198	139	-29,7%
UE (15)	173	175	168	118	-29,8%
CIS	120	124	114	98	-14,7%
<b>North America</b>	<b>132</b>	<b>133</b>	<b>125</b>	<b>82</b>	<b>-33,9%</b>
USA	99	98	91	58	-36,4%
<b>South America</b>	<b>45</b>	<b>48</b>	<b>47</b>	<b>38</b>	<b>-20,3%</b>
<b>Africa</b>	<b>19</b>	<b>19</b>	<b>17</b>	<b>15</b>	<b>-11,1%</b>
<b>Middle East</b>	<b>15</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>3,6%</b>
<b>Asia</b>	<b>672</b>	<b>757</b>	<b>768</b>	<b>795</b>	<b>3,5%</b>
China	419	489	500	568	13,5%
Japan	116	120	119	88	-26,3%
<b>Oceania</b>	<b>9</b>	<b>9</b>	<b>8</b>	<b>6</b>	<b>-28,6%</b>
<b>TOTAL</b>	<b>1 247</b>	<b>1 346</b>	<b>1 326</b>	<b>1 220</b>	<b>-8,0%</b>

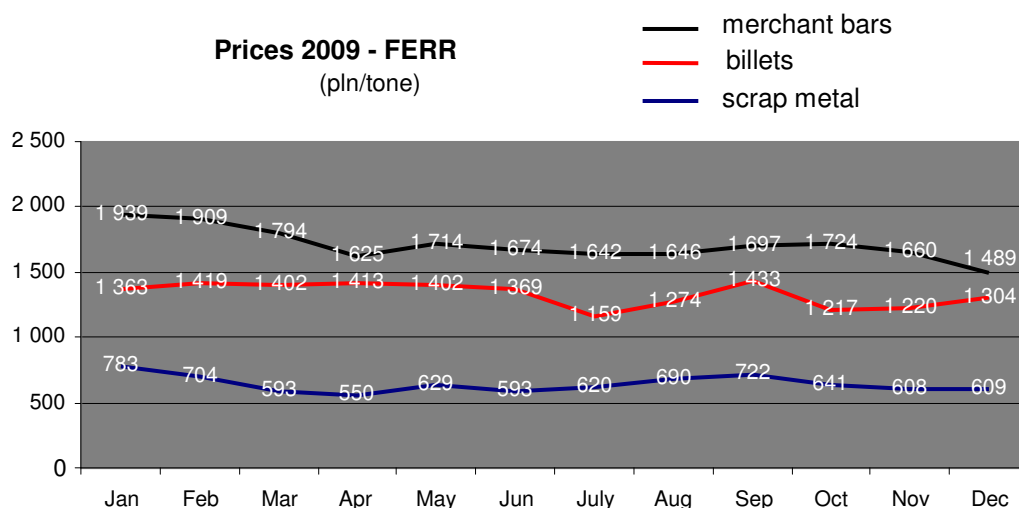
Cyclicality in steel business is driven by the demand swings from construction and automotive industries which are the two biggest steel consuming sectors. The so called "credit crunch" raised great uncertainty and undermined availability of financing for the households. Therefore, construction and car sales dropped sharply in most developed economies bringing steel demand to dramatically low levels. Stimulus programmes supporting car industry and vast infrastructural spending helped a lot in the second half of 2009. But those actions caused rapid increase in public indebtedness bringing it to historically highest levels. Indebtedness and public sector deficit raises big concerns within financial markets and refinancing risk for many countries becomes an issue for the next years to come.

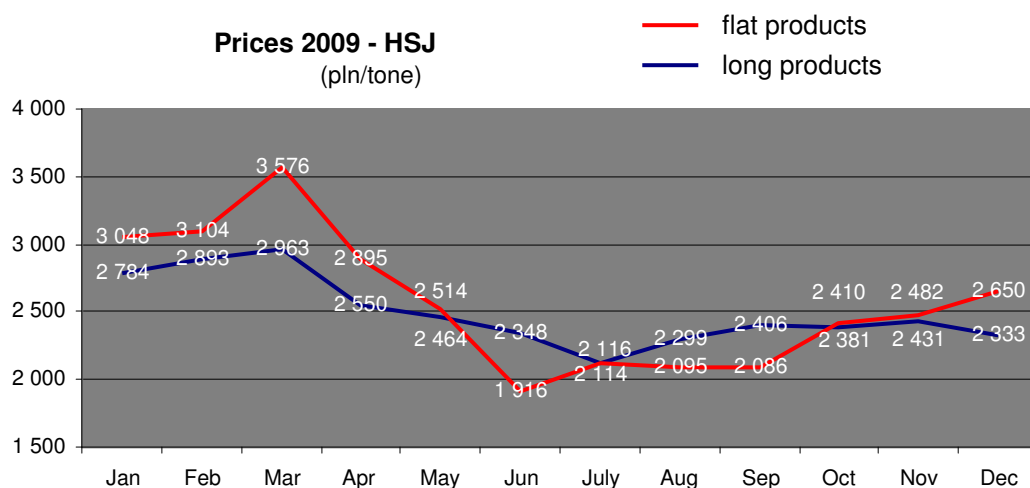
What will be the nearest future for our business still remains an open question. While we see strong signs of improvement we believe there are a few factors which could challenge pace and scale of recovery. Firstly, high sovereign indebtedness and state deficit in numerous mature economies may give rise to severe cuts in public spending which may further result in higher unemployment causing lower consumers' confidence and suspension of infrastructural spending. Secondly, inflationary pressure may result in higher interest rates and therefore limit access to financing both for individuals and companies. Lastly, sustainability of internal demand growth in Chinese market may leave this country with production overcapacities given pending capital expenditures within the local steel industry.

We believe Polish market is generally less exposed to those risks as Poland performed good in 2009, being the only European Union (the EU) member state with positive GDP growth. State deficit is under control and Polish banking sector remains in good shape with no engagement in any "toxic" assets which triggered the last crisis. However, steel business in Poland is by its nature dependent on the wider economical background and is especially linked to what is happening in Europe.

Throughout the whole 2009 we saw pressure on prices and very soft demand. The first half was the most challenging especially for flat products (produced by HSJ) with sharp prices decrease. Falling prices affected production margins with spreads between product prices and scrap prices narrowing for all our products. Falling prices environment, was also destroying for profitability of our Distribution Division. Being a stockholder Złomrex was forced to continue sales of steel products which were purchased in previous periods at significantly higher prices.

The below charts present development of sales prices of scrap and of main product lines in both of our steel plants. The following table shows deteriorating conditions for production margins.





PRICES AND SPREADS 2009	Q1	Q2	Q3	Q4
<i>pln</i>				
<b>SCRAP PRICE</b>	693	591	677	619
<b>PRODUCT PRICES</b>				
FERR long products	1 881	1 671	1 662	1 624
HSJ long products	2 880	2 454	2 274	2 382
HSJ flat products	3 243	2 442	2 098	2 514
<b>SPREADS</b>				
FERR long products	1 187	1 080	984	1 005
HSJ long products	2 187	1 863	1 596	1 762
HSJ flat products	2 549	1 851	1 421	1 895

Złomrex made its best effort to overcome highly extremely circumstances by continuing its conservative financial policy throughout the whole 2009. The Company introduced deep cost cutting schemes together with working capital optimisation. Złomrex also refrained from any new expansionary capex and has put on sale certain non-operational or non-core assets. Main objectives behind such actions were: margins support, increasing of production and sales output as well as further reduction of the Group's indebtedness.

Despite having taken all those measures Złomrex was unable to offset challenging market environment. Year 2009 was certainly the worst one in the so far Group's history with high negative results both at EBITDA and net profit levels.

## 1. Income Statement

Financial year 2009 was a continuation of severe market conditions which have started since the third quarter of 2008. Declining prices, very weak demand as well as shrinking production and distribution margins combined in a deadly mixture for the Company's results. Gross profit from continued operations was down by PLN 448,9 million – 92,5% less than in 2008. In addition to that we have not managed to divest Zejezara Split (ZJEL) which we put on sale at the end of 2008. It contributed negatively to our net result by PLN 60,2 million bringing our consolidated net loss down to PLN 289,4 million. The negative results were partially offset by financial income at PLN 97,2 million resulting in repurchase from an open market and cancellation of our senior secured notes (the Bonds).

INCOME STATEMENT	Y 2009	Y 2008	Y 2007	Y 2006	Y 2005
'000 PLN					
Revenue	1 969 813	4 027 950	3 366 004	1 942 514	976 236
Cost of sales	- 1 933 190	-3 542 471	-2 935 936	-1 691 157	-880 748
<b>Gross profit</b>	<b>36 623</b>	<b>485 479</b>	<b>430 068</b>	<b>251 357</b>	<b>95 488</b>
Other income	24 186	17 547	18 221	11 166	3 531
Distribution expenses	-161 392	-194 534	-148 703	-31 650	-15 691
Administrative expenses	-112 398	-142 139	-115 311	-79 528	-40 598
Other gains/(losses) – net	-21 465	-206	-2 572	0	0
Other expenses	-44 000	-26 310	-19 138	-5 618	-4 725
<b>EBIT</b>	<b>-278 446</b>	<b>139 837</b>	<b>167 709</b>	<b>145 727</b>	<b>38 005</b>
Financial income	100 722	39 893	33 455	150	3 815
Financial expenses	-84 891	-177 397	-94 523	-32 662	-20 852
<b>Net financing costs</b>	<b>15 831</b>	<b>-137 504</b>	<b>-61 068</b>	<b>-32 512</b>	<b>-17 037</b>
Share of profits of associates	-2 170	739	2 121	0	0
Excess in the net fair value of acquired assets over cost	0	0	125 795	5 894	0
<b>Profit/(loss) before tax</b>	<b>-264 785</b>	<b>3 072</b>	<b>234 557</b>	<b>119 109</b>	<b>20 968</b>
Income tax expense	35 723	-9 105	-20 457	-22 009	-4 098
Profit/loss for the period from discontinued operations	-60 178	-193 755	0	0	0
<b>Profit for the period</b>	<b>-289 240</b>	<b>-199 788</b>	<b>214 100</b>	<b>97 100</b>	<b>16 870</b>
Depreciation and amortization	-73 051	-69 811	-59 654	-34 622	-22 112
<b>EBITDA</b>	<b>-205 395</b>	<b>209 648</b>	<b>227 363</b>	<b>180 349</b>	<b>60 117</b>

Contribution of entities other than Subsidiaries Guarantors (within the meaning of the Bonds' indenture) is 50% and 62% in revenues and in (negative) EBIT respectively.

Last year was a period of high exchange rates' volatility however this has not resulted in significant FX gains or losses related to the Company's assets or liabilities.

EXCHANGE RATES	Dec-2009	Dec-2008	Dec-2007	Dec-2006	Dec-2005	Dec-2004
PLN						
EUR/PLN	4,11	4,17	3,58	3,83	3,86	4,72
% change	-2%	16%	-7%	-1%	-18%	
USD/PLN	2,85	2,96	2,44	2,91	3,26	3,74
% change	-4%	22%	-16%	-11%	-13%	

First half of 2009 brought relatively higher sales mainly due to higher unit prices. Profitability was very poor as a result of falling prices and shrinking margins. Third quarter saw stabilisation of prices, margins and demand at the very low levels. This was however enough to improve profitability. Fourth quarter brought a slight rebound in prices and margins however it was also the weakest demand quarter especially with respect to our steel products.

SALES AND EBITDA	Q 1	Q 2	Q 3	Q 4
<i>000 PLN</i>				
SALES	561 243	508 953	503 361	396 256
EBITDA	-45 226	-61 496	-12 123	-86 550

SALES	Q 1	Q 2	Q 3	Q 4
<i>'000 tones</i>				
SCRAP	29 537	17 424	30 565	16 831
BILLETS	17 442	39 067	33 774	45 836
BULK STEEL PRODUCT SALES	92 944	83 874	78 871	30 162
RETAIL STEEL PRODUCT SALES	91 348	68 358	96 600	106 934

## 2. Balance Sheet

Fixed assets' values decreased in the consolidated balance sheet mainly due to sale of certain non-operational or non-core assets. The most important factor leading to a decrease in current assets was decrease in prices as well as lower sales resulting in lesser working capital requirements.

ASSETS	Y 2009	Y 2008	Y 2007	Y 2006	Y 2005
'000 PLN					
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>830 700</b>	<b>976 319</b>	<b>1 219 445</b>	<b>525 854</b>	<b>318 352</b>
I. Intangible assets	42 175	46 267	45 973	26 494	19 953
II. Property, plant and equipment	713 988	855 713	1 125 729	479 956	280 970
III. Other receivables	3 295	1 533	2 979	1 947	2 473
IV. Investment property and other investments	14 044	41 472	22 292	5 308	4 111
V. Deferred tax assets	57 198	31 334	22 472	12 149	10 845
<b>B. TOTAL CURRENT ASSETS</b>	<b>742 542</b>	<b>1 291 014</b>	<b>1 474 070</b>	<b>607 008</b>	<b>274 029</b>
<b>I. Inventories</b>	<b>256 901</b>	<b>565 726</b>	<b>692 210</b>	<b>284 519</b>	<b>103 632</b>
<b>II. Receivables</b>	<b>214 092</b>	<b>369 360</b>	<b>512 448</b>	<b>294 284</b>	<b>155 774</b>
1. Trade receivables	171 343	295 226	424 423	232 067	122 526
2. Other receivables	42 749	74 134	88 025	62 217	33 248
<b>III. Cash and cash equivalents</b>	<b>32 496</b>	<b>99 505</b>	<b>263 416</b>	<b>27 626</b>	<b>14 623</b>
<b>IV. Assets classified as held for sale</b>	<b>239 053</b>	<b>256 423</b>	<b>5 996</b>	<b>579</b>	<b>0</b>
<b>TOTAL ASSETS</b>	<b>1 573 242</b>	<b>2 267 333</b>	<b>2 693 515</b>	<b>1 132 862</b>	<b>592 381</b>

Equity of the Company has reduced primarily as a result of 2009 net loss. Interest bearing loans and borrowings net of cash adjusted for liabilities related to the acquisition of subsidiaries and employee benefits have gone down by PLN 179,6 million and 16,8% primarily as a result of the debt reduction, including the Bonds' repurchase.

EQUITY AND LIABILITIES	Y 2009	Y 2008	Y 2007	Y 2006	Y 2005
'000 PLN					
<b>A. EQUITY</b>	<b>250 998</b>	<b>538 579</b>	<b>698 595</b>	<b>409 078</b>	<b>294 980</b>
I. Issued share capital	47 691	47 691	47 691	47 691	47 691
II. Reserves and retained earnings	111 355	345 700	492 624	325 516	231 468
III. Minority interest	91 952	145 188	158 280	35 871	15 821
<b>B. LIABILITIES</b>	<b>1 322 244</b>	<b>1 728 754</b>	<b>1 994 920</b>	<b>723 784</b>	<b>297 401</b>
<b>I. Non-current liabilities</b>	<b>592 043</b>	<b>826 200</b>	<b>842 797</b>	<b>116 505</b>	<b>54 691</b>
1. Debt securities	507 691	625 635	584 479	0	0
2. Interest-bearing loans and borrowings	26 576	73 744	71 399	65 302	52 653
3. Other	57 776	126 821	186 919	51 203	2 038
<b>II. Current liabilities</b>	<b>575 269</b>	<b>753 228</b>	<b>1 152 123</b>	<b>606 999</b>	<b>242 405</b>
1. Interest-bearing loans and borrowings	299 599	358 676	543 031	353 910	158 335
2. Other financial liabilities	0	5 257	7 858	1 063	1 320
3. Trade payables	226 571	340 772	350 604	202 715	73 405
4. Deferred payment for acquired entities	44 459	40 527	151 569	12239	-
5. Bills of exchange payables	0	-	6 741	9 168	-
6. Income tax payable	323	3 591	17 858	843	1065
7. Employee benefits	2 338	3 039	3 656	5 405	1 853
8. Other	0	1 195	66 851	21 656	5 719
9. Provisions for payables	834	171	3 955	-	708
<b>III. Deferred income</b>	<b>1 145</b>	<b>1 195</b>	<b>386</b>	<b>280</b>	<b>305</b>
<b>IV. Liabilities of disposal group classified as held for sale</b>	<b>154 932</b>	<b>149 326</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 573 242</b>	<b>2 267 333</b>	<b>2 693 515</b>	<b>1 132 862</b>	<b>592 381</b>

### 3. Cash Flow Statement

The Company generated positive cash flow from operating activities primarily due to release of working capital. This was however offset by a loss from operations.

Investing activities cash flow was positive primarily due to proceeds from sale of tangible and intangible assets. This was however offset by capital expenditures.

Negative financing cash flow resulted from repayment of principal and interest related to the Company's indebtedness.

CASH FLOW	Y 2009	Y 2008	Y 2007	Y 2006	Y 2005
'000 PLN					
A. FROM OPERATING ACTIVITIES	139 101	411 185	150 909	107 313	54 645
B. FROM INVESTING ACTIVITIES	11 877	-252 800	-248 205	-223 292	-36 749
C. FROM FINANCING ACTIVITIES	-249 819	-276 427	-246 766	102 198	-1 297
NET INCREASE IN CASH	-98 841	-118 042	-344 062	-13 781	16 599

### 4. Main Metrics

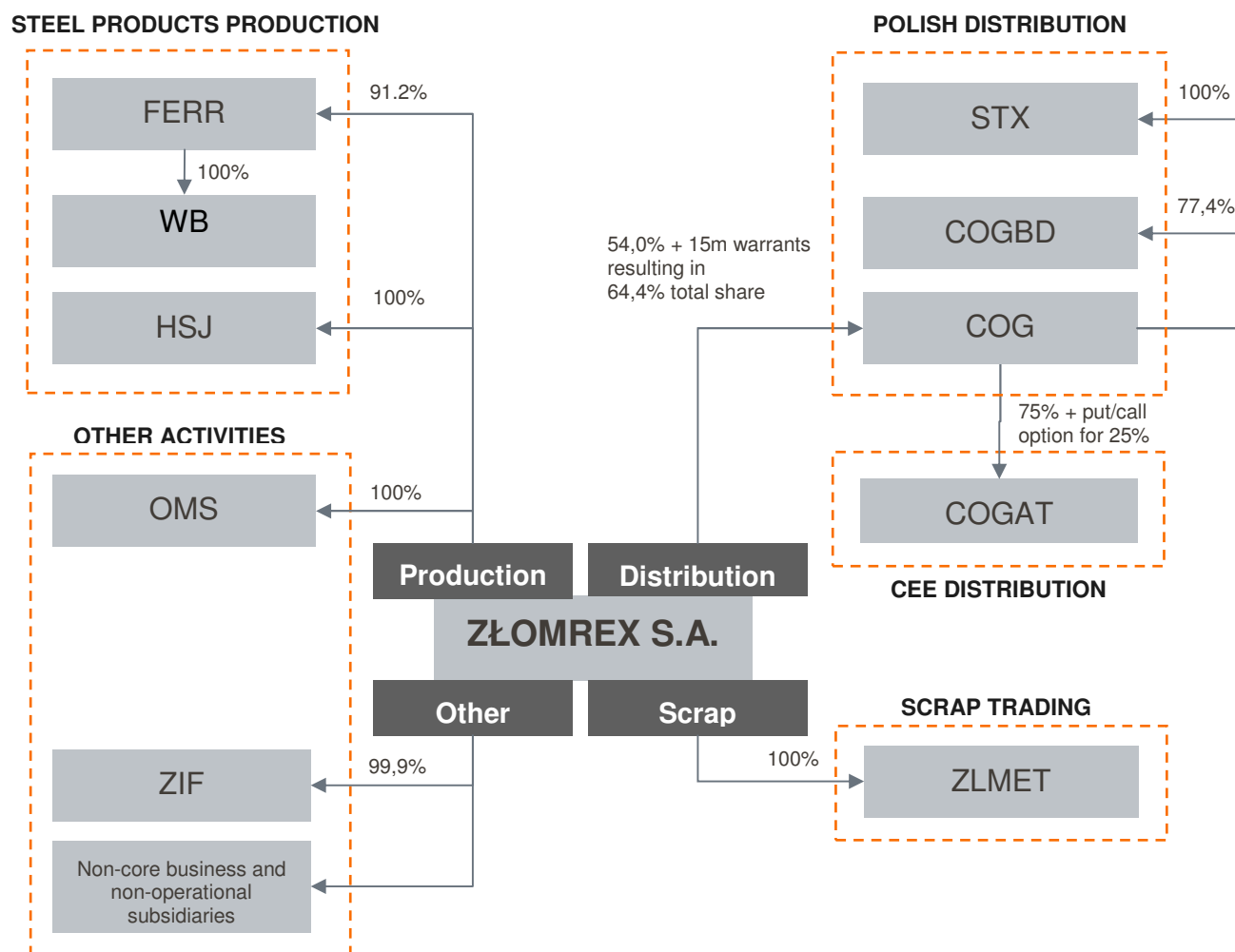
Main metrics significantly deteriorated as a result of very poor results in 2009.

MAIN METRICKS	Y 2009	Y 2008	Y 2007	Y 2006	Y 2005
Liquidity ratio	0,88	1,37	1,28	1,00	1,13
Quick ratio	0,43	0,62	0,68	0,53	0,70
Inventories turnover (days)	49	58	86	61	43
Receivables turnover (days)	40	33	56	55	58
EBITDA margin	-10,4%	5,2%	6,8%	9,3%	6,2%
Nett profit margin	-14,7%	-5,0%	6,4%	5,0%	1,7%
Equity	250 998	538 579	698 595	409 078	294 980

## II. ZŁOMREX GROUP STRUCTURE

### 1. Zlomrex Group Organisational Chart

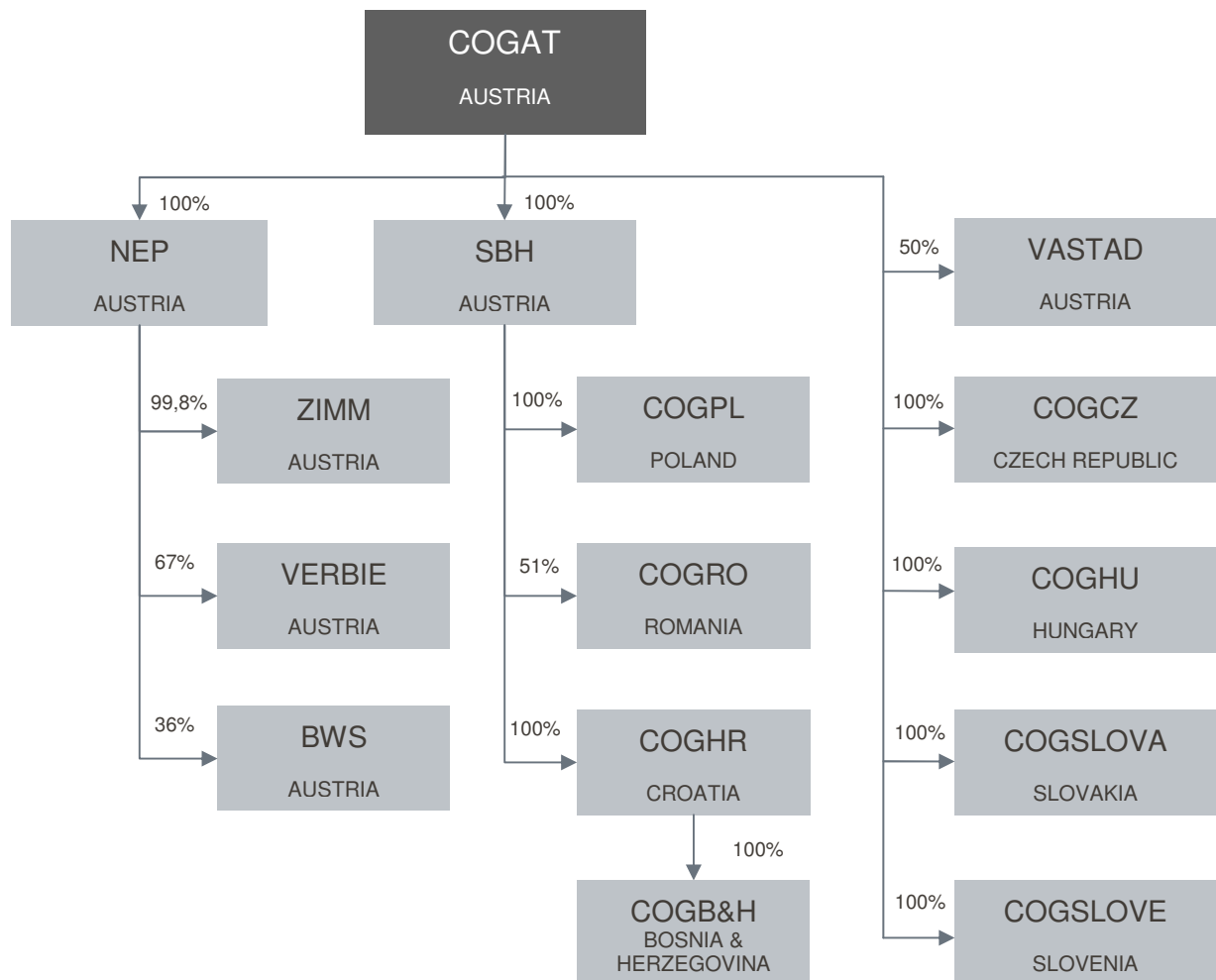
One of the Company's goals in 2009 was integration of businesses and simplification of its organizational structure in particular with respect to its Distribution Division. The process in its main scope has been successfully completed. Together with formal restructuring a number of tools facilitating reporting and management was developed and implemented. It includes new ERP system arrangement, redefinition of operational functions, new purchases and sales procedures and new incentive program.



- Non-core business subsidiaries: CKM, BSS, ZC, KAP, KAPSK
- Non-operational subsidiaries: ZEL, HSJTL, AB, NJ, ZLFIN, ZLCHI, CSZC, STXMBI
- Polish Distribution – STX is not operational; legal merger is in progress. COGBD operates in roofing sheets production; no merger expected
- CEE distribution – COGAT subsidiaries: COGCZ, COGPL, COGRO, COGHR, COGB&H, COGHU, COGSLOVA, COGSLOVE, NEP, VASTAD, SBH, BWS, ZIMM, VERBIE – detailed structure on the separate chart



## 2. Cognor Stahlhandel Organizational Chart



### 3. Description of Abbreviations

COMPANY	ABBR	FORMER NAME (IF RECENTLY CHANGED)	SALES 2009 (IN '000 PLN)
ZŁOMREX S.A.	ZLX		35 131
<b>STEEL PRODUCTS PRODUCTION</b>			
FERROSTAL-ŁABĘDY Sp. z o.o.	FER		412 451
HSW - HUTA STALI JAKOŚCIOWYCH Sp. z o.o.	HSJ		242 452
ZW-WALCOWNIA BRUZDOWA Sp. z o.o.	WB		17 968
<b>OTHER ACTIVITIES</b>			
ODLEWNIA METALI SZOPIENICE Sp. z o.o.	OMS		32 452
ZŁOMREX INTERNATIONAL FINANCE S.A.	ZIF		0
NOWA JAKOŚĆ – Organizacja odzysku S.A.	NJ		7 133
KAPITAŁ Sp. z o.o.	KAP		0
KAPITAŁ SP. Z O.O. SP. KOMANDYTOWA	KAPSK		0
ZŁOMREX - CHINA LIMITED	ZLCHI		0
BUSINESS SUPPORT SERVICES Sp. z o.o.	BSS	ZŁOMREX ZBROJARNIA Sp. z o.o.	343
CKM WŁÓKNIARZ S.A.	CKM		3 893
HSW – TLENOWNIA Sp. z o.o.	HSJTL		5 830
ZELJEZARA SPLIT d.d.	ZEL		20 501
ZŁOMREX CENTRUM Sp. z o.o.	ZC	ZŁOMREX PRUSZKÓW Sp. z o.o.	0
AB STAHL	AB		0
ZŁOMREX - FINANS Sp. z o.o.	ZLFIN		298
CENTROSTAL Sp. z o.o. SZCZECIN	CSZC		0
STALEXPORT METALZBYT Sp. z o.o.	STXMBI		2 728
<b>SCRAP TRADING</b>			
ZŁOMREX METAL Sp. z o.o.	ZLMET		339 553
<b>POLISH DISTRIBUTION</b>			
COGNOR S.A.	COG	CENTROSTAL S.A	276 093
COGNOR BLACHY DACHOWE S.A.	COGBD	FLORIAN PODKARPACIE S.A.	28 142
STALEXPORT S.A. KATOWICE	STX		78 544
<b>CEE DISTRIBUTION</b>			
COGNOR STAHLHANDEL GMBH	COGAT	VOESTALPINE STAHLHANDEL GMBH	517 712
NEPTUN STAHLHANDEL GMBH	NEP		158 516
COGNOR STAHLHANDEL HOLDING GMBH	SBH	STAHLHANDEL BETEILIGUNGS HOLDING GMBH	0
COGNOR VETING STAHLHANDEL D.O.O.	COGHR	VETING VOESTALPINE D.O.O.	51 924
COGNOR STAHLHANDEL Sp. z o.o.	COGPL	VOESTALPINE STAHLHANDEL POLSKA Sp. z o.o.	18 437
COGNOR STAHLHANDEL CZECH REPUBLIC S.R.O.	COGCZ	VOESTALPINE STAHLHANDEL SPOL.SR.O	82 597
COGNOR STAHLHANDEL SPOL.SR.O	COGRO	VOESTALPINE AMBIENT STAHLHANDEL SRL	13 141
COGNOR STAHLHANDEL HUNGARY KFT	COGHU	VOESTALPINE STAHLHANDEL BUDAPESZT KFT.	11 224
COGNOR STAHLHANDEL SLOVAKIA S.R.O.	COGSLOVA	VOESTALPINE STAHLHANDEL SLOVAKIA S.R.O.	1 372
COGNOR STAHLHANDEL D.O.O.	COGSLOVE	VOESTALPINE STAHLHANDEL D.O.O.	444
COGNOR TAD METALS STAHLHANDEL GMBH	VASTAD	VASTAD EDELSTAHL HANDEL GMBH	63 870
COGNOR VETING STAHLHANDEL D.O.O.	COGB&H	VETING VOESTALPINE STAHLHANDEL D.O.O.	9 987
BWS BEWEHRUNGSSTAHL GMBH	BWS		34 225
ZIMMERMANN STAHLHANDEL GMBH	ZIMM		9 893
VEREINIGTE BIEGEGESELLSCHAFT GMBH	VERBIE		2 839

### III. BUSINESS

According to our organizational chart our business structure has been divided into four divisions:

1. *scrap division* –includes activities of buying, processing, refining and selling of scrap metal and non-ferrous scrap;
2. *production division* –includes activities of processing scrap metal into steel billets, steel billets into finished products, and selling of them; and also the processing of non-ferrous scrap into finished products and selling of them;
3. *distribution division* –includes activities of selling commodities (steel products, steel billets, non-ferrous products and others);
4. *other* – this segment includes other activities such as holding activities, financial activities, recycling materials, including plastic foils, paper and other products.

However in order to present clearly and consistently our primary activities we are also analyzing our operations across the following segments:

- *scrap metal segment* which includes sourcing and processing of ferrous scrap metal which is then used internally or sold to external customers,
- *semi-finished products segment* including production of steel billets which are partly used internally and partly sold to external customers,
- *finished products segment* which includes production of finished steel products and sales of bulk product to external customers or our distribution companies as well as sourcing of steel products from external suppliers and selling them through distribution network.
- *other segment* consists primarily of non-ferrous activities of the Group including sourcing and trade in non-ferrous scrap metal, production and sales of non-ferrous products, recycling of paper and plastics, financial services and other.

#### 1. Scrap Metal Segment

We are the largest scrap traders in Poland with our market share in scrap purchases (excluding purchases by HSJ) at approximately 12%. Scrap operations are conducted by Złomrex Metal sp. z o.o. (ZLMET). Some scrap sourcing activities are also conducted by HSW-HSJ S.A. (HSJ) and ZJEL entirely for purpose of their own steel production.

We own a widespread network of 19 scrap branches located close to sources of scrap metal in Poland. They are equipped with all facilities necessary to collect, process and ship scrap metal.

In 2009 we purchased 524,606 tonnes of scrap metal which is less by 392,063 tonnes and 42,8% in comparison to 2008.



SCRAP METAL		Y 2009	Y 2008	Y 2007	Y 2006	Y 2005
<b>PURCHASES FROM EXTERNAL SUPPLIERS</b>						
	<i>Tones</i>					
ZLOM		0	0	449 899	712 153	691 493
FERR		86 839	0	0	0	0
ZLMET		351 289	608 717	235 780	N/C	N/C
HSJ		77 474	195 866	194 786	170 267	N/C
ZJEL		7 898	108 665	N/C	N/C	N/C
OTHER		1 106	3 421	0	0	19
<b>INTERNAL USE</b>						
	<i>Tones</i>					
ZLOM		0	0	432 506	389 596	393 619
FERR		286 700	415 354	0	0	0
ZLMET		0	170 374	0	N/C	N/C
HSJ		111 849	247 955	279 892	216 520	N/C
ZJEL		9 187	106 366	N/C	N/C	N/C
<b>SALES TO EXTERNAL CUSTOMERS</b>						
	<i>Tones</i>					
ZLOM		0	2	137 217	297 484	297 874
ZLMET		92 516	174 589	57 772	N/C	N/C
HSJ		0	0	0	0	N/C
OTHER		1 841	2 747	0	0	19
<b>SALES</b>						
	<i>'000 PLN</i>					
CONSOLIDATED		56 309	171 024	150 302	213 974	187 987
<b>TOTAL PURCHASES in TONES</b>		<b>524 606</b>	<b>916 669</b>	<b>880 465</b>	<b>882 420</b>	<b>691 512</b>
<b>TOTAL INTERNAL USE in TONES</b>		<b>407 736</b>	<b>819 537</b>	<b>712 398</b>	<b>606 116</b>	<b>393 619</b>
<b>TOTAL SALES in TONES</b>		<b>94 357</b>	<b>177 338</b>	<b>194 989</b>	<b>297 484</b>	<b>297 893</b>
<b>TOTAL SALES in '000 PLN</b>		<b>56 309</b>	<b>171 024</b>	<b>150 302</b>	<b>213 974</b>	<b>187 987</b>

## 2. Semi-Finished Products Segment

With 344,9 thousand tones of crude steel produced by the Group in 2009 in Poland we had 4,8% share in Polish steel production which reached 7,208 tones last year<sup>1</sup>. Billets purchased externally and majority of our production of semi-finished products is further rolled by our rolling mills. However, a considerable portion of our billets was sold to external customers in Poland and abroad – 136,1 thousand tones. Our share in Polish billet sales market is approximately 25%<sup>2</sup>.

<sup>1</sup> Source: IISI

<sup>2</sup> Source: Złomrex

We own three steel mills. Two of them are located in Poland: Ferrostal Łabędy sp. z o.o. (FERR) in Gliwice and HSW – Huta Stali Jakościowych S.A. (HSJ) in Stalowa Wola. In 2007 we acquired Żelazara Split d.d. (ZJEL) in Kastel Sukurac in Croatia.

CAPACITIES & PRODUCTION 2009		CAPACITY	PRODUCTION	UTYLISATION		
		Tones				
FERR		375 000	248 823	66,4%		
HSJ		261 000	96 036	36,8%		
ZJEL		185 000	1 421	0,8%		
BILLETS	Y 2009	Y 2008	Y 2007	Y 2006	Y 2005	
PURCHASES						
EXTERNAL SOURCES	Tones	1 922	17 895	33 353	129 930	39 483
PRODUCTION						
FERR <sup>1</sup>	Tones	248 823	382 574	378 386	350 502	336 967
HSJ <sup>2</sup>		96 035	212 677	243 925	171 475	N/C
ZJEL		1 430	89 110	N/C	N/C	N/C
INTERNAL USE						
ZLOM	Tones	0	203 478	225 390	281 930	205 389
FERR		115 166	0	0	0	0
HSJ		95 648	195 642	221 168	162 809	N/C
ZJEL		1 421	89 056	N/C	N/C	N/C
SALES TO EXTERNAL CUSTOMERS						
ZLOM	Tones	129	136 991	181 762	198 502	171 061
FERR		133 657	40 966	0	0	0
HSJ		2 309	17 035	22 757	8 666	N/C
STX		0	19 034	4 587	N/C	N/C
ZJEL		9	54	N/C	N/C	N/C
COG		15	0	N/C	N/C	N/C
SALES						
CONSOLIDATED	'000 PLN	178 520	430 505	349 537	307 290	237 261
TOTAL PURCHASES in TONES		1 922	17 895	33 353	129 930	39 483
TOTAL PRODUCTION In TONES		346 288	684 361	622 311	521 977	336 967
TOTAL INTERNAL USE in TONES		212 235	488 176	446 558	444 739	205 389
TOTAL SALES in TONES		136 119	214 080	209 106	207 168	171 061
TOTAL SALES in '000 PLN		178 520	430 505	349 537	307 290	237 261

<sup>1</sup> FERR consolidated since March 2004. Jan-Feb 2004 production stood at 51,173 tonnes

<sup>2</sup> HSJ consolidated since February 2006. Jan 2006 production stood at 13,738 tonnes

### 3. Finished Products Segment

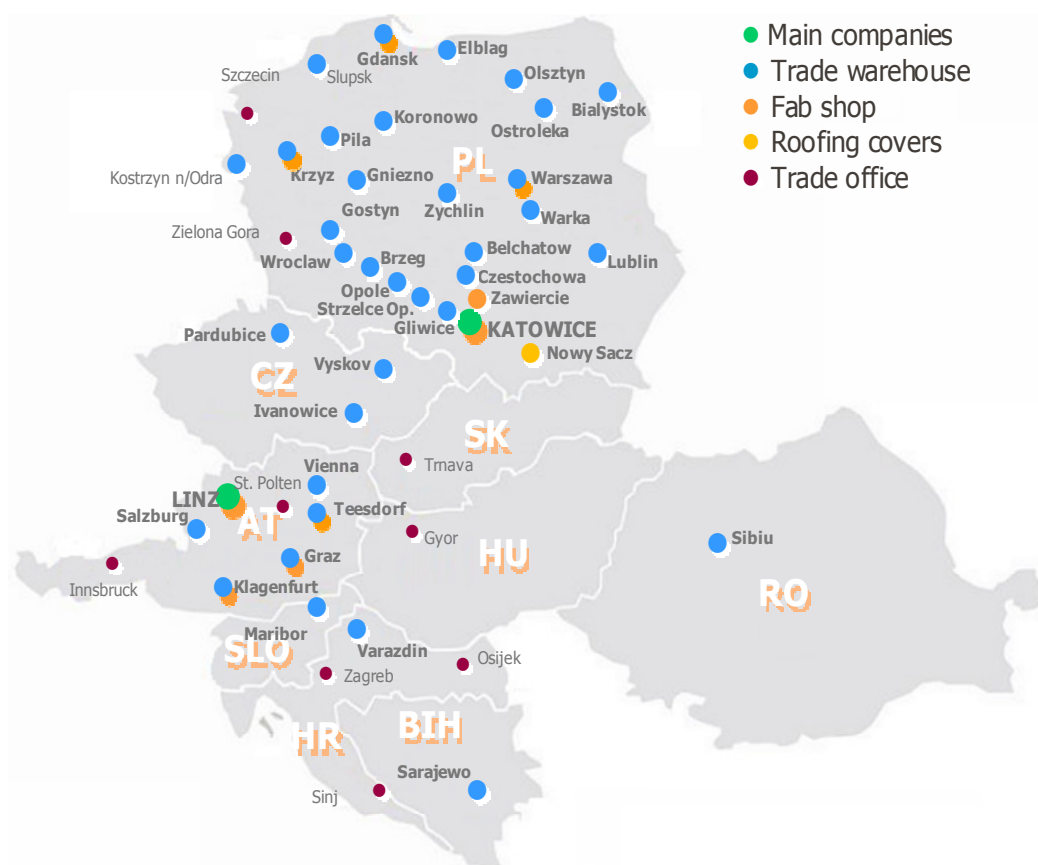
Finished products segment consists of production, purchase, wholesale and retail distribution of finished products.

The Group has rolling capacities in three locations in Poland and one in Croatia.

CAPACITIES & PRODUCTION 2009	CAPACITY	PRODUCTION	UTYLISATION
<i>Tones</i>			
ZWWB			
- flat bars	198 000	66 549	33,6%
FERR			
- rebars and plain bars	95 000	33 472	35,2%
HSJ			
- bars	178 000	58 564	32,9%
- sheets	100 800	38 982	38,7%
ZJEL			
- rebars an plain bars	200 000	1 475	0,7%

Considerable part of the Group's production is sold from the plant's warehouse straight to our customers. Part of the manufactured products is sold via our Distribution Division. In 2009 it was 39,5 thousand tones. The remaining part was purchased directly to our external customers in large quantities.

Złomrex has created one of the biggest distribution networks in Central and Eastern Europe with leading position in Austria, Poland and with strong presence in other countries in the region. The network operates 36 warehouses and sources finished products primarily from external suppliers.



FINISHED PRODUCTS		Y 2009	Y 2008	Y 2007	Y 2006	Y 2005
<b>PRODUCTION</b>						
	<i>Tones</i>					
ZWWB		66 549	128 478	119 692	136 673	80 891
FERR <sup>1</sup>		33 472	69 510	76 228	92 156	86 986
HSJ <sup>2</sup>		97 546	179 251	197 598	158 277	N/C
ZJEL		1 475	95 411	N/C	N/C	N/C
<b>SALES OF PRODUCTION TO DISTRIBUTION</b>						
	<i>Tones</i>					
ZLOM		62	44 306	44 532	21 832	0
HSJ		7 425	10 380	12 281	8 894	N/C
FERR		31 188	24 688	0	0	0
ZJEL		809	0	N/C	N/C	N/C
<b>SALES TO EXTERNAL CUSTOMERS</b>						
	<i>Tones</i>					
ZLOM		24	108 915	175 856	236 657	217 976
FERR		108 419	49 640	0	0	0
HSJ		85 529	161 719	174 030	146 701	N/C
ZJEL		10 109	92 587	N/C	N/C	N/C
COG						
- retail		95 972	55 720	63 446	39 605	N/C
- bulk product		6 853	1 729	1 095	589	N/C
CGÓR						
- retail		N/C	51 944	61 565	53 530	N/C
- bulk product		N/C	2 278	1 700	800	N/C
COPO						
- retail		N/C	11 714	19 325	5 600	N/C
- bulk product		N/C	12 651	23 830	10 500	N/C
STX <sup>3</sup>						
- retail		30 184	109 246	19 195	N/C	N/C
- bulk product		2 320	46 051	19 421	N/C	N/C
COGAT <sup>4</sup>						
- retail		227 890	346 872	211 032	N/C	N/C
- bulk product		72 597	139 771	119 453	N/C	N/C
OTHER						
- retail		9 194	23 365	22 008	3 085	N/C
<b>SALES</b>						
	<i>'000 PLN</i>					
CONSOLIDATED		1 618 626	3 326 242	2 472 435	1 063 269	368 601
<b>TOTAL PRODUCTION in TONES</b>		<b>199 042</b>	<b>472 650</b>	<b>393 518</b>	<b>387 106</b>	<b>167 877</b>
<b>TOTAL RETAIL SALES in TONES</b>		<b>363 240</b>	<b>598 861</b>	<b>396 571</b>	<b>101 820</b>	<b>0</b>
<b>TOTAL BULK PRODUCT SALES in TONES</b>		<b>285 851</b>	<b>615 341</b>	<b>515 385</b>	<b>395 247</b>	<b>217 976</b>
<b>TOTAL SALES in '000 PLN</b>		<b>1 618 626</b>	<b>3 326 242</b>	<b>2 472 435</b>	<b>1 063 269</b>	<b>368 601</b>

<sup>1</sup> FERR consolidated since March 2004. Jan-Feb 2004 production stood at 4,701 tonnes

<sup>2</sup> HSJ consolidated since February 2006. Jan 2006 production stood at 12,687 tonnes

<sup>3</sup> STX in 2007 consolidated in Q4.

<sup>4</sup> COGAT (VASTH) in 2007 consolidated in Q2-Q4

In 2009 our Distribution Division sold total of 435,816 tones of finished products. This is less than in 2008 by 342,160 tones and 44%.

Last year apparent use of finished products in Poland was at 8,0 million tones<sup>1</sup>. In this quantity 53% was flat products consumption and 47% related to long products, including tubes<sup>1</sup>. In Poland only approximately 22% of finished products are traded via distribution networks<sup>1</sup>. Therefore, we estimate our share in overall steel product sales in Poland at 4,2% and at 8,2% within distribution market.

In Austria our share is more significant with roughly 25% in distribution market which gives us leading position there.

In other countries of the region we hold smaller market shares.

#### 4. Other Segment

The segment consists of sourcing and trade in non-ferrous scrap metal, production and sales of non-ferrous products, recycling of paper and plastics, financial services and other.

We view the segment as peripheral and so we don't concentrate on its activities. In 2009 the segment generated PLN 116,358 thousand of revenues.



#### **IV. PRO FORMA STATEMENT**

Due to lack of acquisitions in 2009 pro forma statement has not been prepared

#### **V. 2009 analyses and 2010 outlook**

The crisis which have been developing since Q3 2008 had an extremely destructive effect on 2009 results. However we see significant signs of recovery with sales and profitability increasing. The key task for the Company will be to improve its short term liquidity in order to benefit from the growing market. Assuming we will succeed in providing new liquidity sources we expect to be able to bring the Group's results into positive territory.

#### **VI. Liquidity**

Złomrex has put indebtedness reduction and short term liquidity management at the top of its agenda. Short term indebtedness has gone below PLN 300 million. We have stopped any expansionary capital expenditures and concentrated on further optimizing of our working capital needs. Thanks to integration of our businesses we have also identified a number of non-operational or non-core assets, including real property. In 2009 we conducted a number of transactions and will continue sale of such assets. Company has advanced in further asset sales and already received binding offers pertaining to some of its significant assets and properties. We will assess all those offers and will decide on the most optimal solution from the perspective of the Groups' future operations. In any case the chosen transaction will result in appropriate reduction of the Group's short term indebtedness.

Złomrex maintains close contact with our major bank lenders which have so far been financing the Company. They are aware of the ways available to Złomrex with respect to management of short term refinancing risk and continue the so far support by consecutive extension of the credit facilities.

#### **VII. Corporate Governance**

In 2009 there were no major changes to the management of the Company. No changes to the Supervisory Board occurred. Some management changes occurred at subsidiaries level.

#### **VIII. Related Party Transactions and Indebtedness**

Related Party Transactions and Indebtedness are described in details in the respective sections of our 2009 financial statement.