

ZŁOMREX S.A.

**Condensed Consolidated
Interim Financial Statement
as at and for the three months ended
31 March 2011**

ZŁOMREX S.A.

Consolidated statement of financial position

As at

in PLN thousand

	31 March 2011 (unaudited)	31 December 2010 (audited)
Assets		
Property, plant and equipment	369 187	377 959
Intangible assets	19 711	20 487
Investment property	1 313	1 320
Investments in associates	-	-
Other investments	2 738	2 844
Other receivables	256	241
Prepaid perpetual usufruct of land	19 321	19 419
Deferred tax assets	36 136	41 006
Total non-current assets	448 662	463 276
Inventories	218 225	182 640
Other investments	79 083	10
Income tax receivable	859	863
Trade and other receivables	267 017	143 857
Cash and cash equivalents	9 215	9 337
Total current assets	574 399	336 707
Assets classified as held for sale	102 389	103 733
Assets of disposal groups and discontinued operations	-	544 534
Total assets	1 125 450	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

	31 March 2011 <i>(unaudited)</i>	31 December 2010 <i>(audited)</i>
Equity		
Issued share capital	47 691	47 691
Reserves	200 669	203 624
Foreign currency translation reserve	(345)	18 185
Retained earnings	(216 440)	(250 714)
Total equity attributable to equity holders of the parent	31 575	18 786
Minority interest	79 326	79 574
Total equity	110 901	98 360
Liabilities		
Interest-bearing loans and borrowings	510 240	503 222
Employee benefits	11 983	12 121
Other payables	-	-
Deferred government grants and other deferred income	1 222	1 399
Deferred tax liabilities	5 063	8 539
Total non-current liabilities	528 508	525 281
Bank overdraft	82 108	86 782
Interest-bearing loans and borrowings	100 396	107 376
Employee benefits	3 877	4 735
Income tax payable	-	-
Provisions for payables	403	403
Trade and other payables	296 303	253 205
Deferred government grants and other deferred income	2 954	1 007
Total current liabilities	486 041	453 508
Liabilities of disposal group classified as held for sale	-	371 101
Total liabilities	1 014 549	1 349 890
Total equity and liabilities	1 125 450	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 three months ended 31 March

in PLN thousand

	<i>Note</i>	2011 <i>(unaudited)</i>	2010 restated* <i>(unaudited)</i>
Continuing operations			
Revenue	5	332 073	171 645
Cost of sales		(297 225)	(180 218)
Gross profit/(loss)		34 848	(8 573)
Other income		2 878	2 283
Distribution expenses		(7 486)	(3 142)
Administrative expenses		(9 558)	(10 410)
Other gains / (losses) – net		(745)	9 815
Other expenses		(3 753)	(2 970)
Operating profit/(loss) before financing costs		16 184	(12 997)
Other financial income		344	20 821
Other financial expenses		(19 878)	(14 711)
Net financing costs		(19 534)	6 110
Share of profits of associates		-	-
Loss before tax		(3 350)	(6 887)
Income tax expense		(4 775)	(13 180)
Loss for the period from continuing operations		(8 125)	(20 067)
Discontinued operations			
Profit for the period from discontinued operations		35 903	4 420
Profit/(loss) for the period		27 778	(15 647)
Other comprehensive income			
Currency translation differences		(882)	(15 210)
Total comprehensive income/(loss) for the period		26 896	(30 857)
Profit/(loss) for the period attributable to:			
Equity holders of the parent		31 319	(11 246)
Minority interest		(3 541)	(4 401)
Profit/(loss) for the period		27 778	(15 647)
Total comprehensive income for the period attributable to:			
Equity holders of the parent		30 437	(26 481)
Minority interest		(3 541)	(4 376)
Total comprehensive income/(loss) for the period		26 896	(30 857)
Basic earnings per share (PLN) attributable to the shareholders of the Parent Company			
- from continuing operations		(0,10)	(0,44)
- from discontinued operations		0,75	0,21
Basic comprehensive income/(loss) per share (PLN)		0,64	(0,55)

*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 31 March

in PLN thousand

	Note	2011 (unaudited)	2010 restated* (unaudited)
Continuing operations			
Revenue	5	1 154 893	762 999
Cost of sales		(1 044 517)	(801 576)
Gross profit/(loss)		110 376	(38 577)
Other income		10 178	6 380
Distribution expenses		(37 373)	(24 066)
Administrative expenses		(52 809)	(36 905)
Other gains / (losses) – net		(259)	14 861
Other expenses		(19 142)	(30 506)
Operating profit/(loss) before financing costs		10 971	(108 813)
Other financial income		549	53 055
Other financial expenses		(77 872)	(13 362)
Net financing costs		(77 323)	39 693
Share of profits of associates		-	-
Loss before tax		(66 352)	(69 120)
Income tax expense		(565)	9 793
Loss for the period from continuing operations		(66 917)	(59 327)
Discontinued operations			
Loss for the period from discontinued operations		(56 635)	(110 858)
Loss for the period		(123 552)	(170 185)
Other comprehensive income			
Currency translation differences		5 314	(64 114)
Total comprehensive loss for the period		(118 238)	(234 299)
Attributable to:			
Equity holders of the parent		(86 896)	(131 111)
Minority interest		(36 656)	(39 074)
Loss for the period		(123 552)	(170 185)
Total comprehensive income for the period attributable to:			
Equity holders of the parent		(81 671)	(194 172)
Minority interest		(36 567)	(40 127)
Total comprehensive loss for the period		(118 238)	(234 299)
Basic earnings per share (PLN) attributable to the shareholders of the Parent Company			
- from continuing operations		(0,63)	(1,95)
- from discontinued operations		(1,19)	(0,80)
Basic comprehensive income/(loss) per share (PLN)		(1,71)	(4,07)

*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 three months ended 31 March
in PLN thousand

	2011 <i>(unaudited)</i>	2010 restated* <i>(unaudited)</i>
Continuing operations		
Loss before tax from continuing operations	(3 350)	(6 887)
Adjustments		
Depreciation	10 234	11 657
Amortization	914	1 378
Impairment losses and valuation allowances	1 029	209
Foreign exchange (gains)/losses	5 339	(20 821)
Net (gains)/losses on investment activities	(120)	-
Net (gains)/losses on disposal of property, plant and equipment	(34)	(9 588)
Interest, commissions and dividends, net	13 445	14 050
Change in receivables	(105 038)	(2 499)
Change in inventories	(34 867)	837
Change in trade and other payables	57 867	31 605
Change in employee benefits	(986)	(1 768)
Change in deferred government grants and other deferred income	1 776	476
Other adjustments	-	16
Cash generated/(outflows) from continuing operations	(53 791)	18 665
Discontinuing operations		
Operating profit from discontinuing operations	36 602	5 928
Adjustments		
Depreciation	565	4 170
Impairment losses and valuation allowances	-	(9 774)
Foreign exchange (gains)/losses	(397)	(277)
Net (gains)/losses on investment activities	(21 585)	(75)
Net (gains)/losses on disposal of property, plant and equipment	1	125
Interest, commissions and dividends, net	337	1 753
Change in receivables	(9 691)	(62 502)
Change in inventories	(1 293)	(4 762)
Change in trade and other payables	(14 191)	57 636
Change in provisions	(3 469)	(23)
Change in employee benefits	159	670
Change in deferred government grants and other deferred income	(6)	-
Other adjustments	196	-
Cash outflows from discontinuing operations	(12 772)	(7 131)
Cash generated/(outflows) from operations	(66 563)	11 534
Income tax paid	-	(843)
Net cash from operating activities	(66 563)	10 691

Consolidated statement of cash flows – continued
For the three months ended 31 March

Cash flows from investing activities

Proceeds from sale of property, plant and equipment and intangibles	288	9 671
Interest received	16	27
Acquisition of property, plant and equipment	(865)	(663)
Acquisition of intangible assets	(143)	(366)
Cash generated/(outflows) from continuing operations	(704)	8 669
Cash generated from discontinuing operations	85 680	7 103
Net cash from investing activities	84 976	15 772

Cash flows from financing activities

Receipt of interest-bearing loans and borrowings	874	-
Repayment of interest-bearing loans and borrowings	(4 176)	(3 964)
Payment of finance lease liabilities	(4 329)	(2 903)
Interest and commissions paid	(13 461)	(14 077)
Cash outflows from continuing operations	(21 092)	(20 944)
Cash generated/(outflows) from discontinuing operations	392	(8 906)
Net cash from financing activities	(20 700)	(29 850)

Net decrease in cash and cash equivalents	(2 287)	(3 387)
Cash and cash equivalents net of bank overdraft, at 1 January	(70 545)	(99 244)
Effect of exchange rate fluctuations on cash held	(61)	(8)
Cash and cash equivalents net of bank overdraft, at 31 March	(72 893)	(102 639)

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

ZŁOMREX S.A.**Condensed consolidated interim statement of cash flows (LTM)****For the twelve months ended 31 March***in PLN thousand*

	2011	2010
	<i>(unaudited)</i>	restated*
		<i>(unaudited)</i>
Continuing operations		
Loss before tax from continuing operations	(66 352)	(69 120)
<i>Adjustments</i>		
Depreciation	39 962	47 100
Amortization	4 499	4 332
Impairment losses and valuation allowances	7 354	18 706
Foreign exchange (gains)/losses	11 923	(24 489)
Net (gains)/losses on investment activities	(120)	(41 164)
Net (gains)/losses on disposal of property, plant and equipment	1 195	(11 663)
Interest, commissions and dividends, net	55 979	57 945
Change in receivables	(83 842)	45 158
Change in inventories	(58 685)	81 299
Change in trade and other payables	64 950	(46 395)
Change in provisions	(253)	656
Change in employee benefits	1 455	(6 863)
Change in deferred government grants and other deferred income	183	(1 642)
Other adjustments	(16)	9 480
Cash generated/(outflows) from continuing operations	(21 768)	63 340
Discontinuing operations		
Operating loss from discontinuing operations	(56 196)	(108 469)
<i>Adjustments</i>		
Depreciation	9 584	17 199
Impairment losses and valuation allowances	30 669	30 384
Foreign exchange (gains)/losses	9 027	(8 213)
Net (gains)/losses on investment activities	(21 025)	(41 746)
Net (gains)/losses on disposal of property, plant and equipment	3 776	(4 019)
Interest, commissions and dividends, net	2 568	5 192
Change in receivables	26 828	111 994
Change in inventories	10 802	222 394
Change in trade and other payables	(12 606)	(70 806)
Change in provisions	(6 512)	617
Change in employee benefits	3 037	(5 651)
Change in deferred government grants and other deferred income	(42)	427
Other adjustments	2 261	381
Cash generated from discontinuing operations	2 171	149 684
Cash generated/(outflows) from operations	(19 597)	213 024
Income tax paid	1 031	(10 498)
Net cash from operating activities	(18 566)	202 526

Consolidated statement of cash flows (LTM) – continued

For the twelve months ended 31 March

Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	8 176	23 474
Interest received	271	288
Dividends received	-	267
Repayment of loans granted	-	5 731
Acquisition of property, plant and equipment	(9 024)	(14 590)
Acquisition of intangible assets	(564)	(1 962)
Other inflows from investing activities	-	391
Cash generated/(outflows) from continuing operations	(1 141)	13 599
Cash generated from discontinuing operations	112 674	70 027
Net cash from investing activities	111 533	83 626
Cash flows from financing activities		
Proceeds from transactions with minority interests	23 353	16 705
Receipt of interest-bearing loans and borrowings	3 345	-
Payments/Proceeds relating to derivative financial instruments	-	178
Repayment of interest-bearing loans and borrowings	(8 196)	(26 838)
Payment of finance lease liabilities	(14 496)	(12 037)
Interest and commissions paid	(56 250)	(49 533)
Cash outflows from continuing operations	(52 244)	(71 525)
Cash outflows from discontinuing operations	(10 198)	(240 735)
Net cash from financing activities	(62 442)	(312 260)
Net increase/(decrease) in cash and cash equivalents	30 525	(26 108)
Cash and cash equivalents net of bank overdraft, at 1 April	(102 639)	(75 015)
Effect of exchange rate fluctuations on cash held	(779)	(1 516)
Cash and cash equivalents net of bank overdraft, at 31 March	(72 893)	(102 639)

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 three months ended 31 March

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	-	18	(18)	-	-	-
Total comprehensive income for the period	-	(15 235)	(11 246)	(26 481)	(4 376)	(30 857)
Equity as at 31 March 2010	47 691	237 055	(152 181)	132 565	87 576	220 141
Equity as at 1 January 2011	47 691	221 809	(250 714)	18 786	79 574	98 360
Transfer of profit	-	(2 955)	2 955	-	-	-
Change in minority interest		(17 648)	-	(17 648)	3 293	(14 355)
Total comprehensive income for the period	-	(882)	31 319	(4 550)	(3 541)	26 896
Equity as at 31 March 2011	47 691	200 324	(216 440)	31 575	79 326	110 901

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 three months ended 31 March 2011 comprise the Company and its subsidiaries (together referred to as the “Group”). The basic information about the subsidiaries comprising the Group as at 31 March 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
HSW – TLEOWNIA 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
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
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
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
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 FINANSE 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 30 May 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 been included. Moreover, the Group conducted a preliminary sale contract with respect to Cognor Stahlhandel GmbH (Austria) subgroup, which was concluded in February 2011. Due to these decisions the business performed in distribution divisions are presented as discontinued operations in statement of comprehensive income. The comparative data was changed as follows:

<i>For the period ended 31 March 2010</i>	01.01.2010- 31.03.2010 published	Restatements	01.01.2010- 31.03.2010 restated
Continuing operations			
Revenue	423 529	(251 884)	171 645
Cost of sales	(399 973)	219 755	(180 218)
Gross profit	23 556	(32 129)	(8 573)
Other income	4 148	(1 865)	2 283
Distribution expenses	(25 991)	22 849	(3 142)
Administrative expenses	(26 483)	16 073	(10 410)
Other gains / (losses) – net	13 493	(3 678)	9 815
Other expenses	(5 530)	2 560	(2 970)
Operating loss before financing costs	(16 807)	3 810	(12 997)
Other financial income	22 141	(1 320)	20 821

ZŁOMREX S.A.

Explanatory notes to the condensed consolidated interim financial statements

(in PLN thousand, unless stated otherwise)

Other financial expenses	(16 039)	1 328	(14 711)
Net financing costs	6 102	8	6 110
Share of profits of associates	(75)	75	-
Loss before tax	(10 780)	3 893	(6 887)
Income tax expense	(14 688)	1 508	(13 180)
Loss for the period from continuing operations	(25 468)	5 401	(20 067)
Discontinued operations			
Profit /(loss) for the period from discontinued operations	9 821	(5 401)	4 420
Loss for the period	(15 647)	-	(15 647)

For the twelve months ended 31 March 2010

	01.04.2009 - 31.03.2010 published	Restatements	01.04.2009 - 31.03.2010 restated
Continuing operations			
Revenue	1 832 099	(1 069 100)	762 999
Cost of sales	(1 782 505)	980 929	(801 576)
Gross profit	49 594	(88 171)	(38 577)
Other income	14 003	(7 623)	6 380
Distribution expenses	(149 960)	125 894	(24 066)
Administrative expenses	(99 059)	62 154	(36 905)
Other gains / (losses) – net	418	14 443	14 861
Other expenses	(46 429)	15 923	(30 506)
Operating loss before financing costs	(231 433)	122 620	(108 813)
Other financial income	95 338	(42 283)	53 055
Other financial expenses	(16 034)	2 672	(13 362)
Net financing costs	79 304	(39 611)	39 693
Share of profits of associates	(1 224)	1 224	-
Loss before tax	(153 353)	84 233	(69 120)
Income tax expense	21 092	(11 299)	9 793
Loss for the period from continuing operations	(132 261)	72 934	(59 327)
Discontinued operations			
Profit /(loss) for the period from discontinued operations	(37 924)	(72 934)	(110 858)
Loss for the period	(170 185)	-	(170 185)

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.

ZŁOMREX S.A.

Explanatory notes to the condensed consolidated interim financial statements

(in PLN thousand, unless stated otherwise)

6. Segment reporting (continued)

For the three months ended 31 March

	Scrap division		Production division		Distribution division		Other		Eliminations		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenues	134 847	99 840	292 253	150 873	8 612	3 839	1 821	1 577	(105 460)	(84 484)	332 073	171 645
Segment result	8 063	7 058	26 310	(10 355)	727	211	(520)	182	268	5 669	34 848	(8 573)
Unallocated income/expense											(18 664)	(4 424)
Operating loss before financing costs											16 184	(12 997)

ZŁOMREX S.A.

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 and 2010 as additional conditions were imposed on Zlomrex S.A. 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 2011. 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 are not acceptable to Zlomrex. At present Zlomrex has undertaken all necessary actions to enforce its rights. On 11th March 2011, the bankruptcy of Zelejezara Split d.d., Croatia (a subsidiary of Zlomrex S.A.) was announced by Commercial Court in Split. The proceedings was initiated on proposal of the creditor – HEP – Opskrba d.o.o., Zagreb.

Moreover, the sale of Cognor Stahlhandel GmbH (Austria) subgroup was decided by Group Management and preliminary contract were signed before year-end date. As a result of the above, all assets and liabilities of Cognor Stahlhandel GmbH was classified as a disposal group. At the date of reclassification, the net assets of the Cognor Stahlhandel GmbH subgroup was valued at the amount which will be recovered through sale. The sale transaction was concluded on the 4th February 2011. For details please refer to note 8.

Assets held for sale

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

- sell 11 warehouses,
- lease and sub lease transfer pertaining to 2 warehouses,
- sell movable assets located in the above sites,
- sell inventories located in the above sites,
- transfer certain IT licenses.

In connection with this agreement the tangible and intangible assets which will be sold were transferred to assets held for sale. The sale transaction was concluded on the 5th May 2011. For details please refer to note 14.

8. Acquisitions, mergers and disposals of subsidiaries

Acquisitions realised in 2011

No acquisitions took place until 31 March 2011.

Mergers realised in 2011

No mergers took place until 31 March 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 on sale of shares in Cognor Stahlhandel GmbH (Cognor Austria). Cognor Stahlhandel GmbH is part of Zlomrex Distribution Division and it conducts all the Groups'

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international (other than in Poland) operations in steel products distribution business. Currently the Seller holds 74,9% interest in Cognor Austria with an option (the Option) to acquire the remaining 25,1% of shares from voestalpine Stahl GmbH, a minority shareholder in the Company. 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 adjusted by the difference between Cognor Austria's equity as of December 31, 2009 and as of closing. Closing of the Transaction shall occur at December 31, 2010 or later, subject to fulfilment or waiver of all conditions precedent. Major conditions precedent include:

- (i) consent of holders of Złomrex' senior notes,
- (ii) lack of the material adverse change,
- (iii) crediting the escrow account with the amount corresponding to the Price,
- (iv) receipt of Cognor Austria share pledge release confirmation to be made by the Bank of New York,
- (v) receipt of confirmations by the banks that no due and outstanding payments

under any of the Company's financing arrangements exist as of closing. In the Agreement Złomrex extended its corporate guarantee in favour of the Purchaser in order to secure Cognor's performance.

On 4th of February 2011, the transaction has been closed following fulfilment of all the conditions precedent. As a result Złomrex S.A. and Cognor S.A. sold:

- 74,9% interest in Cognor Stahlhandel GmbH (Cognor Austria) and
- 25,1% interest in Cognor Austria acquired by Cognor and Złomrex on February 3 from voestalpine Stahl

9. Property, plant and equipment

Acquisitions and disposals

During the three months ended 31 March 2011, the Group acquired property, plant and equipment at a cost of PLN 1 724 thousand (three months ended 31 March 2010: PLN 1 239 thousand). Assets with a net book value of PLN 249 thousand were disposed during the first quarter of 2011 (three months ended 31 March 2010: PLN 92 thousand). On the sale of fixed assets the Group achieved a net gain on disposal of PLN 39 thousand (three months ended 31 March 2010: a net gain on disposal of PLN 9 463 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 Górnosławski till 2011. This commitment resulted from agreements of share purchase. In 2008 the capital expenditure in Cognor Górnosławski amounted to PLN 522 thousand. In 2009 Cognor Górnosławski has merged with Cognor S.A. Till 31 December 2010 total capital expenditures amounted to PLN 3 213 thousands, that fulfill completely 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 employment level. In 2009 the Group has realised capital investments of HRK 57 million. In April 2010 Złomrex S.A. 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 S.A.

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.,

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- Business Support Services Sp. z o.o.,
- Złomrex Metal Sp. z o.o.

From November 2008 till 31 March 2011 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 31 March 2011 according to amortized cost method is EUR 126 763 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 31 March 2011, other short-term portion of investment payables regarding the acquisition of HSW-Huta Stali Jakościowych Sp. z o.o. in the amount of PLN 5 902 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 31 March 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.

<i>in PLN thousand</i>	31.03.2011	31.03.2010
<i>Long-term receivables:</i>		
- related parties (not consolidated)	-	1 622
<i>Short-term receivables:</i>		
- related parties (not consolidated)	133	7 469
- associates (consolidated under the equity method)	-	166
- companies controlled by the parent Company's Management Board members	2	194
<i>Long-term liabilities</i>		
- associates (consolidated under the equity method)	-	45 304
<i>Short-term liabilities</i>		
- related parties (not consolidated)	-	416
- associates (consolidated under the equity method)	-	162
- companies controlled by the parent Company's Management Board members	329	73
<i>Loans granted</i>		
- related parties (not consolidated)	-	556

<i>in PLN thousand</i>	1.1.2011 - 31.03.2011	1.1.2010 - 31.03.2010
<i>Revenues from sale of services</i>		
- related parties (not consolidated)	1	72
- associates (consolidated under the equity method)	-	428
- companies controlled by the parent Company's Management Board members	8	12
<i>Revenues from sale of raw materials and commodities</i>		
- related parties (not consolidated)	-	1 632
- associates (consolidated under the equity method)	-	28

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<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)	24	147
- companies controlled by the parent Company's Management Board members	160	284
<i>Other income</i>		
- related parties (not consolidated)	25	63
- associates (consolidated under the equity method)	-	3 173
<i>Other expenses</i>		
- related parties (not consolidated)	(19)	-
<i>Other gains/losses net</i>		
- related parties (not consolidated)	(1 028)	-
- 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:

	Three months ended	
	31 March 2011	31 March 2010
Management Board of the parent Company	1 016	90
Supervisory Board of the parent Company	89	92
Management Boards of subsidiaries	770	1 236
Supervisory Boards of subsidiaries	70	94
	1 945	1 512

14. Subsequent events

On May 5, 2011 Cognor S.A. (a 64,4% subsidiary of Złomrex S.A.) with its subsidiaries – Cognor Services Sp. z o.o., Cognor Finanse Sp. z o.o. and Złomrex Centrum Sp. z o.o. (together : Sellers) fulfilled the conditions of the Conditional Asset Sale Agreement signed on November 26, 2010 and signed with ArcelorMittal Distribution Poland sp. z o.o. and ArcelorMittal Distribution Solutions Poland sp. z o.o. Asset Sale Agreement, which obtained properties, plant and equipments and inventories. Total price of properties, plant and equipment amounted to PLN 148 700 thousands. Total price of inventories amounted to PLN 32 509 thousands.

On May 9, 2011 Złomrex S.A. and Cognor S.A. signed Preliminary Sale Agreement of all shares owned by Złomrex S.A. in Złomrex Metal Sp. z o.o., HSW-HSJ S.A. and Ferrostal Łabędy Sp. z o.o. Total price of these shares was fixed at PLN 703 000 thousands.