



## ZŁOMREX Q2 2011 Report

In the second quarter ZŁOMREX S.A. (Złomrex, the Company, the Group) continued the improvement in business and financial performance both as compared to Q2 2010 and to the previous quarter. Market conditions, after the improvement in Q1 2011, remained favorable with stabilization of the demand and prices. The Company saw further improvement in short-term liquidity and substantial reduction of indebtedness following closing of the sale of its domestic distribution assets.

Alongside with the positive trend regarding the Group's financials Złomrex continued its efforts aimed at completion of its internal reorganization process in order to attain the optimal corporate structure both from organizational and tax point of view. With this regard the Company completed all the critical steps by the date of this report.

The Group's Management remains dedicated to ensure continuation of positive trends in the Company's performance going forward by adjusting its business operations to the new structure after the divestment of the whole Distribution Division.

### I. Reported Statement

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

The Group's revenues rose by 39.8% compared to Q2 2010 and by 20,4% compared to Q1 2011 mostly as a result of improving shipments. Gross profit increased by 45,6% and 34,5% and EBITDA by 39,8% and 46,4% accordingly both driven by increase in sales and prices of steel products versus prices of scrap.

Net financing costs stood at PLN (-) 7.5 million only due to:

- reduction of net indebtedness (please see the balance sheet section) bringing lesser amount of interest accrued,
- PLN 4,2 million of profits on the repurchase of the Company's debt (the Dutch auction completed in June 2011 resulting in EUR 7,041 thousand of the Notes repurchased for a price of 85% of the notional),
- positive development of EUR/PLN exchange rate bringing total of PLN 3.2 thousand of net foreign exchange gains related to the Group's indebtedness.

EXCHANGE RATES	June-2011	March-2011
PLN		
EUR/PLN	3,99	4,01
% change	-0,5%	
USD/PLN	2,75	2,82
% change	-2,5%	

Income tax expense created positive contribution to the net result due to creation of deferred tax assets at the amount of PLN 33.5 million at Złomrex S.A. level. This was possible with the initiation of merger proceedings between Złomrex S.A. and HSW – Huta Stali Jakościowych S.A., which constitutes one of the steps within the internal reorganization process.

Another positive contribution to the net result came from the discontinued operations which included the profit from sale of the domestic distribution assets at the amount of PLN 71.2 million.

INCOME STATEMENT		Q2 2011	Q1 2011	Y 2010	Q2 2010	Q1 2010
	'000 PLN					
Revenue		399 714	332 073	994 465	286 005	171 645
Cost of sales		-352 832	-297 225	-927 510	-253 813	-180 218
<b>Gross profit</b>		<b>46 882</b>	<b>34 848</b>	<b>66 955</b>	<b>32 192</b>	<b>-8 573</b>
Other income		4 336	2 878	9 583	7 954	2 283
Distribution expenses		-8 618	-7 486	-33 029	-10 646	-3 142
Administrative expenses		-9 433	-9 558	-53 661	-12 606	-10 410
Other gains/(losses) – net		254	-745	10 301	4 874	9 815
Other expenses		-4 396	-3 753	-18 359	-4 364	-2 970
<b>EBIT</b>		<b>29 025</b>	<b>16 184</b>	<b>-18 210</b>	<b>17 404</b>	<b>-12 997</b>
Financial income		4 106	344	14 442	0	0
Financial expenses		-11 561	-19 878	-66 121	-27 650	-14 711
<b>Net financing costs</b>		<b>-7 455</b>	<b>-19 534</b>	<b>-51 679</b>	<b>-27 650</b>	<b>-14 711</b>
<b>Profit/Loss before tax</b>		<b>21 570</b>	<b>-3 350</b>	<b>-69 889</b>	<b>-10 246</b>	<b>-27 708</b>
Income tax expense		25 767	-4 775	-8 970	21 614	-13 180
Profit/loss for the period from discontinued operations		53 145	35 903	-88 118	-9 594	4 420
<b>Profit for the period</b>		<b>100 482</b>	<b>27 778</b>	<b>-166 977</b>	<b>1 774</b>	<b>-36 468</b>
Depreciation and amortization		-10 982	-11 148	-46 348	-11 212	-13 035
<b>EBITDA</b>		<b>40 007</b>	<b>27 332</b>	<b>28 138</b>	<b>28 616</b>	<b>38</b>

Main Group's entities made the following contribution to the consolidated results:

Q1 2011	FERR	ZW-WB	HSW-HSJ	ZLMET
Revenues	142 309	6 799	132 610	134 847
- incl. Internal	4 929	6 641	1 238	89 896
EBIT	5 964	642	12 998	3 451
EBITDA	9 764	1 003	18 347	4 908
<b>Profit for the period</b>	<b>3 831</b>	<b>522</b>	<b>10 195</b>	<b>2 961</b>
Q2 2011	FERR	ZW-WB	HSW-HSJ	ZLMET
Revenues	169 108	6 305	164 719	142 116
- incl. Internal	825	5 979	208	91 667
EBIT	6 837	380	24 587	9 101
EBITDA	10 642	740	29 931	10 422
<b>Profit for the period</b>	<b>3 979</b>	<b>288</b>	<b>18 954</b>	<b>5 379</b>

## 2. Balance Sheet

Total assets and current assets decreased in comparison to Q1 2011 and compared to 2010 yearend in particular mostly due the sale of the domestic and international distribution assets.

ASSETS	Q2 2011	Q1 2011	Y 2010	Q2 2010	Q1 2010
	<i>'000 PLN</i>				
<b>A. TOTAL NON-CURRENT ASSETS</b>	<b>470 441</b>	<b>448 662</b>	<b>463 276</b>	<b>725 708</b>	<b>792 030</b>
I. Intangible assets	18 329	19 711	20 487	39 930	40 558
II. Property, plant and equipment	362 933	369 187	377 959	582 605	645 119
III. Other receivables	244	256	241	2 339	11 274
IV. Investment property and other investments	4 610	4 051	4 164	14 731	5 278
V. Prepaid perpetual usufruct of land	18 561	19 321	19 419	19 284	46 007
VI. Deferred tax assets	65 764	36 136	41 006	66 819	43 794
<b>B. TOTAL CURRENT ASSETS</b>	<b>535 228</b>	<b>676 788</b>	<b>984 974</b>	<b>941 178</b>	<b>764 175</b>
<b>I. Inventories</b>	<b>195 466</b>	<b>218 225</b>	<b>182 640</b>	<b>260 868</b>	<b>255 046</b>
<b>II. Receivables</b>	<b>286 797</b>	<b>346 959</b>	<b>144 730</b>	<b>321 547</b>	<b>272 675</b>
1. Trade and other receivables	251 936	267 876	144 720	315 629	267 370
2. Other investments	34 861	79 083	10	5 918	5 305
<b>III. Cash and cash equivalents</b>	<b>36 250</b>	<b>9 215</b>	<b>9 337</b>	<b>14 872</b>	<b>13 389</b>
<b>IV. Assets classified as held for sale</b>	<b>16 715</b>	<b>102 389</b>	<b>103 733</b>	<b>121 597</b>	<b>223 065</b>
<b>V. Assets of disposal groups and discontinued operations</b>	<b>0</b>	<b>0</b>	<b>544 534</b>	<b>222 294</b>	<b>0</b>
<b>TOTAL ASSETS</b>	<b>1 005 669</b>	<b>1 125 450</b>	<b>1 448 250</b>	<b>1 666 886</b>	<b>1 556 205</b>

Net debt decreased very significantly - by PLN 169.4 million in comparison to 31.03.2011 - mostly due to repayment of loans and borrowings and partially due to positive development of EUR/PLN exchange rate bringing total of PLN 3.2 thousand of decrease in the Group's indebtedness. Equity has increased as a result of net profit.

EQUITY AND LIABILITIES	Q2 2011	Q1 2011	Y 2010	Q2 2010	Q1 2010
	<i>'000 PLN</i>				
<b>A. EQUITY</b>	<b>211 420</b>	<b>110 901</b>	<b>98 360</b>	<b>247 280</b>	<b>220 141</b>
I. Issued share capital	47 691	47 691	47 691	47 691	47 691
II. Reserves and retained earnings	61 281	-16 116	-28 905	86 944	84 874
III. Minority interest	102 448	79 326	79 574	112 645	87 576
<b>B. LIABILITIES</b>	<b>794 400</b>	<b>1 014 549</b>	<b>1 349 890</b>	<b>1 419 606</b>	<b>1 336 064</b>
<b>I. Non-current liabilities</b>	<b>493 582</b>	<b>528 508</b>	<b>525 281</b>	<b>599 867</b>	<b>557 284</b>
1. Employee benefits obligation	10 963	11 983	12 121	39 475	37 108
2. Interest-bearing loans and borrowings	478 040	510 240	503 222	541 656	501 277
3. Other	4 579	6 285	9 938	18 736	18 899
<b>II. Current liabilities</b>	<b>300 818</b>	<b>486 041</b>	<b>453 508</b>	<b>644 601</b>	<b>626 005</b>
1. Interest-bearing loans and borrowings	43 631	100 396	107 376	159 357	157 468
2. Bank overdraft	28 665	82 108	86 782	105 103	113 954
3. Trade payables	222 082	296 303	253 205	364 845	349 936
4. Defferd government grants and other deferred income	2 853	2 954	1 007	7 756	1 856
5. Employee benefits obligation	1 261	3 877	4 735	6 051	1 690
6. Income tax payable	1 951	0	0	327	300
7. Provisions for payables	375	403	403	1 162	801
<b>III. Liabilities of disposal group classified as held for sale</b>	<b>0</b>	<b>0</b>	<b>371 101</b>	<b>175 138</b>	<b>152 775</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 005 820</b>	<b>1 125 450</b>	<b>1 448 250</b>	<b>1 666 886</b>	<b>1 556 205</b>

### 3. Cash flow (continued operations)

The Group had negative cash flows from operating activities mainly due to working capital outflow at pln (-) 27.0 million (adjusted for the influence of the domestic distribution working capital movement). Cash from investing activities was slightly negative and financing cash flow strongly negative as well primarily due to the repayment of interest bearing loans and borrowings.

<b>CASH FLOW</b>	<b>Q2 2011</b>	<b>Q1 2011</b>	<b>Y 2010</b>
<i>'000 PLN</i>			
<b>A. FROM OPERATING ACTIVITIES</b>	<b>-23 886</b>	<b>-53 791</b>	<b>50 688</b>
<b>B. FROM INVESTING ACTIVITIES</b>	<b>-2 118</b>	<b>-704</b>	<b>8 232</b>
<b>C. FROM FINANCING ACTIVITIES</b>	<b>-97 232</b>	<b>-21 092</b>	<b>-52 096</b>
<b>NET INCREASE IN CASH</b>	<b>-123 236</b>	<b>-75 587</b>	<b>6 824</b>

## II. Main Metrics

Main metrics improved significantly in Q2 2011 mainly as a result of sale of the distribution assets as well as due to the improved results from operations.

<b>MAIN METRICS</b>	<b>Q2 2011</b>	<b>Q1 2011</b>	<b>Y 2010</b>	<b>Q2 2010</b>	<b>Q1 2010</b>
Liquidity ratio	1,72	1,18	1,19	1,15	0,98
Quick ratio	1,13	0,94	0,97	0,83	0,65
Inventories turnover (days)	50	66	72	93	127
Receivables turnover (days)	65	94	53	101	143
EBITDA margin	10,0%	8,2%	2,8%	10,0%	0,0%
Net profit margin	25,1%	8,4%	-16,8%	0,6%	-21,2%
Equity	211 420	110 901	98 360	247 280	220 141
Net debt	514 086	683 529	688 043	791 244	759 310

## III. Liquidity

The Group has improved its short-term liquidity to a satisfactory level by the divestiture of its distribution operations. We believe that the refinancing risk, which stayed one of top Company's concerns for a number of quarters, is no longer a direct threat to its ongoing operations.