



November 29, 2010

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## Q3 2010 - Management Discussion and Analysis

ZŁOMREX S.A. (Złomrex, the Company, the Group) has improved its performance in the third quarter of 2010 in comparison to 2009. In comparison to the previous quarter the Group's performance looks weaker although Q3 2010 saw positive quarterly net result for the first time since Q2 2009. The reported numbers reflect improved market conditions with positive results at EBIT, EBITDA and net result levels. However, the Company's Management regards the current performance as still very far from satisfactory.

In the Management's opinion the most important reason behind weak performance is inadequate liquidity which results in lower than possible capacities' utilization. This affects adversely production costs and limits expansion in scrap trading as well as steel distribution business. Therefore, liquidity issue has been at the top of the Company's agenda for the few last quarters.

Until recently the efforts aimed at liquidity improvement have failed to bring significant impact on Złomrex's operations. With the transaction on sale of Polish distribution assets, which has been reported on November 26, 2010 (the Transaction) the Company believes its indebtedness should further be reduced and the level of working capital significantly improved.

As a result of the Transaction the Group will divest its network of 13 warehouses covering the whole area of Poland and will have to refrain from conducting distribution activities here for a period of 3 years. Limitations do not affect any sales of Złomrex products and pursuant to the new distribution agreement the Company will receive access to the steel distribution network of Arcelor Mittal in Poland. The cash proceeds are significant enough to reduce refinancing risk and to improve short term liquidity in order to increase utilization of capacities.

### I. Reported Statement

#### 1. Income Statement (continued operations)

The Group's revenues rose by 23,0% and gross profit increased by 88,9% compared to Q3 2009. In comparison to Q2 2010 both revenues and gross profit deteriorated by 1,0% and 29,8% respectively. EBITDA stood at PLN 15 437 thousand and EBIT was positive for a second consecutive quarter. In comparison to Q3 2009 revenues improved primarily due to an increase in sold quantities of billets and finished products respectively by: 73,7% and 17,3% which was partially offset by a decrease in scrap sales by 19,7%.

The Company saw positive results at gross profit and EBIT levels mainly due to an increase in production and sales margins. Profit for the period was positive for the first time since Q2 2009. This was mainly due to development of EUR/PLN exchange rate bringing total of PLN 14,008 thousand of net foreign exchange gains in Q3 2010.

EXCHANGE RATES	Sep-2010	June-2010	Sep-2009
	PLN		
EUR/PLN	3,99	4,15	4,22
% change	-4%		
USD/PLN	2,92	3,39	2,89
% change	-14%		

INCOME STATEMENT	Q3 2010	Q2 2010	Q1 2010	Q3 2009
	'000 PLN			
Revenue	526 482	531 338	367 697	427 884
Cost of sales	-477 175	-461 117	-348 877	-401 780
<b>Gross profit</b>	<b>49 307</b>	<b>70 221</b>	<b>18 820</b>	<b>26 104</b>
Other income	4 689	7 395	3 852	3 679
Distribution expenses	-30 957	-39 174	-23 037	-18 083
Administrative expenses	-20 832	-18 070	-20 271	-39 508
Other gains/losses net	6 245	2 146	13 493	8 782
Other expenses	-7 184	-5 117	-4 378	-4 309
<b>EBIT</b>	<b>1 268</b>	<b>17 401</b>	<b>-11 521</b>	<b>-23 335</b>
Financial income	5 047	-19 434	21 113	13 006
Financial expenses	-6 422	-28 927	-17 366	4 814
<b>Net financing costs</b>	<b>-1 375</b>	<b>-48 361</b>	<b>3 747</b>	<b>17 820</b>
Share of profits of associates	-65	608	-75	569
<b>Profit before tax</b>	<b>-172</b>	<b>-30 352</b>	<b>-7 849</b>	<b>-4 946</b>
Income tax expense	-2 039	21 018	-15 090	2 045
Profit/loss from discontinued operations	6 811	-9 713	7 292	-54 155
<b>Profit for the period</b>	<b>4 600</b>	<b>-19 047</b>	<b>-15 647</b>	<b>-57 056</b>
Depreciation and amortization	14 169	12 244	17 205	12 537
<b>EBITDA</b>	<b>15 437</b>	<b>29 645</b>	<b>5 684</b>	<b>-10 798</b>

## 2. Balance Sheet

Total assets increased in comparison to Q3 2009 and slightly decreased compared to Q2 2010. Non-current assets decreased primarily as a result of sales of non-core or non-operational assets and in comparison to Q3 2009 as a result of reclassification of certain assets as assets held for sale. Current assets stood on the same level in comparison to Q2 2010.

ASSETS	Q3 2010	Q2 2010	Q1 2010	Q3 2009
	'000 PLN			
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>709 697</b>	<b>725 708</b>	<b>792 030</b>	<b>830 700</b>
I. Intangible assets	38 355	39 930	40 558	42 175
II. Property, plant and equipment	566 597	582 605	645 119	667 965
III. Other receivables	2 760	2 339	11 274	3 295
IV. Investment property and other investments	18 369	14 731	5 278	14 044
V. Prepaid perpetual usufruct of land	19 193	19 284	46 007	46 023
VI. Deferred tax assets	64 423	66 819	43 794	57 198
<b>B. TOTAL CURRENT ASSETS</b>	<b>597 477</b>	<b>597 287</b>	<b>541 110</b>	<b>503 489</b>

<b>I. Inventories</b>	<b>259 565</b>	<b>260 868</b>	<b>255 046</b>	<b>256 901</b>
<b>II. Other investments</b>	<b>1 407</b>	<b>5 790</b>	<b>5 305</b>	<b>5 536</b>
<b>III. Receivables</b>	<b>310 816</b>	<b>315 757</b>	<b>267 370</b>	<b>208 556</b>
1. Trade and other receivables	310 630	315 629	264 312	205 453
2. Income tax receivable	186	128	3 058	3 103
<b>IV. Cash and cash equivalents</b>	<b>25 689</b>	<b>14 872</b>	<b>13 389</b>	<b>32 496</b>
<b>C. Assets and disposal group of assets classified as held for sale</b>	<b>319 344</b>	<b>343 891</b>	<b>223 065</b>	<b>239 053</b>
<b>TOTAL ASSETS</b>	<b>1 626 518</b>	<b>1 666 886</b>	<b>1 556 205</b>	<b>1 573 242</b>

Net debt decreased by PLN 54,578 thousand in comparison to Q3 2009 primarily due to stronger zloty against the euro and due to repayment of indebtedness. In comparison to June 31, 2010 net indebtedness went down by PLN 43,307 with the same factors behind the decrease.

<b>EQUITY AND LIABILITIES</b>	<b>Q3 2010</b>	<b>Q2 2010</b>	<b>Q1 2010</b>	<b>Q3 2009</b>
	<i>'000 PLN</i>			
<b>A. EQUITY</b>	<b>238 843</b>	<b>247 280</b>	<b>220 141</b>	<b>250 998</b>
I. Issued share capital	47 691	47 691	47 691	47 691
II. Reserves and retained earnings	82 542	86 944	84 874	111 355
III. Minority interest	108 610	112 645	87 576	91 952
<b>B. LIABILITIES</b>	<b>1 211 825</b>	<b>1 244 468</b>	<b>1 183 289</b>	<b>1 167 312</b>
<b>I. Non-current liabilities</b>	<b>573 453</b>	<b>599 867</b>	<b>557 284</b>	<b>592 043</b>
1. Employee benefits	39 094	39 475	37 108	39 057
2. Interest-bearing loans and borrowings	520 447	541 656	501 277	534 267
3. Other payables	845	912	0	115
4. Deferred government grants and other deferred income	1 608	1 834	2 174	2 409
5. Deferred tax liabilities	11 459	15 990	16 725	16 195
<b>II. Current liabilities</b>	<b>638 372</b>	<b>644 601</b>	<b>626 005</b>	<b>575 269</b>
1. Interest-bearing loans and borrowings	134 042	159 357	157 468	170 056
2. Other financial liabilities	9 475	0	0	1 145
3. Trade payables	378 474	364 845	349 936	271 030
4. Bank overdraft	109 662	105 103	113 954	129 543
5. Income tax payable	706	327	300	323
6. Employee benefits	4 711	6 051	1 690	2 338
7. Provisions for payables	1 302	1 162	801	834
<b>III. Deferred income</b>	<b>0</b>	<b>7 756</b>	<b>1 856</b>	<b>0</b>
<b>C. Liabilities of disposal group classified as held for sale</b>	<b>175 850</b>	<b>175 138</b>	<b>152 775</b>	<b>154 932</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 626 518</b>	<b>1 666 886</b>	<b>1 556 205</b>	<b>1 573 242</b>

### 3. Cash flow (continued operations)

The Group had slightly negative cash flows from operating activities. Cash from investing activities was positive mainly due to the proceeds from sale of property and financing cash flow was negative primarily due to interest expense paid.

<b>CASH FLOW</b>	<b>Q3 2010</b>	<b>Q2 2010</b>	<b>Q1 2010</b>	<b>Q3 2009</b>
<i>'000 PLN</i>				
<b>A. FROM OPERATING ACTIVITIES</b>	<b>-3 762</b>	<b>19 104</b>	<b>10 691</b>	<b>52 500</b>
<b>B. FROM INVESTING ACTIVITIES</b>	<b>27 765</b>	<b>-10 775</b>	<b>15 772</b>	<b>19 908</b>
<b>C. FROM FINANCING ACTIVITIES</b>	<b>-18 145</b>	<b>2 644</b>	<b>-29 850</b>	<b>-26 573</b>
<b>NET INCREASE IN CASH</b>	<b>5 858</b>	<b>10 973</b>	<b>-3 387</b>	<b>45 835</b>

## II. Main Metrics

The Company's performance had the following effect on main financial ratios.

<b>MAIN METRICS</b>	<b>Q3 2010</b>	<b>Q2 2010</b>	<b>Q1 2010</b>	<b>Q3 2009</b>
Liquidity ratio	0,94	0,93	0,86	0,88
Quick ratio	0,53	0,52	0,46	0,43
Inventories turnover (days)	49	51	66	64
Receivables turnover (days)	53	53	65	50
EBITDA margin	2,9%	5,6%	1,5%	-13,5%
Net profit margin	0,9%	-3,6%	-4,3%	1,4%
Equity	238 843	247 280	220 141	250 998
Net debt	747 937	791 244	759 310	802 515

## III. Liquidity

The Group has been able to manage its short-term liquidity by maintaining positive relations with the lenders including ongoing support of the banks. The Company's Management views the Transaction with Arcelor Mittal as a necessary step providing Złomrex with a viable chance to stabilize its liquidity and to increase working capital. The proceeds are expected to appear in Q1 2011.