

# **ZŁOMREX S.A.**

**Condensed Consolidated  
Interim Financial Statement  
as at and for the six months ended  
30 June 2010**

## Consolidated statement of financial position

As at

*in PLN thousand*

### Assets

	<b>30 June 2010</b> <i>(unaudited)</i>	<b>31 December 2009</b> <i>(audited)</i>
Property, plant and equipment	582 605	667 965
Intangible assets	39 930	42 175
Investment property	603	603
Investments in associates	5 648	5 050
Other investments	8 480	8 391
Other receivables	2 339	3 295
Prepaid perpetual usufruct of land	19 284	46 023
Deferred tax assets	66 819	57 198
<b>Total non-current assets</b>	<b>725 708</b>	<b>830 700</b>
Inventories	260 868	256 901
Other investments	5 790	5 536
Income tax receivable	128	3 103
Trade and other receivables	315 629	205 453
Cash and cash equivalents	14 872	32 496
<b>Total current assets</b>	<b>597 287</b>	<b>503 489</b>
Assets and disposal group of assets classified as held for sale	343 891	239 053
<b>Total assets</b>	<b>1 666 886</b>	<b>1 573 242</b>

The consolidated statement of financial position should be read in conjunction with the explanatory notes constituting part of the consolidated financial statements

**Consolidated statement of financial position - continued**
**As at**
**in PLN thousand**

	<b>30 June 2010 (unaudited)</b>	<b>31 December 2009 (audited)</b>
<b>Equity</b>		
Issued share capital	47 691	47 691
Reserves	224 536	224 959
Foreign currency translation reserve	34 843	27 313
Retained earnings	(172 435)	(140 917)
<b>Total equity attributable to equity holders of the parent</b>	<b>134 039</b>	<b>159 046</b>
<b>Minority interest</b>	<b>112 645</b>	<b>91 952</b>
<b>Total equity</b>	<b>247 280</b>	<b>250 998</b>
<b>Liabilities</b>		
Interest-bearing loans and borrowings	541 656	534 267
Employee benefits	39 475	39 057
Other payables	912	115
Deferred government grants and other deferred income	1 834	2 409
Deferred tax liabilities	15 990	16 195
<b>Total non-current liabilities</b>	<b>599 867</b>	<b>592 043</b>
Bank overdraft	105 103	129 543
Interest-bearing loans and borrowings	159 357	170 056
Employee benefits	6 051	2 338
Income tax payable	327	323
Provisions for payables	1 162	834
Trade and other payables	364 845	271 030
Deferred government grants and other deferred income	7 756	1 145
<b>Total current liabilities</b>	<b>644 601</b>	<b>575 269</b>
Liabilities of disposal group classified as held for sale	175 138	154 932
<b>Total liabilities</b>	<b>1 419 606</b>	<b>1 322 244</b>
<b>Total equity and liabilities</b>	<b>1 666 886</b>	<b>1 573 242</b>

The consolidated statement of financial position sheet should be read in conjunction with the explanatory notes constituting part of the consolidated financial statements

## Condensed consolidated interim statement of comprehensive income

For the six months ended 30 June

in PLN thousand

	Note	2010 (unaudited)	2009 restated* (unaudited)
<b>Continuing operations</b>			
Revenue	5	899 035	891 878
Cost of sales		(809 994)	(869 967)
<b>Gross profit</b>		<b>89 041</b>	<b>21 911</b>
Other income		11 247	19 117
Distribution expenses		(62 211)	(65 123)
Administrative expenses		(38 341)	(64 967)
Other gains / (losses) – net		15 639	(7 825)
Other expenses		(9 495)	(34 644)
<b>Operating loss before financing costs</b>		<b>5 880</b>	<b>(131 531)</b>
Other financial income		1 679	84 475
Other financial expenses		(46 293)	(74 480)
<b>Net financing costs</b>		<b>(44 614)</b>	<b>9 995</b>
Share of profits of associates		533	(745)
<b>Loss before tax</b>		<b>(38 201)</b>	<b>(122 281)</b>
Income tax expense		5 928	17 212
<b>Loss for the period from continuing operations</b>		<b>(32 273)</b>	<b>(105 069)</b>
<b>Discontinued operations</b>			
Profit /(loss) for the period from discontinued operations		(2 421)	(24 318)
<b>Loss for the period</b>		<b>(34 694)</b>	<b>(129 387)</b>
<b>Other comprehensive income</b>			
Currency translation differences		7 623	39 191
<b>Total comprehensive income for the period</b>		<b>(27 071)</b>	<b>(90 196)</b>
<b>Profit/(loss) for the period attributable to:</b>			
Equity holders of the parent		(30 270)	(121 833)
Minority interest		(4 424)	(7 554)
<b>Loss for the period</b>		<b>(34 694)</b>	<b>(129 387)</b>
<b>Total comprehensive income for the period attributable to:</b>			
Equity holders of the parent		(22 740)	(83 403)
Minority interest		(4 331)	(6 793)
<b>Total comprehensive income for the period</b>		<b>(27 071)</b>	<b>(90 196)</b>
<b>Basic earnings per share (PLN) attributable to the shareholders of the Parent Company</b>			
- from continuing operations		(0,58)	(2,04)
- from discontinued operations		(0,05)	(0,51)
<b>Basic comprehensive income/(loss) per share (PLN)</b>		<b>(0,48)</b>	<b>(1,75)</b>

\* please see note 5

Diluted earnings per share and diluted comprehensive income/loss per share are equal to basic ratios.

The condensed consolidated interim statement of comprehensive income should be read in conjunction with the explanatory notes constituting part of the condensed consolidated interim financial statements

## ZŁOMREX S.A.

### Condensed consolidated interim statement of comprehensive income (LTM)

For the twelve months ended 30 June

in PLN thousand

	Note	2010 (unaudited)	2009 restated* (unaudited)
<b>Continuing operations</b>			
Revenue	5	1 667 348	2 389 801
Cost of sales		(1 580 028)	(2 201 100)
<b>Gross profit</b>		<b>87 320</b>	<b>197 701</b>
Other income		14 383	19 633
Distribution expenses		(141 858)	(142 275)
Administrative expenses		(56 610)	(141 694)
Other gains / (losses) – net		539	(13 408)
Other expenses		(11 989)	(36 289)
<b>Operating profit/(loss) before financing costs</b>		<b>(108 215)</b>	<b>(116 332)</b>
Other financial income		13 171	102 754
Other financial expenses		(55 481)	(196 416)
<b>Net financing costs</b>		<b>(42 310)</b>	<b>(93 662)</b>
Share of profits of associates		(892)	(1 585)
<b>Loss before tax</b>		<b>(151 417)</b>	<b>(211 579)</b>
Income tax expense		22 351	30 507
<b>Loss for the period from continuing operations</b>		<b>(129 066)</b>	<b>(181 072)</b>
<b>Discontinued operations</b>			
Loss for the period from discontinued operations		(65 481)	(229 905)
<b>Loss for the period</b>		<b>(194 547)</b>	<b>(410 977)</b>
<b>Other comprehensive income</b>			
Currency translation differences		(34 872)	110 134
<b>Total comprehensive income for the period</b>		<b>(229 419)</b>	<b>(300 843)</b>
<b>Profit/(loss) for the period attributable to:</b>			
Equity holders of the parent		(167 404)	(390 594)
Minority interest		(27 143)	(20 383)
<b>Loss for the period</b>		<b>(194 547)</b>	<b>(410 977)</b>
<b>Total comprehensive income for the period attributable to:</b>			
Equity holders of the parent		(203 680)	(286 257)
Minority interest		(25 739)	(14 586)
<b>Total comprehensive income for the period</b>		<b>(229 419)</b>	<b>(300 843)</b>
<b>Basic earnings per share (PLN) attributable to the shareholders of the Parent Company</b>		<b>(3,51)</b>	<b>(8,19)</b>
- from continuing operations		(2,14)	(3,37)
- from discontinued operations		(1,37)	(4,82)
<b>Basic comprehensive income/(loss) per share (PLN)</b>		<b>(4,27)</b>	<b>(6,00)</b>

\* please see note 5

Diluted earnings per share and diluted comprehensive income/loss per share are equal to basic ratios.

The condensed consolidated interim statement of comprehensive income should be read in conjunction with the explanatory notes constituting part of the condensed consolidated interim financial statements

## Condensed consolidated interim statement of cash flows

For the six months ended 30 June

in PLN thousand

	2010 (unaudited)	2009 restated* (unaudited)
<b>Continuing operations</b>		
Loss before tax from continuing operations	(38 201)	(103 868)
<b>Adjustments</b>		
Depreciation	29 984	30 445
Amortization	2 757	2 676
Impairment losses and valuation allowances	4 582	32 840
Foreign exchange (gains)/losses	18 429	28 704
Net (gains)/losses on investment activities	(533)	(99 612)
Net (gains)/losses on disposal of property, plant and equipment	34	(221)
Interest, commissions and dividends, net	32 827	31 145
Change in receivables	(98 700)	(57 303)
Change in inventories	(15 545)	101 768
Change in trade and other payables	86 380	(7 338)
Change in provisions	327	(1 679)
Change in employee benefits	3 911	1 216
Change in deferred government grants and other deferred income	6 036	(72)
Other adjustments	(482)	809
<b>Cash generated/(outflows) from continuing operations</b>	<b>31 806</b>	<b>(40 490)</b>
<b>Discontinuing operations</b>		
Operating profit/(loss) from discontinuing operations	(2 421)	(41 276)
<b>Adjustments</b>		
Depreciation	3 292	3 688
Impairment losses and valuation allowances	(17 271)	(6 011)
Foreign exchange (gains)/losses	(5 414)	4 564
Net (gains)/losses on disposal of property, plant and equipment	125	(137)
Interest, commissions and dividends, net	2 101	5 158
Change in receivables	(8 283)	79 882
Change in inventories	12 089	47 357
Change in trade and other payables	14 572	(54 845)
Change in provisions	404	118
Change in employee benefits	(114)	(112)
Change in deferred government grants and other deferred income	(2)	(4)
Other adjustments	(440)	28 052
<b>Cash generated/(outflows) from discontinuing operations</b>	<b>(1 361)</b>	<b>66 435</b>
<b>Cash generated/(outflows) from operations</b>	<b>30 445</b>	<b>25 945</b>
Income tax paid	(650)	3 809
<b>Net cash from operating activities</b>	<b>29 795</b>	<b>29 754</b>

## Consolidated statement of cash flows – continued

For the six months ended 30 June

### Cash flows from investing activities

Proceeds from sale of property, plant and equipment and intangibles	8 639	5 647
Interest received	1 857	3 773
Dividends received	216	588
Repayment of loans granted	(9)	-
Disposal of subsidiary, net of cash disposed	-	22 995
Acquisition of property, plant and equipment	(4 684)	(19 834)
Acquisition of intangible assets	(462)	(1 700)
Prepaid perpetual usufruct of land	-	(265)
Acquisition of other investments	(9 091)	21 089
Other inflows from investing activities	-	10 632
<b>Cash generated/(outflows) from continuing operations</b>	<b>(3 534)</b>	<b>42 925</b>
Cash generated/(outflows) from discontinuing operations	8 531	(21 504)
<b>Net cash from investing activities</b>	<b>4 997</b>	<b>21 421</b>

### Cash flows from financing activities

Proceeds from transactions with non-controlling interests	23 353	-
Receipt of interest-bearing loans and borrowings	11 550	35 202
Payments/Proceeds relating to derivative financial instruments	-	(5 257)
Repayment of interest-bearing loans and borrowings	(16 821)	(51 261)
Payment of finance lease liabilities	(8 665)	(14 096)
Interest and commissions paid	(32 688)	(36 000)
<b>Cash generated/(outflows) from continuing operations</b>	<b>(23 271)</b>	<b>(71 413)</b>
Cash generated/(outflows) from discontinuing operations	(3 935)	(90 462)
<b>Net cash from financing activities</b>	<b>(27 206)</b>	<b>(161 874)</b>

Net increase / (decrease) in cash and cash equivalents	7 586	(110 700)
Cash and cash equivalents net of bank overdraft, at 1 January	(99 244)	(18 582)
Effect of exchange rate fluctuations on cash held	(820)	21 153
<b>Cash and cash equivalents net of bank overdraft, at 30 June</b>	<b>(92 478)</b>	<b>(108 129)</b>

\* please see note 5

The condensed consolidated interim statement of cash flows should be read in conjunction with the explanatory notes constituting part of the condensed consolidated interim financial statements

**Condensed consolidated interim statement of cash flows (LTM)**
**For the twelve months ended 30 June**
**in PLN thousand**

	<b>2010</b> <i>(unaudited)</i>	<b>2009</b> <b>restated*</b> <i>(unaudited)</i>
<b>Continuing operations</b>		
Loss before tax from continuing operations	<b>(160 308)</b>	<b>(107 596)</b>
<b>Adjustments</b>		
Depreciation	58 819	73 979
Amortization	5 453	7 588
Impairment losses and valuation allowances	18 760	96 878
Foreign exchange (gains)/losses	(26 914)	110 448
Net (gains)/losses on investment activities	16 259	(139 866)
Net (gains)/losses on disposal of property, plant and equipment	(6 353)	(590)
Interest, commissions and dividends, net	59 834	78 406
Change in receivables	4 675	206 038
Change in inventories	111 090	199 180
Change in trade and other payables	66 120	(249 684)
Change in provisions	3 298	(5 649)
Change in employee benefits	(4 540)	6 969
Change in deferred government grants and other deferred income	5 032	1 232
Other adjustments	3 124	(3 115)
<b>Cash generated from continuing operations</b>	<b>155 349</b>	<b>274 219</b>
<b>Discontinuing operations</b>		
Operating loss from discontinuing operations	(60 133)	(249 861)
<b>Adjustments</b>		
Depreciation	6 793	16 250
Amortization	210	394
Impairment losses and valuation allowances	(1 722)	145 545
Foreign exchange (gains)/losses	(10 088)	5 626
(Gains)/losses on investment activities	(15)	-
Net gain on disposal of property, plant and equipment	319	(161)
Interest, commissions and dividends, net	9 688	19 417
Change in receivables	54 824	101 140
Change in inventories	39 376	59 437
Change in trade and other payables	(22 324)	(38 475)
Change in provisions	294	(2 141)
Change in employee benefits	(110)	(2 364)
Change in deferred government grants and other deferred income	(120)	71
Other adjustments	(28 390)	31 416
<b>Cash generated/(outflows) from discontinuing operations</b>	<b>(11 398)</b>	<b>95 294</b>
<b>Cash generated from operations</b>	<b>143 951</b>	<b>369 513</b>
Income tax paid	(13 628)	(25 404)
<b>Net cash from operating activities</b>	<b>130 323</b>	<b>344 109</b>



**Consolidated statement of cash flows (LTM) – continued**
**For the twelve months ended 30 June**
**Cash flows from investing activities**

Proceeds from sale of property, plant and equipment	13 946	8 359
Proceeds from sale of intangible assets	5 181	66
Interest received	(3 863)	11 645
Dividends received	4 039	1 613
Disposals of subsidiaries, net of cash disposed	178	22 995
Repayment of loans granted	1 544	5 250
Acquisitions of subsidiaries, net of cash acquired	10 462	-
Acquisition of property, plant and equipment	(18 124)	(63 867)
Acquisition of intangible assets	(1 251)	(6 627)
Prepaid perpetual usufruct of land	265	(265)
Interest-bearing loans granted	-	(500)
Acquisition of other investments	(22 714)	(37 519)
Other inflows from investing activities	-	6 454

**Cash generated/(outflows) from continuing operations**

	<b>(10 337)</b>	<b>(52 396)</b>
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Cash outflows from discontinuing operations

	5 805	(32 601)
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**Net cash from investing activities**

	<b>(4 531)</b>	<b>(84 996)</b>
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**Cash flows from financing activities**

Proceeds from transactions with minority interests	40 058	-
Receipt of interest-bearing loans and borrowings	681	193 548
Payments/Proceeds relating to derivative financial instruments	6 507	(11 195)
Repayment of interest-bearing loans and borrowings	(86 041)	(313 135)
Payment of finance lease liabilities	(11 591)	(28 860)
Interest and commissions paid	(68 855)	(90 194)
Other financial expenditures	-	(8 438)

**Cash outflows from continuing operations**

	<b>(119 240)</b>	<b>(258 273)</b>
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Cash generated/(outflows) from discontinuing operations

	29 613	(84 995)
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**Net cash from financing activities**

	<b>(89 627)</b>	<b>(343 269)</b>
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Net increase/(decrease) in cash and cash equivalents	36 165	(84 156)
Cash and cash equivalents net of bank overdraft, at 1 July	(108 129)	(45 125)
Effect of exchange rate fluctuations on cash held	(20 514)	21 153

**Cash and cash equivalents net of bank overdraft, at 30 June**

	<b>(92 478)</b>	<b>(108 129)</b>
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\* please see note 5

The condensed consolidated interim statement of cash flows should be read in conjunction with the explanatory notes constituting part of the condensed consolidated interim financial statements

## Condensed consolidated interim statement of changes in equity

**For the six months ended 30 June**

*In PLN thousand*

	Attributable to equity holders of the parent				Minority interest	Total equity
	Issued capital	Reserves	Retained earnings	Total		
<b>Equity as at 1 January 2009</b>	<b>47 691</b>	<b>254 441</b>	<b>91 259</b>	<b>393 391</b>	<b>145 188</b>	<b>538 579</b>
Change in minority interest subsequent to acquisition date	-	-	753	-	(16 351)	(15 598)
Total comprehensive income for the period	-	38 430	(121 833)	(83 403)	(6 793)	(90 196)
Transfer of profit	-	5 586	(5 586)	-	-	-
<b>Equity as at 30 June 2009</b>	<b>47 691</b>	<b>298 457</b>	<b>(35 407)</b>	<b>309 988</b>	<b>122 044</b>	<b>449 727</b>
<b>Equity as at 1 January 2010</b>	<b>47 691</b>	<b>252 272</b>	<b>(140 917)</b>	<b>159 046</b>	<b>91 952</b>	<b>250 998</b>
Change in minority interest subsequent to acquisition date	-	-	(1 671)	(1 671)	25 024)	23 353
Transfer of profit	-	(423)	423	-	-	-
Total comprehensive income for the period	-	7 530	(30 270)	(22 740)	(4 331)	(27 071)
<b>Equity as at 30 June 2010</b>	<b>47 691</b>	<b>259 379</b>	<b>(172 435)</b>	<b>134 635</b>	<b>112 645</b>	<b>247 280</b>

The condensed consolidated interim statement of changes in equity should be read in conjunction with the explanatory notes constituting part of the condensed consolidated interim financial statements

## ZŁOMREX S.A.

### Explanatory notes to the condensed consolidated interim financial statements (in PLN thousand, unless stated otherwise)

#### 1. Reporting entity

Złomrex S.A. (“Złomrex”, “the Company”, “the parent Company”) with its seat in Poraj, Poland, is the Parent Company of the Group. The Company was established as a result of the transformation of a limited liability company Złomrex Sp. z o.o. into a joint-stock company Złomrex S.A. on 29 June 2004.

The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the “Group”). The basic information about the subsidiaries comprising the Group as at 30 June 2010 is presented in the table below:

Name of the entity	Seat of entity	Core activities	Ownership interest and voting rights	Date of obtaining control
FERROSTAL-ŁABĘDY Sp. z o.o.	Poland	Manufacture of metal products	92.4%	2004-02-19
ZW-WALCOWNIA BRUZDOWA Sp. z o.o.	Poland	Manufacture of metal products	100.0%	2005-01-13
ODLEWNIA METALI SZOPIENICE Sp. z o.o.	Poland	Manufacture of non-ferrous metal alloy products	100.0%	2004-07-31
HUTA STALI JAKOŚCIOWYCH Sp. z o.o.	Poland	Manufacture of metal products	100.0%	2006-01-27
HSW – TLENOWNIA Sp. z o.o.	Poland	Production and delivery of technical gas	100.0%	2007-10-30
NOWA JAKOŚĆ – Organizacja Odzysku S.A.	Poland	Purchasing, packaging, reselling of paper and plastic waste for further production	100.0%	2004-06-13
KAPITAŁ Sp. z o.o.	Poland	Financial services	100.0%	2006-01-04
BUSINESS SUPPORT SERVICES Sp. z o.o.	Poland	Other services	100.0%	2006-05-15
ZŁOMREX INTERNATIONAL FINANCE SA	France	Financial services, Bond issuer	100.0%	2006-10-23
CKM WŁÓKNIARZ S.A.	Poland	Speedway club	85,6%	2006-10-23
CENTROSTAL Sp. z o.o. w Szczecinie	Poland	Trade in metal products	100.0%	2007-01-26
ZŁOMREX METAL Sp. z o.o.	Poland	Purchasing and processing of iron scrap	100.0%	2007-04-02
ZELJEZARA SPLIT d.d.	Croatia	Manufacture of metal products	95.9%	2007-12-29
ZŁOMREX – FINANS Sp. z o.o.	Poland	Financial services	100.0%	2003-09-16
ZŁOMREX CENTRUM Sp. z o.o.	Poland	Purchasing and processing of iron scrap	100.0%	2006-03-29
AB STAHL AG	Germany	Trade in metal products	100.0%	2006-08-03
STEELCO Sp. z o.o.	Poland	Holding company	100.0%	2006-08-07
<b>Cognor S.A. Group</b>				
COGNOR S.A.	Poland	Trade in metal products	64,4%	2006-08-07
COGNOR BLACHY DACHOWE S.A.	Poland	Manufacture and trade in roofing materials	77.4%	2007-08-01
STALEXPORT S.A.	Poland	Trade in metal products	100.0%	2007-10-01
STALEXPORT-METALZBYT BIAŁYSTOK SP. Z O.O.	Poland	Trade in metal products	98.8%	2007-10-01

**Explanatory notes to the condensed consolidated interim financial statements**  
(in PLN thousand, unless stated otherwise)

<b>COGNOR Stahlhandel GmbH Group</b>				
COGNOR STAHLHANDEL GMBH	Austria	Trade in metal products	100.0%	2007-03-28
NEPTUN STAHLHANDEL GMBH	Austria	Trade in metal products	100.0%	2007-03-28
STAHLHANDEL BETEILIGUNGS HOLDING GMBH	Austria	Trade in metal products	100.0%	2007-03-28
COGNOR VETING D.O.O. (HR)	Croatia	Trade in metal products	100.0%	2007-03-28
COGNOR STAHLHANDEL POLSKA Sp. z o.o.	Poland	Trade in metal products	100.0%	2007-03-28
COGNOR STAHLHANDEL SPOL.SR.O	Czech Rep.	Trade in metal products	100.0%	2007-03-28
COGNOR AMBIENT STAHLHANDEL SRL	Romania	Trade in metal products	51.0%	2007-03-28
VEREINIGTE BIEGESELSCHAFT GMBH	Austria	Trade in metal products	67.0%	2007-03-28
ZIMMERMANN STAHLHANDEL GMBH	Austria	Trade in metal products	99.8%	2007-03-28
COGNOR GMBH MUNCHEN	Germany	Trade in metal products	100.0%	2007-03-28
COGNOR VETING STAHLHANDEL D.O.O.	Bosnia	Trade in metal products	100.0%	2007-03-28
COGNOR STAHLHANDEL D.O.O.	Slovenia	Trade in metal products	100.0%	2007-03-28
COGNOR STAHLHANDEL BUDAPESZT KFT.	Hungary	Trade in metal products	100.0%	2007-03-28
COGNOR STAHLHANDEL SLOWAKEI S.R.O.	Slovakia	Trade in metal products	100.0%	2007-03-28
VASTAD EDELSTAHL HANDEL GMBH	Austria	Trade in metal products	50.0% (associate)	2007-03-28
BWS BEWEHRUNGSSTAHL GMBH	Austria	Trade in metal products	36.0% (associate)	2007-03-28

## **2. Statement of compliance**

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* as adopted by the European Union . They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 August 2010.

## **3. Significant accounting policies**

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual consolidated financial statements as at 31 December 2009, prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS").

## **4. Estimates**

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, equity and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances and the results of which form a basis for professional judgment on carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**Explanatory notes to the condensed consolidated interim financial statements**  
(in PLN thousand, unless stated otherwise)

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applicable to the consolidated financial statements as at and for the year ended 31 December 2009.

**5. Changes in presentation of comparative data**

The Group Management has made a decision to qualify material part of assets as assets held for sale. In addition to the non-core or non-operational assets which have been put on sale previously a significant group of other assets which relate to the Group's distribution operations in Poland has been included. Due to this decision the business performed in related assets were presented as discontinued operations in statement of comprehensive income. The comparative data was changed analogical as follows:

<i>For the period ended 30 June 2009</i>	<b>01.01.2009- 30.06.2009 published</b>	<b>Restatements</b>	<b>01.01.2009- 30.06.2009 restated</b>
<b>Continuing operations</b>			
Revenue	1 070 196	(178 318)	891 878
Cost of sales	(1 042 515)	172 548	(869 967)
<b>Gross profit</b>	<b>27 681</b>	<b>(5 770)</b>	<b>21 911</b>
Other income	24 047	(4 930)	19 117
Distribution expenses	(71 409)	6 286	(65 123)
Administrative expenses	(81 560)	16 593	(64 967)
Other gains / (losses) – net	(3 886)	(3 939)	(7 825)
Other expenses	(38 861)	4 217	(34 644)
<b>Operating loss before financing costs</b>	<b>(143 988)</b>	<b>12 457</b>	<b>(131 531)</b>
Other financial income	100 361	(15 886)	84 475
Other financial expenses	(80 468)	5 988	(74 480)
<b>Net financing costs</b>	<b>19 893</b>	<b>(9 898)</b>	<b>9 995</b>
Share of profits of associates	(745)	-	(745)
<b>Loss before tax</b>	<b>(124 840)</b>	<b>(2 559)</b>	<b>(122 281)</b>
Income tax expense	15 757	1 455	17 212
<b>Loss for the period from continuing operations</b>	<b>(109 083)</b>	<b>4 014</b>	<b>(105 069)</b>
<b>Discontinued operations</b>			
Profit /(loss) for the period from discontinued operations	(20 304)	(4 014)	(24 318)
<b>Loss for the period</b>	<b>(129 387)</b>	<b>-</b>	<b>(129 387)</b>

<i>For the twelve months ended 30 June 2009</i>	<b>01.07.2008 - 30.06.2009 published</b>	<b>Restatements</b>	<b>01.07.2008 - 30.06.2009 restated</b>
<b>Continuing operations</b>			
Revenue	2 789 509	(390 708)	2 398 801
Cost of sales	(2 581 864)	380 764	(2 201 100)
<b>Gross profit</b>	<b>207 645</b>	<b>(9 944)</b>	<b>197 701</b>
Other income	28 981	(9 348)	19 633

**Explanatory notes to the condensed consolidated interim financial statements**  
(in PLN thousand, unless stated otherwise)

Distribution expenses	(158 108)	15 833	(142 275)
Administrative expenses	(169 456)	27 762	(141 694)
Other gains / (losses) – net	(7 599)	(5 809)	(13 408)
Other expenses	(40 903)	4 614	(36 289)
<b>Operating loss before financing costs</b>	<b>(139 440)</b>	<b>23 108</b>	<b>(116 332)</b>
Other financial income	118 640	(15 886)	102 754
Other financial expenses	(206 143)	9 727	(196 416)
<b>Net financing costs</b>	<b>(87 503)</b>	<b>16 949</b>	<b>(93 662)</b>
Share of profits of associates	(1 585)	-	(1 585)
<b>Loss before tax</b>	<b>(228 528)</b>	<b>16 949</b>	<b>(211 579)</b>
Income tax expense	31 610	(1 103)	30 507
<b>Loss for the period from continuing operations</b>	<b>(196 918)</b>	<b>15 846</b>	<b>(181 072)</b>
<b>Discontinued operations</b>			
Profit /(loss) for the period from discontinued operations	(214 059)	(15 846)	(229 905)
<b>Loss for the period</b>	<b>(410 977)</b>	<b>-</b>	<b>(410 977)</b>

**6. Segment reporting**

Management has determined the operating segments based on the reports reviewed by Management Board of the Parent that are used to make strategic decisions.

The Management Board considers the business from both a geographic and product perspective. Geographically, management considers the performance of sale in Poland, Austria, Czech Republic and other countries.

The reportable operating segments derive their revenue primarily from the following divisions:

1. scrap division – this segment includes activities of buying, processing, refining and selling of scrap metal and non-ferrous scrap;
2. production division – this segment includes activities of processing scrap metal into steel billets, steel billets into finished products, and selling of them; and also the processing of non-ferrous scrap into finished products and selling of them;
3. distribution division – this segment includes activities of selling commodities (steel products, steel scrap, steel billets, non-ferrous scrap and products and others);
4. other – this segment includes other activities such as holding activities, financial activities, recycling materials, including plastic foils, paper and other products.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in the income statement.

## ZŁOMREX S.A.

### Explanatory notes to the condensed consolidated interim financial statements

(in PLN thousand, unless stated otherwise)

#### 5. Segment reporting (continued)

For the six months ended 30 June

	Scrap division		Production division		Distribution division		Other		Eliminations		Consolidated	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Revenues	153 291	182 918	380 792	410 596	379 114	500 363	125 476	20 593	(139 638)	(222 592)	899 035	891 878
Segment result	13 529	8 708	7 104	(29 585)	54 794	29 386	1 872	14 880	11 742	(1 478)	89 041	21 911
Unallocated income/expense											(83 161)	(153 442)
Operating loss before financing costs											5 880	(131 531)

**Explanatory notes to the condensed consolidated interim financial statements**  
(in PLN thousand, unless stated otherwise)

**7. Assets of disposal group classified as held for sale and discontinued operations**

**Disposal groups**

The assets and liabilities related to company Zeljezara Split (Croatia) have been presented as held for sale following the decision of Board Members of Parent Company to sell this subsidiary. In the end of 2008, first meetings with potential investors took place.

In 2009 an agreement was concluded between Croatian Privatisation Fund and Zlomrex SA relating to the sale of shares and loans granted to Zeljezara Split. The sale of shares in Zeljezara Split was not finalized in course of 2009 as additional conditions were imposed on Zlomrex SA to complete the sale. The Management has taken all necessary steps to address the change of conditions and the transaction is expected to be finalized within 2010.

**Assets held for sale**

In the report Zlomrex has decided to qualify material part of its assets as assets held for sale. In addition to the non-core or non-operational assets which have been put on sale previously 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 as part of disposal group of 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 Zlomrex's Supervisory Board and the shareholders' meeting of Cognor S.A.

**8. Acquisitions, mergers and disposals of subsidiaries**

***Acquisitions realised in 2010***

No acquisitions took place until 30 June 2010.

***Mergers realised in 2010***

During the three months ended 31 March 2010 there was one merger within the Group:

- on March 4, 2010 Stalexport S.A. has merged with Stalexport Serwis Centrum Bełchatów S.A.

***Disposals realised in 2010***

No disposals took place until 30 June 2010.

**9. Property, plant and equipment**

**Acquisitions and disposals**

During the six months ended 30 June 2010, the Group acquired property, plant and equipment at a cost of PLN 4 844 thousand (six months ended 30 June 2009: PLN 21 892 thousand). Assets with a net book value of PLN 6 676 thousand were disposed during the first half of 2010 (six months ended 30 June 2009: PLN 30 243 thousand). On the sale of fixed assets the Group achieved a net loss on disposal of PLN 143 thousand (six months ended 30 June 2009: a net gain on disposal of PLN 358 thousand).



**Explanatory notes to the condensed consolidated interim financial statements**  
(in PLN thousand, unless stated otherwise)**Capital commitments**

As at 31 December 2007, the Group has contractual commitment relating to the acquisition of Zeljezara Split concluded with The Croatian Privatization Fund relating to the obligation of the Company to ensure that Zeljezara Split makes capital investments of HRK 114 million within the period of 2008-2011 as well as to maintain its present employment level. In 2009 the Group has realised capital investments of HRK 57 million. In April 2010 Złomrex SA increased the capital in Zeljezara Split in the amount of HRK 104 853 thousand (EUR 14 448 thousand), including increased of share capital in the amount of HRK 1 thousand and agio in the amount of HRK 104 852 thousand. On 23 April 2010 this increase was covered in exchange for remission of loans granted to Zeljezara Split by Złomrex SA.

**10. Interest-bearing loans and borrowings**

In order to finance the acquisition of Cognor Stahlhandel GmbH and to refinance some existing indebtedness, the Group has issued, through Złomrex International Finance SA high-yield bonds with a nominal value of EUR 170 000 thousand under the Purchase Agreement dated 23 January 2007. These bonds are due in 2014 and are listed on the Luxembourg Stock Exchange (Euro MTF). The bonds are secured by first-priority pledges of shares owned by the parent Company in:

- Złomrex International Finance SA,
- Ferrostal Łabędy Sp. z o.o.,
- ZW-Walcownia Bruzdowa Sp. z o.o.,
- Odlewnia Metali Szopienice Sp. z o.o.,
- HSW-HSJ S.A.,
- Business Support Services Sp. z o.o.,
- Cognor Stahlhandel GmbH,
- Złomrex Metal Sp. z o.o.

From November 2008 till 30 June 2010 the Group has performed the buy out of own bonds in the nominal value of EUR 43 000 thousand. Outstanding value of the bonds as at 30 June 2010 according to amortized cost method is EUR 128 498 thousand.

According to the aforementioned Purchase Agreement, the issuer is obliged to meet certain financial covenants until the repayment date. These include among others: maximum indebtedness ratio, limitations on dividend payments, liens, sales of assets and certain reporting requirements.

**11. Other payables**

As at 30 June 2010, other short-term payables comprise particularly investment payables regarding the acquisition of Cognor Stahlhandel GmbH in the amount of PLN 26 636 thousand, short-term portion of investment payables regarding the acquisition of HSW-Huta Stali Jakościowych Sp. z o.o. in the amount of PLN 12 919 thousand.

**12. Contingencies, guarantees and other commitments**

The Group has the following contingent liabilities, guarantees and other commitments:

**Contingencies**

There were no significant claims or contingent liabilities as at 30 June 2010

**Other commitments**

As at 30 June 2010, the Group had the following other commitments:

- In accordance with share purchase agreement of voestalpine Stahlhandel GmbH the Company has a put/call option for the purchase of remaining 25.1% of shares with the exercise date between 1 January 2009 and 31 December 2010.

**Explanatory notes to the condensed consolidated interim financial statements**  
(in PLN thousand, unless stated otherwise)

**13. Related parties**

The Group has a related party relationship with the companies controlled by the parent Company's Management Board members and with the members of the Management and Supervisory Boards of the Group entities.

*in PLN thousand*

*Long-term receivables:*

- related parties (not consolidated)

*Short-term receivables:*

- related parties (not consolidated)

- associates (consolidated under the equity method)

- companies controlled by the parent Company's Management Board members

*Long-term liabilities*

- associates (consolidated under the equity method)

*Short-term liabilities*

- related parties (not consolidated)

- associates (consolidated under the equity method)

- companies controlled by the parent Company's Management Board members

*Loans granted*

- related parties (not consolidated)

- associates (consolidated under the equity method)

	<b>30.06.2010</b>	<b>30.06.2009</b>
	1 622	-
	7 469	18 476
	166	13
	111	107
	45 304	-
	416	2 338
	162	85
	107	45
	-	322
	556	-

*in PLN thousand*

*Revenues from sale of products*

- related parties (not consolidated)

*Revenues from sale of services*

- related parties (not consolidated)

- associates (consolidated under the equity method)

- companies controlled by the parent Company's Management Board members

*Revenues from sale of raw materials and commodities*

- related parties (not consolidated)

- associates (consolidated under the equity method)

*Purchase of commodities and raw materials*

- related parties (not consolidated)

- associates (consolidated under the equity method)

*Purchase of services*

- related parties (not consolidated)

- companies controlled by the parent Company's Management Board members

*Financial income*

- related parties (not consolidated)

- associates (consolidated under the equity method)

*Other income*

- related parties (not consolidated)

- associates (consolidated under the equity method)

*Other expenses*

- related parties (not consolidated)

*Other gains/losses net*

- associates (consolidated under the equity method)

	<b>1.1.2010 - 30.06.2010</b>	<b>1.1.2009 - 30.06.2009</b>
	-	2 995
	72	191
	428	678
	3	17
	1 632	6 916
	28	37
	844	2 078
	32	99
	147	127
	530	328
	-	1 122
	-	452
	63	7
	3 173	-
	-	10
	3 899	-

**Explanatory notes to the condensed consolidated interim financial statements**  
(in PLN thousand, unless stated otherwise)**Transactions with the members of the Management and Supervisory Boards**

The remuneration of the Management and Supervisory Boards members was as follows:

	Six months ended	
	30 June 2010	30 June 2009
Management Board of the parent Company	90	2 130
Supervisory Board of the parent Company	261	110
Management Boards of subsidiaries	2 475	6 806
Supervisory Boards of subsidiaries	181	125
	<b>3 007</b>	<b>9 171</b>

Additionally, one of the parent Company's Management Board members is entitled to an annual bonus amounting to 1% of the Group's consolidated net profit generated on the regular business of the Group.

**14. Subsequent events**

On 31 March 2010 Cognor SA submitted in Register Court the merger plan this Stalexport SA. Cognor SA owns 100.0% of shares in Stalexport SA. As a result of this merger the assets owned by Stalexport SA will be transferred to Cognor SA. The Register Court is supposed to accept this merger plan on the beginning of September.

In July 2010 the Group sold the non-consolidated subsidiary - BWS Bewehrungsstahl GmbH. The Group owned only 36.0% of shares in this company.