

ZŁOMREX S.A.

**Condensed Consolidated
Interim Financial Statement
as at and for the six months ended
30 June 2011**

Consolidated statement of financial position**As at***in PLN thousand***Assets**

	30 June 2011 <i>(unaudited)</i>	31 December 2010 <i>(audited)</i>
Property, plant and equipment	362 933	377 959
Intangible assets	18 329	20 487
Investment property	1 305	1 320
Investments in associates	-	-
Other investments	3 305	2 844
Other receivables	244	241
Prepaid perpetual usufruct of land	18 561	19 419
Deferred tax assets	65 764	41 006
Total non-current assets	470 441	463 276
Inventories	195 466	182 640
Other investments	34 861	10
Income tax receivable	151	863
Trade and other receivables	251 936	143 857
Cash and cash equivalents	36 250	9 337
Total current assets	518 664	336 707
Assets classified as held for sale	16 715	103 733
Assets of disposal groups and discontinued operations	-	544 534
Total assets	1 005 820	1 448 250

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

	30 June 2011 (unaudited)	31 December 2010 (audited)
Equity		
Issued share capital	47 691	47 691
Reserves	203 798	203 624
Foreign currency translation reserve	(308)	18 185
Retained earnings	(142 209)	(250 714)
Total equity attributable to equity holders of the parent	108 972	18 786
Minority interest	102 448	79 574
Total equity	211 420	98 360
Liabilities		
Interest-bearing loans and borrowings	478 040	503 222
Employee benefits	10 963	12 121
Other payables	-	-
Deferred government grants and other deferred income	991	1 399
Deferred tax liabilities	3 588	8 539
Total non-current liabilities	493 582	525 281
Bank overdraft	28 665	86 782
Interest-bearing loans and borrowings	43 631	107 376
Employee benefits	1 261	4 735
Income tax payable	1 951	-
Provisions for payables	375	403
Trade and other payables	222 082	253 205
Deferred government grants and other deferred income	2 853	1 007
Total current liabilities	300 818	453 508
Liabilities of disposal group classified as held for sale	-	371 101
Total liabilities	794 400	1 349 890
Total equity and liabilities	1 005 820	1 448 250

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	2011 (unaudited)	2010 restated* (unaudited)
Continuing operations			
Revenue	5	731 787	457 650
Cost of sales		(650 057)	(434 031)
Gross profit/(loss)		81 730	23 619
Other income		7 214	10 237
Distribution expenses		(16 104)	(13 788)
Administrative expenses		(18 991)	(23 016)
Other gains / (losses) – net		(491)	14 689
Other expenses		(8 149)	(7 334)
Operating profit/(loss) before financing costs		45 209	4 407
Other financial income		4 450	-
Other financial expenses		(31 439)	(42 361)
Net financing costs		(26 989)	(42 361)
Share of profits of associates		-	-
Profit/(loss) before tax		18 220	(37 954)
Income tax expense		20 992	8 434
Profit/(loss) for the period from continuing operations		39 212	(29 520)
Discontinued operations			
Profit/(loss) for the period from discontinued operations		89 048	(5 174)
Profit/(loss) for the period		128 260	(34 694)
Other comprehensive income			
Currency translation differences		(6)	7 623
Total comprehensive income/(loss) for the period		128 254	(27 071)
Profit/(loss) for the period attributable to:			
Equity holders of the parent		108 679	(30 270)
Minority interest		19 581	(4 424)
Profit/(loss) for the period		128 260	(34 694)
Total comprehensive income for the period attributable to:			
Equity holders of the parent		108 673	(22 740)
Minority interest		19 581	(4 331)
Total comprehensive income/(loss) for the period		128 254	(27 071)
Basic earnings per share (PLN) attributable to the shareholders of the Parent Company		2,28	(0,64)
- from continuing operations		0,41	(0,53)
- from discontinued operations		1,87	(0,11)
Basic comprehensive income/(loss) per share (PLN)		2,28	(0,48)

*please see not 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	2011 (unaudited)	2010 Restated* (unaudited)
Continuing operations			
Revenue	5	1 268 602	839 288
Cost of sales		(1 143 536)	(849 578)
Gross profit/(loss)		125 066	(10 290)
Other income		6 560	7 345
Distribution expenses		(35 345)	(30 800)
Administrative expenses		(49 636)	(28 188)
Other gains / (losses) – net		(4 879)	20 742
Other expenses		(19 174)	(30 156)
Operating profit/(loss) before financing costs		22 592	(71 347)
Other financial income		4 655	-
Other financial expenses		(40 962)	(82 775)
Net financing costs		(36 307)	(82 775)
Share of profits of associates		-	-
Profit/(loss) before tax		(13 715)	(154 122)
Income tax expense		3 588	23 482
Profit/(loss) for the period from continuing operations		(10 127)	(130 640)
Discontinued operations			
Profit/(loss) for the period from discontinued operations		6 104	(63 907)
Profit/(loss) for the period		(4 023)	(194 547)
Other comprehensive income			
Currency translation differences		(16 643)	(34 872)
Total comprehensive loss for the period		(20 666)	(229 419)
Attributable to:			
Equity holders of the parent		9 488	(167 592)
Minority interest		(13 511)	(26 955)
Profit/(loss) for the period		(4 023)	(194 547)
Total comprehensive income for the period attributable to:			
Equity holders of the parent		(7 176)	(203 868)
Minority interest		(13 490)	(25 551)
Total comprehensive profit/(loss) for the period		(20 666)	(229 419)
Basic earnings per share (PLN) attributable to the shareholders of the Parent Company			
- from continuing operations		0,07	(2,17)
- from discontinued operations		0,13	(1,34)
Basic comprehensive income/(loss) per share (PLN)		(0,15)	(4,27)

*please see not 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

	2011 (unaudited)	2010 restated* (unaudited)
Continuing operations		
Loss before tax from continuing operations	18 220	(37 954)
Adjustments		
Depreciation	20 374	21 490
Amortization	1 756	2 757
Impairment losses and valuation allowances	1 463	3 306
Foreign exchange (gains)/losses	2 772	10 317
Net (gains)/losses on investment activities	(4 247)	-
Net (gains)/losses on disposal of property, plant and equipment	(1 509)	(8 653)
Interest, commissions and dividends, net	26 829	29 698
Change in receivables	(115 889)	(48 781)
Change in inventories	(52 554)	(5 623)
Change in trade and other payables	26 243	38 213
Change in provisions	(28)	354
Change in employee benefits	(3 673)	2 618
Change in deferred government grants and other deferred income	1 513	6 036
Other adjustments	1 053	(481)
Cash generated/(outflows) from continuing operations	(77 677)	13 297
Discontinuing operations		
Operating profit from discontinuing operations	91 942	(2 668)
Adjustments		
Depreciation	-	8 934
Impairment losses and valuation allowances	-	(13 143)
Foreign exchange (gains)/losses	-	2 698
Net (gains)/losses on investment activities	(15 647)	(408)
Net (gains)/losses on disposal of property, plant and equipment	(63 647)	10 788
Interest, commissions and dividends, net	641	(5 154)
Change in receivables	7 810	(37 830)
Change in inventories	39 728	4 650
Change in trade and other payables	(46 589)	48 571
Change in provisions	(7 961)	(141)
Change in employee benefits	(959)	1 291
Change in deferred government grants and other deferred income	(75)	-
Other adjustments	-	(440)
Cash outflows from discontinuing operations	5 243	17 148
Cash generated/(outflows) from operations	(72 434)	30 445
Income tax paid	(987)	(650)
Net cash from operating activities	(73 421)	29 795

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	1 807	15 410
Interest received	386	39
Acquisition of property, plant and equipment	(4 779)	(3 358)
Acquisition of intangible assets	(229)	(462)
Prepaid perpetual usufruct of land	(7)	-
Cash generated/(outflows) from continuing operations	(2 822)	11 629
Cash generated from discontinuing operations	273 542	(6 632)
Net cash from investing activities	270 720	4 997

Cash flows from financing activities

Proceeds from transactions with minority interests	-	23 353
Receipt of interest-bearing loans and borrowings	2 903	112
Repayment of interest-bearing loans and borrowings	(87 431)	(5 383)
Payment of finance lease liabilities	(6 581)	(7 274)
Interest and commissions paid	(27 215)	(29 737)
Cash outflows from continuing operations	(118 324)	(18 929)
Cash generated/(outflows) from discontinuing operations	(845)	(8 277)
Net cash from financing activities	(119 169)	(27 206)

Net decrease in cash and cash equivalents	78 130	7 586
Cash and cash equivalents net of bank overdraft, at 1 January	(70 545)	(99 244)
Effect of exchange rate fluctuations on cash held	-	(820)
Cash and cash equivalents net of bank overdraft, at 30 June	7 585	(92 478)

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

	2011	2010
	<i>(unaudited)</i>	restated* <i>(unaudited)</i>
Continuing operations		
Loss before tax from continuing operations	(13 715)	(154 122)
Adjustments		
Depreciation	40 269	44 999
Amortization	3 962	4 738
Impairment losses and valuation allowances	4 691	20 435
Foreign exchange (gains)/losses	(21 782)	(25 763)
Net (gains)/losses on investment activities	(4 247)	31 947
Net (gains)/losses on disposal of property, plant and equipment	(1 215)	(10 480)
Interest, commissions and dividends, net	53 715	60 118
Change in receivables	(48 411)	(34 655)
Change in inventories	(69 912)	(13 886)
Change in trade and other payables	26 718	18 671
Change in provisions	(635)	1 010
Change in employee benefits	(5 618)	468
Change in deferred government grants and other deferred income	(5 640)	4 476
Other adjustments	1 534	3 310
Cash generated/(outflows) from continuing operations	(40 286)	(48 734)
Discontinuing operations		
Operating loss from discontinuing operations	7 740	(54 052)
Adjustments		
Depreciation	4 255	19 686
Impairment losses and valuation allowances	34 038	(545)
Foreign exchange (gains)/losses	6 449	(11 239)
Net (gains)/losses on investment activities	(14 754)	(15 578)
Net (gains)/losses on disposal of property, plant and equipment	(70 535)	6 422
Interest, commissions and dividends, net	9 779	(980)
Change in receivables	19 657	114 527
Change in inventories	42 411	166 835
Change in trade and other payables	(35 939)	(1 310)
Change in provisions	(10 886)	2 064
Change in employee benefits	1 298	(5 007)
Change in deferred government grants and other deferred income	(111)	438
Other adjustments	2 505	(28 112)
Cash generated from discontinuing operations	(4 093)	193 149
Cash generated/(outflows) from operations	(44 379)	144 415
Income tax paid	(149)	(13 628)
Net cash from operating activities	(44 528)	130 787

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	3 956	25 922
Interest received	629	605
Dividends received	-	267
Repayment of loans granted	-	5 731
Acquisition of property, plant and equipment	(10 243)	(17 055)
Acquisition of intangible assets	(554)	(1 212)
Prepaid perpetual usufruct of land	(7)	-
Other inflows from investing activities	-	265

Cash generated/(outflows) from continuing operations

Cash generated from discontinuing operations	314 271	(19 071)
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Net cash from investing activities

	308 052	(4 548)
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Cash flows from financing activities

Proceeds from transactions with minority interests	-	40 058
Receipt of interest-bearing loans and borrowings	5 262	3 815
Payments/Proceeds relating to derivative financial instruments	-	-
Repayment of interest-bearing loans and borrowings	(90 032)	(15 693)
Payment of finance lease liabilities	(12 377)	(13 240)
Interest and commissions paid	(54 344)	(53 984)

Cash outflows from continuing operations

Cash outflows from discontinuing operations	(12 064)	(51 032)
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Net cash from financing activities

	(163 555)	(90 076)
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Net increase/(decrease) in cash and cash equivalents	99 969	36 163
Cash and cash equivalents net of bank overdraft, at 1 July	(92 478)	(108 129)
Effect of exchange rate fluctuations on cash held	94	(20 512)

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

	7 585	(92 478)
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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		
Equity as at 1 January 2010	47 691	252 272	(140 917)	159 046	91 952	250 998
Transfer of profit	-	(423)	423	-	-	-
Total comprehensive income for the period	-	7 530	(30 270)	(22 740)	(4 331)	(27 071)
Change in minority interests	-	-	(1 671)	(1 671)	25 024	23 353
Equity as at 30 June 2010	47 691	259 379	(172 435)	134 635	112 645	247 280
Equity as at 1 January 2011	47 691	221 809	(250 714)	18 786	79 574	98 360
Transfer of profit	-	174	(174)	-	-	-
Change in minority interest	-	-	(18 487)	(18 487)	3 293	(15 194)
Total comprehensive income for the period	-	(6)	108 679	108 673	19 581	128 254
Equity as at 30 June 2011	47 691	203 490	(142 209)	108 972	102 448	211 420

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 2011 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 2011 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
NOWA JAKOŚĆ – Organizacja Odzysku S.A.	Poland	Purchasing, packaging, reselling of paper and plastic waste for further production	100.0%	2004-06-13
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
ZŁOMREX METAL Sp. z o.o.	Poland	Purchasing and processing of iron scrap	100.0%	2007-04-02
ZŁOMREX – FINANS Sp. z o.o.	Poland	Financial services	100.0%	2003-09-16
STEELCO Sp. z o.o.	Poland	Holding company	100.0%	2006-08-07
Cognor S.A. Group				
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-METALZBYT BIAŁYSTOK Sp. z o.o.	Poland	Trade in metal products	98.8%	2007-10-01
ZŁOMREX CENTRUM Sp. z o.o.	Poland	Purchasing and processing of iron scrap	100.0%	2006-03-29*
BUSINESS SUPPORT SERVICES Sp. z o.o.	Poland	Other services	100.0%	2006-05-15*
COGNOR SERVICES Sp. z o.o.	Poland	Other services	100.0%	2010-10-13
CENTROSTAL Sp. z o.o. w Szczecinie	Poland	Trade in metal products	100.0%	2007-01-26*
KAPITAŁ Sp. z o.o.	Poland	Financial services	100.0%	2006-01-04*
COGNOR FINANS Sp. z o.o. (previous name COGNOR STAHLHANDEL POLSKA Sp. z o.o.)	Poland	Trade in metal products	100.0%	2007-03-28*

* date of obtaining control in Złomrex Capital Group

Explanatory notes to the condensed consolidated interim financial statements
 (in PLN thousand, unless stated otherwise)
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 2010.

These condensed consolidated interim financial statements were approved by the Board of Directors on 29 August 2011.

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 2010, 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.

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 2010.

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 also been included following the preliminary asset sale agreement concluded in November 2010. Divestment of those domestic distribution assets was finalized in May 2011. In addition to the Polish distribution operations, the Group finalized sale of its international distribution division based on preliminary agreement concluded in December 2010 on sale of shares of Cognor Stahlhandel GmbH (Austria). As a result of the above majority of our distribution business is presented within the discontinued operations in the statement of comprehensive income. The comparative data was changed accordingly as follows:

<i>For the period ended 30 June 2010</i>	01.01.2010- 30.06.2010 published	Restatements	01.01.2010- 30.06.2010 restated
Continuing operations			
Revenue	899 035	(441 385)	457 650
Cost of sales	(809 994)	375 963	(434 031)
Gross profit	89 041	(65 422)	23 619
Other income	11 247	(1 010)	10 237
Distribution expenses	(62 211)	48 423	(13 788)
Administrative expenses	(38 341)	15 325	(23 016)
Other gains / (losses) – net	15 639	(950)	14 689
Other expenses	(9 495)	2 161	(7 334)
Operating profit before financing costs	5 880	(1 473)	4 407

ZŁOMREX S.A.

Explanatory notes to the condensed consolidated interim financial statements

(in PLN thousand, unless stated otherwise)

Other financial income	1 679	(1 679)	-
Other financial expenses	(46 293)	3 932	(42 361)
Net financing costs	(44 614)	2 253	(42 361)
Share of profits of associates	533	(533)	-
Loss before tax	(38 201)	247	(37 954)
Income tax expense	5 928	2 506	8 434
Loss for the period from continuing operations	(32 273)	2 753	(29 520)
Discontinued operations			
Profit /(loss) for the period from discontinued operations	(2 421)	(2 753)	(5 174)
Loss for the period	(34 694)	-	(34 694)

For the twelve months ended 30 June 2010

	01.07.2009 - 30.06.2010 published	Restatements	01.07.2009 - 30.06.2010 restated
Continuing operations			
Revenue	1 667 348	(828 060)	839 288
Cost of sales	(1 580 028)	730 450	(849 578)
Gross profit/(loss)	87 320	(97 610)	(10 290)
Other income	14 383	(7 038)	7 345
Distribution expenses	(141 858)	111 058	(30 800)
Administrative expenses	(56 610)	28 422	(28 188)
Other gains / (losses) – net	539	20 203	20 742
Other expenses	(11 989)	(18 167)	(30 156)
Operating loss before financing costs	(108 215)	36 868	(71 347)
Other financial income	13 171	(13 171)	-
Other financial expenses	(55 481)	(27 294)	(82 775)
Net financing costs	(42 310)	(40 465)	(82 775)
Share of profits of associates	(892)	892	-
Loss before tax	(151 417)	(2 705)	(154 122)
Income tax expense	22 351	1 131	23 482
Loss for the period from continuing operations	(129 066)	(1 574)	(130 640)
Discontinued operations			
Profit /(loss) for the period from discontinued operations	(65 481)	1 574	(63 907)
Loss for the period	(194 547)	-	(194 547)

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.

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

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.

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Explanatory notes to the condensed consolidated interim financial statements

(in PLN thousand, unless stated otherwise)

6. Segment reporting (continued)

For the six months ended 30 June

	Scrap division		Production division		Distribution division		Other		Eliminations		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenues	276 963	153 291	640 971	380 792	16 475	13 012	3 573	125 476	(206 195)	(214 921)	731 787	457 650
Segment result	15 953	13 529	222 082	7 104	1 369	1 546	(330)	1 872	(157 344)	(432)	81 730	23 619
Unallocated income/expense											(36 521)	(19 212)
Operating profit before financing costs											45 209	4 407

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 Zeljezara Split (Croatia) have been presented as held for sale following the decision of Board Members of Parent Company to sell this subsidiary at the end of 2008. In 2009 an agreement was concluded between Croatian Government and Zlomrex SA relating to the sale of all shares together with all claims against Zeljezara Split. The sale of shares in Zeljezara Split was not finalized in the course of 2009 and 2010 at the request of the Croatian side to postpone the closing for a limited period of time. Then the Croatian Government refused to fulfill the agreement at all and proposed other terms which were not acceptable to Zlomrex. At present Zlomrex has undertaken all necessary actions to enforce its rights. On 11th March 2011, the bankruptcy of Zelejjara Split d.d., Croatia (a subsidiary of Zlomrex S.A.) was announced by Commercial Court in Split. The proceedings was initiated by a creditor's demand – HEP – Opskrba d.o.o., Zagreb.

The Group Management has also decided to sell its shares in Cognor Stahlhandel GmbH (Austria) which comprised all Zlomrex distribution operations outside Poland. The conditional share sale agreement signed in December 2010 and the transaction was closed on the 4th of February 2011. As a result of the above, all assets and liabilities of Cognor Stahlhandel GmbH have been classified as a disposal group. At the date of reclassification, the net assets of the Cognor Stahlhandel GmbH subgroup were valued at the amount which will be recovered through sale.

Assets held for sale

On the 26th of November 2010, Cognor S.A. (a subsidiary of Zlomrex S.A.) entered into a conditional asset sale agreement with ArcelorMittal Distribution Poland Sp. z o.o. and ArcelorMittal Distribution Solutions Poland Sp. z o.o. The transaction relates to Cognor's distribution operations in Poland and comprise in particular:

- transfer of 11 warehouses,
- transfer of leases pertaining to 2 warehouses,
- transfer of movable assets located in the above sites,
- transfer of inventories located in the above sites,
- transfer of certain IT licenses.

In connection with the conditional asset sale agreement the tangible and intangible assets which will be sold were qualified as assets held for sale. The actual transaction was concluded on the 5th of May 2011.

8. Acquisitions, mergers and disposals of subsidiaries***Acquisitions realised in 2011***

No acquisitions took place until 30 June 2011.

Mergers realised in 2011

No mergers took place until 30 June 2011.

Disposals realised in 2011

On the 9th of December 2010, Zlomrex S.A. together with Cognor S.A. (Cognor, the Seller), a 64,4% subsidiary of Zlomrex, entered into a conditional share sale agreement with Eff eins Beteiligungsverwaltung GmbH and Eff zwei Beteiligungsverwaltung GmbH both with their corporate seats in Vienna (the Buyers) on sale of shares in Cognor Stahlhandel GmbH (Cognor Austria). Cognor Stahlhandel GmbH was part of Zlomrex Distribution Division and it conducted all the Groups' international (other than in Poland) operations in steel products distribution business. At that time the Seller held 74,9% interest in Cognor Austria with an option (the Option) to acquire the remaining 25,1% of shares from

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voestalpine Stahl GmbH, a minority shareholder in Cognor Austria. Pursuant to the Agreement Cognor and Złomrex conditionally agreed to sell both currently held and the Option shares. The price for 100% of the Company's share capital has been agreed at EUR 32,771 thousand (the Price). The Price will be subject to an adjustment by the difference between Cognor Austria's equity as of December 31, 2009 and as of closing. The transaction proceeds also include repayment of the intercompany loans at the amount of EUR 9,710 thousand.

Closing of the Transaction occurred on the 4th of February 2011. Cognor has received 75% of the Price and the remaining portion has been deposited on the escrow account. Part of that amount shall be released for the benefit of Cognor after the aforementioned Price adjustment has been established. Since the amount calculated by the Buyers and proposed to be released for the benefit of Cognor is in our opinion incorrect Cognor entered into further discussions with the Buyers. We are of the opinion that the dispute on the amount may require application of certain arbitration mechanisms which may further delay the receipt of the remaining part of Price. It is difficult now to predict the timing.

The repayment of the intercompany loan proceeds according to the agreed instalments. Cognor shall receive two last remaining instalments: (i) on the 30th of October 2011 – the amount of EUR 2,913 thousand and (ii) on the 31st of January 2012 - EUR 4,855 thousand; both amounts increased by the accrued interest.

9. Property, plant and equipment**Acquisitions and disposals**

During the six months ended 30 June 2011, the Group acquired property, plant and equipment at a cost of PLN 5 883 thousand (six months ended 30 June 2010: PLN 4 844 thousand). Assets with a net book value of PLN 288 thousand were disposed during the first half of 2011 (six months ended 30 June 2010: PLN 6 676 thousand). On the sale of fixed assets the Group achieved a net gain on disposal of PLN 824 thousand (six months ended 30 June 2010: a net loss on disposal of PLN 143 thousand).

Capital commitments

The Group has contractual commitment resulting from the share purchase agreement to make capital expenditures of PLN 3 000 thousand in Cognor Górniośląski till 2011. This commitment resulted from agreements of share purchase. In 2008 the capital expenditure in Cognor Górniośląski amounted to PLN 522 thousand. In 2009 Cognor Górniośląski has merged with Cognor S.A. Till 31 December 2010 the total capital expenditures amounted to PLN 3 213 thousands resulted in complete fulfilment of this commitment.

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 certain employment level for the period of three years.

As of the date of this report both the employment and the investment obligations have been fulfilled. In terms of details regarding the investments: in 2009 the Group has realised capital investments of HRK 57,385 thousand by means of a share capital increase and in 2010 Złomrex S.A. followed with another share capital increase in Zeljezara Split at the amount of HRK 104,853 thousand .

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.,

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- Odlewnia Metali Szopienice Sp. z o.o.,
- HSW-HSJ S.A.,
- Business Support Services Sp. z o.o.,
- Złomrex Metal Sp. z o.o.

From November 2008 till 30 June 2011 the Group has performed the buy out of own bonds in the nominal value of EUR 50 059 thousand. Outstanding value of the bonds as at 30 June 2011 according to amortized cost method is EUR 122 365 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 2011, the investment payables regarding the acquisition of HSW-Huta Stali Jakościowych Sp. z o.o. was paid.

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 2011

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

	30.06.2011	30.06.2010
<i>Long-term receivables:</i>		
- related parties (not consolidated)	-	1 622
<i>Short-term receivables:</i>		
- related parties (not consolidated)	81	7 469
- associates (consolidated under the equity method)	-	166
- companies controlled by the parent Company's Management Board members	316	111
<i>Long-term liabilities</i>		
- associates (consolidated under the equity method)	-	45 304
<i>Short-term liabilities</i>		
- related parties (not consolidated)	60	416
- associates (consolidated under the equity method)	-	162
- companies controlled by the parent Company's Management Board members	-	107
<i>Loans granted</i>		
- associates (consolidated under the equity method)	-	556

in PLN thousand

	1.1.2011 - 30.06.2011	1.1.2010 - 30.06.2010
<i>Revenues from sale of services</i>		
- related parties (not consolidated)	23	72
- associates (consolidated under the equity method)	-	428
- companies controlled by the parent Company's Management Board members	16	3
<i>Revenues from sale of raw materials and commodities</i>		

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- related parties (not consolidated)	-	1 632
- associates (consolidated under the equity method)	-	28
<i>Purchase of commodities and raw materials</i>		
- related parties (not consolidated)	-	844
- associates (consolidated under the equity method)	-	32
<i>Purchase of services</i>		
- related parties (not consolidated)	137	147
- companies controlled by the parent Company's Management Board members	332	530
<i>Other income</i>		
- related parties (not consolidated)	-	63
- associates (consolidated under the equity method)	-	3 173
<i>Other expenses</i>		
- related parties (not consolidated)	19	-
<i>Other gains/losses net</i>		
- associates (consolidated under the equity method)	-	3 899

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 2011	30 June 2010
Management Board of the parent Company	1 745	90
Supervisory Board of the parent Company	179	261
Management Boards of subsidiaries	1 644	2 475
Supervisory Boards of subsidiaries	102	181
	3 670	3 007

14. Subsequent events

- On the 4th of July 2011 Złomrex S.A. sold 4 390 shares in CKM Włókniarz S.A to Marian Maślanka. The nominal value of shares was PLN 2.195 thousands, but the sale price was PLN 10 thousands due to negative equity of the company.
- On the 12th of August mr. Przemysław Sztuczowski, the sole shareholder of Złomrex S.A., decided to form a new holding entity called PS HOLDCO sp. z o.o. (PSH), organised under the laws of Poland and on the same day he has contributed all his shares in Złomrex S.A. into that entity.
- On the 27th of August 2011:
 - PSH, Złomrex and some of its subsidiaries entered into the supplemental Indenture following the receipt of the consent from the holders of the Notes. This supplement has enabled Złomrex to conduct its Modified Internal Reorganisation as described in details in the consent solicitation statement dated as of the 2nd of June 2011,
 - Złomrex sold all its equity interest in Odlewnia Metali Szopienice sp. z o.o. to PSH together with certain other non-material subsidiaries.
- On the 29th of August 2011:
 - Złomrex repurchased approximately 56% of its own shares from PSH for the purpose of further cancellation. Prior to that transfer PSH established a pledge on those shares for the benefit of the Noteholders.
 - Cognor purchased approximately 44% of shares in Złomrex S.A. and established a pledge on those shares for the benefit of the Noteholders.

ZŁOMREX S.A.

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By the completion of the 3(ii) above Cognor has become a holding entity for Złomrex S.A. and therefore indirectly has acquired:

- (i) 92,4% stake in Ferrostal Łabędy sp. z o.o.
- (ii) 100,0% stake in HSW – Huta Stali Jakościowych S.A.
- (iii) 100,0% stake in Złomrex Metal sp. z o.o.
- (iv) 99,9% stake in Zlomrex International Finance SA

As a result of the above we regard the Modified Internal Reorganisation as completed in its material scope. However, the following steps will have to be carried out as part of that process:

- (i) transfer of all shares in Cognor S.A. (64,4%) by Złomrex S.A. to PSH,
- (ii) cancellation of all shares in Złomrex S.A. held by Złomrex S.A.,
- (iii) merger between Złomrex S.A. and HSW – Huta Stali Jakościowych S.A.

The above items are either pending or will be initiated shortly and we expect to complete them within the next couple of months.