



August 30, 2010

Q2 2010 - Management Discussion and Analysis

ZŁOMREX S.A. (Złomrex, the Company, the Group) improved its performance in the second quarter of 2010. The reported numbers reflect better market conditions with demand and prices increasing. Although improved the numbers remain far from satisfactory in the opinion of the Company's Management.

In the report Złomrex has decided to qualify material part of its assets as assets held for sale. In addition to the non-core, non-operational and disposal group of assets which have been previously presented as put on sale a significant group of other assets (the Assets) which relate to the Group's distribution operations in Poland has been included. The decision to reclassify the Assets has been taken because in the Company's Management opinion divestiture of those Assets (the Transaction) is likely however its finalization is subject to: (i) the successful closing of pending negotiations with respect to the Transaction documentation, (ii) the consent of competent corporate bodies including Złomrex's Supervisory Board and the shareholders' meeting of Cognor S.A.,

Based on the received offers the Company assumes that any Transaction related to the Assets will be closed at the price level exceeding its current book value. The proceeds will be used for the purpose of working capital financing and short-term indebtedness reduction. Application of funds will be conducted according to the covenants included in the Company's EUR 170 million senior note's documentation (the Indenture).

In this report income statement figures for comparable periods (Q1 2010 and Q2 2009) have been restated accordingly due to above mentioned reclassification of assets.

I. Reported Statement

1. Income Statement (continued operations)

In Q2 2010 the Group's revenues rose by 42,2% and gross profit increased by 383,4% compared to Q2 2009. In comparison to Q1 2010 both revenues and gross profit improved substantially by 44,5% and 273,1% respectively. EBITDA stood at PLN 29 645 thousand and EBIT was positive for the first time since Q3 2008. In comparison to Q2 2009 revenues improved primarily due to an increase in sold quantities of scrap, billets and finished products respectively by: 106,7%, 22,6% and 3,9%.

The Company saw positive results at gross profit and EBIT levels mainly due to an increase in production and sales margins. Net result was adversely affected by higher financing costs resulting from weakening zloty which brought PLN 35,513 thousand of net foreign exchange loss related to the Company's indebtedness in Q2 2010. Those foreign exchange costs resulted in loss for the period at the level PLN (-) 19,047 thousand.

INCOME STATEMENT		Q2 2010	Q1 2010	Q2 2009
	'000 PLN			
Revenue		531 338	367 697	373 622
Cost of sales		-461 117	-348 877	-359 095
Gross profit		70 221	18 820	14 527
Other income		7 395	3 852	7 876
Distribution expenses		-39 174	-23 037	-30 237
Administrative expenses		-18 070	-20 271	-29 741
Other gains/losses net		2 146	13 493	565
Other expenses		-5 117	-4 378	-31 758
EBIT		17 401	-11 521	-68 768
Financial income		-19 434	21 113	57 771
Financial expenses		-28 927	-17 366	7 290
Net financing costs		-48 361	3 747	65 061
Share of profits of associates		608	-75	276
Profit before tax		-30 352	-7 849	-3 431
Income tax expense		21 018	-15 090	15 703
Profit/loss from discontinued operations		-9 713	7 292	-6 957
Profit for the period		-19 047	-15 647	5 315
Depreciation and amortization		12 244	17 205	18 215
EBITDA		29 645	5 684	-50 553

EXCHANGE RATES		June-2010	March-2010	June-2009
	PLN			
EUR/PLN		4,15	3,86	4,47
% change		7,5%		
USD/PLN		3,39	2,87	3,17
% change		18,1%		

2. Balance Sheet

Total assets decreased in comparison to Q2 2009 and slightly increased compared to Q1 2010. Non-current assets decreased primarily as a result of sales of non-core or non-operational assets and as a result of reclassification of certain assets as assets held for sale (this primarily relates to the Assets). Current assets increased in comparison to Q1 2010 due to higher sales and and due to reclassification of the Assets

ASSETS		Q2 2010	Q1 2010	Q2 2009
	'000 PLN			
A. TOTAL NON-CURRENT ASSETS		725 708	792 030	917 637
I. Intangible assets		39 930	40 558	46 036
II. Property, plant and equipment		582 605	645 119	742 896
III. Other receivables		2 339	11 274	1 386
IV. Investment property and other investments		14 731	5 278	37 032
V. Prepaid perpetual usufruct of land		19 284	46 007	57 414
VI. Deferred tax assets		66 819	43 794	32 873

B. TOTAL CURRENT ASSETS	718 884	541 110	786 477
I. Inventories	260 868	255 046	412 504
II. Other investments	5 790	5 305	1 601
III. Receivables	315 757	267 370	333 061
1. Trade and other receivables	315 629	264 312	330 684
2. Income tax receivable	128	3 058	2 377
IV. Cash and cash equivalents	14 872	13 389	31 408
V. Assets classified as held for sale	121 597	0	7 903
C. Assets and disposal group of assets classified as held for sale	222 294	223 065	266 201
TOTAL ASSETS	1 666 886	1 556 205	1 970 315

Net debt decreased by PLN 130,033 thousand in comparison to Q2 2009 as a result of indebtedness repayment and stronger zloty against the euro. In comparison to March,31 2010 net indebtedness increased by PLN 31,934 thousand primarily due to weaker zloty against the euro in the period. This factor was partially offset by repayment of certain indebtedness.

EQUITY AND LIABILITIES	Q2 2010	Q1 2010	Q2 2009
	<i>'000 PLN</i>		
A. EQUITY	247 280	220 141	432 785
I. Issued share capital	47 691	47 691	47 691
II. Reserves and retained earnings	86 944	84 874	263 050
III. Minority interest	112 645	87 576	122 044
B. LIABILITIES	1 244 468	1 183 289	1 384 997
I. Non-current liabilities	599 867	557 284	701 839
1. Interest-bearing loans and borrowings	541 656	501 277	597 284
2. Employee benefits	39 475	37 108	48 414
3. Other payables	912	0	35 230
4. Deferred government grants and other deferred income	1 834	2 174	2 906
5. Deferred tax liabilities	15 990	16 725	18 005
II. Current liabilities	644 601	626 005	683 158
1. Interest-bearing loans and borrowings	159 357	157 468	218 265
2. Trade payables	364 845	349 936	318 378
3. Bank overdraft	105 103	113 954	137 136
4. Income tax payable	327	300	5 157
5. Employee benefits	6 051	1 690	2 287
6. Provisions for payables	1 162	801	165
III. Deferred income	7 756	1 856	1 770
C. Liabilities of disposal group classified as held for sale	175 138	152 775	152 533
TOTAL EQUITY AND LIABILITIES	1 666 886	1 556 205	1 970 315

3. Cash flow (continued operations)

The Group had positive cash flows from operations primarily due to positive operating result. This was partially offset by negative working capital flow at PLN (-) 43,6 million. Cash flow from investing activities was negative at PLN (-) 10,8 million and financing cash flow was positive at PLN 2,6 million due to the proceeds from transactions with non-controlling interests .

CASH FLOW		Q2 2010	Q1 2010	Q2 2009
	'000 PLN			
A. FROM OPERATING ACTIVITIES		19 104	10 691	57 537
B. FROM INVESTING ACTIVITIES		-10 775	15 772	101 495
C. FROM FINANCING ACTIVITIES		2 644	-29 850	-176 002
NET INCREASE IN CASH		10 973	-3 387	-16 970

II. Main Metrics

The Company's performance and reclassification of the Assets had the following effect on main financial ratios.

MAIN METRICKS	Q2 2010	Q1 2010	Q2 2009
Liquidity ratio	1,12	0,86	1,15
Quick ratio	0,71	0,46	0,55
Inventories turnover (days)	51	66	103
Receivables turnover (days)	53	65	80
EBITDA margin	5,6%	1,5%	-13,5%
Net profit margin	-3,6%	-12,5%	1,4%
Equity	247 280	220 141	432 785
Net debt	791 244	759 310	921 277

III. Liquidity

The Group maintains its liquidity relying on the ongoing support of the short-term bank lenders. Złomrex expects that transactions related to assets qualified as held for sale will shortly bring substantial proceeds and therefore enable the Company to address its short-term refinancing risk.