



PRESS RELEASE

August 6, 2007

ZLOMREX to take over Zeljezara Split

On August 3, 2007 in Zagreb (Croatia) ZLOMREX S.A. has entered into a share purchase agreement (the "SPA") with the Croatian Privatization Found (the "CPF"). According to the SPA ZLOMREX will acquire (the "Transaction") 101,146 shares in Zeljezara Split (the "ZS", the "Split Steelworks", the "Company", the "Plant") representing 89,34% interest in the Company.

Split Steelworks consist of three main production lines:

- (i) steel melting shop producing basic grade steel billets with output capacities of 185,000 tonnes annually;
- (ii) hot rolling mill specializing in concrete reinforcing bars production with output capacities of 170,000 tonnes annually;
- (iii) cold rolling mill producing meshes and using externally purchased feedstock material;

The Plant uses electric arc furnace technology where scrap accounts for 100% of raw materials used in steel melting process. Liquid steel is further crystallized in continuous casting machine.

The Company is the only producer of rebars in Croatia. Yearly domestic consumption is over 400,000 tonnes and rising. Due to minimal utilization of capacities at ZS most of such products on Croatian market come from imports.

During 2001 and 2002 Split Steelworks underwent major technical improvements. EUR 22 million worth upgrade and a combination of other factors have eventually led the Company to critical financial situation.

Total liabilities of ZS as of May 31, 2007 consist of the following items (in million Croatian kunas):

- (i) due liabilities:
 - owed to the Republic of Croatia: 226,6;
 - owed to other creditors: 48,8;
- (ii) undue liabilities:
 - owed to the Republic of Croatia (loans): 45,4;
 - owed to other creditors including:
 - a. commercial creditors: 41,2;
 - b. bank loans: 32,8;
 - c. bank loans secured with guarantees issued by the Republic of Croatia: 156,7.

As total liabilities of the Company exceeded book value of its assets by more than KUNA 130,0 million the privatization offer submitted by ZLOMREX assumed 99,9% write-off with respect to the Company's due liabilities towards the Republic of Croatia. Respectively, the SPA provides that those liabilities will be reduced within 7 working days upon execution date (August 3, 2007).

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Purchase price for shares has been agreed at KUNA 10,1 million and will be paid within 3 working days after signing of the SPA. In addition, following the purchase price payment, ZLOMREX S.A. is also obliged in particular:

- (i) to increase the capital of the ZS by KUNA 86,0 million by December 31, 2007 and within this amount to repay all due liabilities to other than Republic of Croatia creditors (KUNA 48,8 million) not later than 60 days upon execution date;
- (ii) to make sure that the Company carries out additional investments of KUNA 114,0 million within the next 5 years ending December 31, 2011;
- (iii) to provide that all guarantees of the Republic of Croatia securing most of bank loans provided to the Company (KUNA 156,7 million) are released within 120 days after signing of the SPA.

Legal transfer of the shares is expected in September 2007 and will be made upon:

- (i) payment of the purchase price (KUNA 10,1 million);
- (ii) repayment of Company's due liabilities other than owed to the Republic of Croatia (KUNA 48,8 million);
- (iii) delivering to the CPF by ZLOMREX its corporate guarantees as security for fulfillment of certain obligations under the SPA.

Fulfillment of most of ZLOMREX obligations specified in the SPA will be preceded by an update of the list of Company's all liabilities prepared as of the execution date. In case ZLOMREX finds any material adverse change to the business and/or financial profile of Split Steelworks between May 31, 2007 and the Execution date then it could consider withdrawal from the Transaction.

Acquisition of Zeljezara Split will substantially increase ZLOMREX steel melting operations and rebar production. Assuming full utilization of the Plant's capacities ZLOMREX production of crude steel will rise up to 800,000 tonnes and finished products up to 600,000 tonnes. The consummation of the Transaction will further diversify operational and market risks within ZLOMREX group.

Despite small scale of the Plant and its focus on production of low value added products it can potentially attain a very strong position and competitive advantage over other major players on fast growing Croatian market. The so far structure of supply in Croatia (domination of imports) as well as proximity of ZS to ZLOMREX distribution network should facilitate quick realization of the Plant's production increase. ZLOMREX expects that positive impact of Split Steelworks operations will be seen in its consolidated performance from the first quarter of 2008.

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