



May 28, 2010

Q1 2010 - Management Discussion and Analysis

ZŁOMREX S.A. (Złomrex, the Company, the Group) improved its performance in the first quarter of 2010. The reported numbers reflect better market conditions with slight demand growth and prices increase.

I. Reported Statement

1. Income Statement (continued operations)

In Q1 2010 the Group's revenues fell by 24,5%, gross profit increased by 122,5% and EBITDA was positive at PLN 398 thousand. Sales decreased but results from operations were considerably better compared to Q1 2009. Revenues contracted primarily due to decrease in sold quantities of scrap and finished products respectively by: 46,6%, 22,3%. This was partially offset by better sales in semi-finished products segment which rose by 87,4%. Profitability was changed positively primarily due to an increase in production and sales margins. Although slightly supported by currency gains related to indebtedness net result was still negative. EBITDA turned positive for the first time since Q3 2008.:

INCOME STATEMENT	Q1 2010	Y 2009	Q1 2009
	<i>'000 PLN</i>		
Revenue	423 529	1 969 813	561 243
Cost of sales	-399 973	- 1 933 190	-550 658
Gross profit	23 556	36 623	10 585
Other income	4 148	24 186	14 331
Distribution expenses	-25 991	-161 392	-37 423
Administrative expenses	-26 483	-112 398	-39 822
Other gains/losses net	13 493	-21 465	-8 390
Other expenses	-5530	-44 000	-3 101
EBIT	-16 807	-278 446	-63 820
Financial income	22 141	100 722	27 525
Financial expenses	-16 039	-84 891	-84 896
Net financing costs	6 102	15 831	-57 371
Share of profits of associates	-75	-2 170	-1 021
Profit before tax	-10 780	-264 785	-122 212
Income tax expense	-14 688	35 723	-57
Profit/loss from discontinued operations	9 821	-60 178	-12 433
Profit for the period	-15 647	-289 240	-134 702
Depreciation and amortization	17 205	-73 051	18 594
EBITDA	398	-205 395	-45 226

EXCHANGE RATES	March-2010	Dec-2009
PLN		
EUR/PLN	3,86	4,11
% change	-6%	-13%
USD/PLN	2,87	2,85
% change	1%	-19%

2. Balance Sheet

Total assets decreased in comparison to Q1 2009. Non-current assets decreased primarily as a result of sales of non-core or non-operational assets. Current assets decreased mostly due to decrease in inventories and receivables resulting from lower sales.

ASSETS	Q1 2010	Y 2009	Q1 2009
	<i>'000 PLN</i>		
A. TOTAL NON-CURRENT ASSETS	792 030	830 700	997 963
I. Intangible assets	40 558	42 175	47 085
II. Property, plant and equipment	645 119	667 965	817 849
III. Other receivables	11 274	3 295	1 556
IV. Investment property and other investments	5 278	14 044	43 949
V. Prepaid perpetual usufruct of land	46 007	46 023	58 976
VI. Deferred tax assets	43 794	57 198	28 548
B. TOTAL CURRENT ASSETS	541 110	742 542	971 280
I. Inventories	255 046	256 901	540 676
II. Other investments	5 305	5 536	1 856
III. Receivables	267 370	208 556	375 907
1. Trade and other receivables	264 312	205 453	370 987
2. Income tax receivable	3 058	3 103	4 920
IV. Cash and cash equivalents	13 389	32 496	47 138
V. Assets classified as held for sale	0	0	5 703
C. Assets and disposal group of assets classified as held for sale	223 065	239 053	277 462
TOTAL ASSETS	1 556 205	1 573 242	2 246 705

Indebtedness decreased by PLN 333,819 thousand in comparison to Q1 2009 as a result of bonds' repurchase and cancellation, repayment of certain indebtedness and stronger zloty. In comparison to December,31 2009 indebtedness decreased further by PLN 61,167 thousand.

EQUITY AND LIABILITIES	Q1 2010	Y 2009	Q1 2009
	<i>'000 PLN</i>		
A. EQUITY	220 141	250 998	449 727
I. Issued share capital	47 691	47 691	47 691
II. Reserves and retained earnings	84 874	111 355	248 860
III. Minority interest	87 576	91 952	153 176
B. LIABILITIES	1 183 289	1 322 244	1 631 262
I. Non-current liabilities	557 284	592 043	872 645
1. Interest-bearing loans and borrowings	501 277	534 267	746 138
2. Employee benefits	37 108	39 057	54 775
3. Other payables	0	115	37 832
4. Deferred government grants and other deferred income	2 174	2 409	3 143
5. Deferred tax liabilities	16 725	16 195	30 757
II. Current liabilities	626 005	575 269	758 617

1. Interest-bearing loans and borrowings	157 468	170 056	240 680
2. Trade payables	349 936	226 571	382 970
3. Bank overdraft	113 954	129 543	119 700
4. Income tax payable	300	323	5 415
5. Employee benefits	1 690	2 338	2 609
6. Provisions for payables	801	834	175
III. Deferred income	1 856	1 145	2 102
C. Liabilities of disposal group classified as held for sale	152 775	154 932	165 716
TOTAL EQUITY AND LIABILITIES	1 556 205	1 573 242	2 246 705

3. Cash flow (continued operations)

The Group had positive cash flows from operations primarily due to working capital inflow at PLN 15,7 thousand and from investing activities as a result of sales of certain assets at PLN 17,4 thousand. Financial activities were use of cash due to indebtedness repayment.

CASH FLOW		Q1 2010	Q1 2009
	<i>'000 PLN</i>		
A. FROM OPERATING ACTIVITIES		10 691	-61 089
B. FROM INVESTING ACTIVITIES		15 772	-55 978
C. FROM FINANCING ACTIVITIES		-29 850	57 666
NET INCREASE IN CASH		-3 387	-59 401

II. Main Metrics

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

MAIN METRICKS	Q1 2010	Q1 2009
Liquidity ratio	0,86	1,28
Quick ratio	0,46	0,57
Inventories turnover (days)	57	88
Receivables turnover (days)	57	60
EBITDA margin	0,1%	-8,1%
Net profit margin	-3,7%	-24,0%
Equity	220 141	449 727
Net debt	759 310	1 064 346

III. Liquidity

The Group maintains its liquidity relying on the ongoing support of the short-term bank lenders. Złomrex is working on certain asset sale transactions and expects to be able to approach its refinancing risk in a more structural manner soon.