

SECURITIES AND STOCK EXCHANGE COMMITTEE

Semi-annual report SA-P 2004

according to § 57 passage 2 of the Decree of the Cabinet dated 16th October 2001 - Journal on Laws no 139, item 1569 and of 2002 No 31, item 280
(for issuers of securities of manufacturing, construction, commercial or service activity)

for the financial half of the financial year covering the period from 01.01.2004 to 30.06.2004

and for the half of the previous financial year covering the period from 01.01.2003 to 30.06.2003

30.09.2005

(date of publishing)

STALEXPORT Joint Stock Company (full name of the issuer)		
STALEXPORT SA (abridged name of issuer)	metal sector 17 (sector acc. to Warsaw Stock Exchange classification)	
40-085 (postal code)	Katowice (city)	
Mickiewicza (street)	29 (number)	
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634-01-34-211 (NIP- Tax Identification No.)	271936361 ON- statistical No.)	www.stalexport.com.pl (WWW)

BDO Polska Sp. z o.o.

(entity entitled to carry out the examination)

The semi-annual report contains :

- x The report of the entity entitled to carry out the examination of the financial reports from reviewing the semi-annual financial report
- x Semi-annual financial report
 - x Introduction
 - x Balance sheet
 - x Profit and loss account
 - x Management Board report
- x List of changes in equity capital
- x Cash flow account
- x Additional information and explanations

SELECTED FINANCIAL DATA	thousand zlotys		thousand EURO	
	30.06.2004	30.06.2003	30.06.2004	30.06.2003
I. Net incomes from sales of products, goods and materials	438 916	419 793	92 773	88 731
II. Profit (loss) on operating activity	92 909	33 441	19 638	7 068
III. Gross profit (loss)	11 463	12 509	2 423	2 644
IV. Net profit (loss)	11 455	13 189	2 421	2 788
V. Net cash flows from operating activity	(3 919)	30 116	(863)	6 630
VI. Net cash flows from investment activity	25 960	(4 828)	5 715	(1 063)
VII. Net cash flows from financial activity	(21 014)	(26 897)	(4 626)	(5 922)
VIII. Net cash flows in total	1 027	(1 609)	226	(354)
IX. Assets in total	619 014	603 029	136 281	132 761
X. Liabilities and reserves for liabilities	658 135	693 237	144 893	152 621
XI. Long-term liabilities	197 793	250 213	43 546	55 086
XII. Short-term liabilities	289 394	223 961	63 712	49 307
XIII. Equity capital	(39 121)	(90 208)	(8 613)	(19 860)
XIV. Stock capital	215 524	215 524	47 449	47 449
XV. Number of shares	107 762 023	107 762 023	107 762 023	107 762 023
XVI. Profit (loss) per one ordinary share (in zlotys/EURO)	0,11	0,12	0,02	0,03
XVII. Diluted profit (loss) per one ordinary share (in zlotys/EURO)				
XVIII. Book value per one share (in zlotys/EURO)	(36,00)	(0,84)	(0,08)	(0,18)
XIX. Diluted book value per one share (in zlotys/EURO)				
XX. Declared or paid dividend per one share (in zlotys/EURO)				

**Report of expert auditor on audit
of the financial statements covering the period
from 1 January to 30 June 2004**

For the Supervisory Board of **Stalexport S.A.**

We have audited the enclosed mid-year financial statements of **Stalexport S.A.** with the registered office in Katowice that consists of:

- introduction to the financial statements,
- balance sheet drawn as at 30 June 2004, which shows the assets and liabilities in the amount of **619,013,879.55 PLN**,
- profit and loss account for the period from 1 January 2004 to 30 June 2004 showing net profit of **11,453,960.37 PLN**,
- statement of changes in shareholders' equity, showing an increase in shareholders equity by the amount of **17,603,822.26 PLN**,
- cash flow statement showing net cash increase in the period from 1 January 2004 to 30 June 2004 to the amount of **1,026,918.66 PLN**,
- additional information and notes.

Manager of Stalexport S.A. is responsible for the preparation of the financial statements.

Our task was to audit these financial statements.

We conducted the audit in compliance with provisions of the Accounting Act and the auditing standards issued by the National Board of Certified Auditors. The standards require us to conduct the audit in such a way as to obtain reasonable certainty that the financial statements do not contain material irregularities.

We carried out the audit mainly with the method of analysis of data contained in the financial statements, inspection of the books and using information supplied by the management and personnel responsible for finance and accounting of the company.

The scope and method of audit of mid-year financial statements significantly differs from examinations forming the basis for giving opinion on reliability, correctness and clarity of annual financial statements, therefore we cannot express such an opinion on the enclosed financial statements.

We draw your attention to the fact that the value of shareholders' equity continues to be negative, in spite of its considerable increase caused by conversion of the [arrangement](#) liabilities to share and supplementary capital by the value of redeemed [arrangement](#) liabilities, as well as net positive financial result achieved by the Company for the audited period. In spite of that, the financial statements have been prepared on a going concern basis.

The continuation of activities of the Company depends mainly on carrying out the provisions of the arrangement made with creditors and timely repayment of credit instalments and interests. Until now the Company has paid all the restructured liabilities in accordance with the schedule.

We would like to inform that the balance of guarantees issued to a contractor on investment credits amounts to 297,122,572.57 PLN and that it is still uncertain whether the investment process in that entity can be completed successfully, therefore granted guarantees may become due and payable .

Taking the above information into account, the audit we carried out did not reveal any need to make essential changes in the enclosed financial statements in order for it to present correctly, reliably and fairly the assets and financial situation of the Company as at 30 June 2004 and its financial result, profitability, changes in shareholders' equity and cash flow in the period from 1 January 2004 to 30 June 2004 in compliance with the accounting principles specified in the Accounting Act dated 29 September 1994 (Dz.U. No 76, item 694 of 2002) and regulations issued on the basis of it, as well as the requirements specified in the Decree of Council of Ministers dated 16 October 2001 on detailed conditions that must be met by prospectus and abridgement of prospectus (Dz.U. No 139, item 1568 with amendments) and in Decree of Council of Ministers dated 16 October 2001 on current and periodic information supplied by issuers of securities (Dz.U. No 139, item 1569 with amendments).

Katowice, 23 September 2004.

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INTRODUCTION

1. Issuer: Stalexport Spółka Akcyjna with the registered office in: 40-085 Katowice ul. Mickiewicza 29, KRS 16854, basic scope of activities: wholesale of metals and metal ores PKD 5152.
2. Financial statements present financial data for the reporting period from 1.01.2004 to 30. 06. 2004, in comparison with analogical data of the first half of 2003.
Financial statements for the first half of 2004 ensure comparability with financial data of the reporting period.
3. Financial statements for the first half of 2004 were prepared with the assumption of continuation of business activities by the company.
4. Accounting principles applied at drawing up the financial statement for 30.06.2004 are in compliance with the Accounting Act dated 29.09.1994 (Journal of Law: Dz.U. no 121 item 591 with amendments), hereinafter referred to as the Act, book entries are made in accordance with historical cost concept, except for fixed assets undergoing revaluation according to principles specified in separate provisions.

Stalexport adopted the following principles of recording liabilities that are to be redeemed as a result of the arrangement proceedings.

The redeemed part of debts covered by the arrangement proceedings was recorded in deferred income at the time of receiving the decision of the District Court about approval of the arrangement

In accordance with art.36 p.2 of the Accounting Act, which provides that equity capital increases liabilities unconditionally redeemed in the course of reorganization or arrangement proceedings, Stalexport S.A. assumed making payment of subsequent instalments resulting from the schedule of carrying out the arrangement as the moment of redemption settlement.

Valuation of assets and liabilities is as follows:

Fixed Assets

- intangible assets - note no 1

Shown at purchase price reduced by cumulative depreciation.

Intangible assets are depreciated over the period of five years starting on the month following the month of acquisition.

- tangible fixed assets - note no 2

These are fixed assets and fixed assets under construction .

Fixed assets comprise assets according to net prices of acquisition (without VAT) of value exceeding 3 500 PLN, with period of use over 1 year, being the property of the Company, which are complete, fit for use at the moment they were accepted for use and the right of perpetual usufruct of land, title to a flat in co-operatively owned building, lands in perpetual use.

Tangible fixed assets are shown in net values, i.e. decreased by cumulative depreciation.

Depreciation deductions are made in accordance with the principles specified in the Act of 15.02.1992 on corporate income tax / Dz. U. no 54 of 2000 item 654 / .

Value of land in perpetual usufruct has been evaluated according to market value of land.

In case of title to premises in a co-operatively owned building, the depreciation was assumed according to 2.5% rate, and for perpetual use of land the depreciation was assumed at 5% rate.

Fixed assets under construction comprise total costs directly connected with still unfinished construction, purchase or erection and are valued according to purchase prices with depreciation allowance for suspended investments.

The amount of revaluation allowance in the first half of the year did not change and amounts to 8 231 thousand PLN, and comprises the following titles: Centrum Biznesu (7 888 thousand PLN), Metbud Chorzów (170 thousand PLN) and an undertaking connected with start up of sheet metal cutting line (173 thousand PLN).

- long-term receivables - note no 3, 8.

Long-term receivables are valued at their purchase prices in accordance with a conservative estimate principle, thus decreased by revaluation allowances. Revaluation provisions were created for them in the amount of 9 738 thousand PLN,

and they comprise: claims from SSC Warszawa in the amount of 7 333 thousand PLN, interests on loans of Ferrostal Łabędy 425 thousand PLN, claim from Centrozap Finanse 1 979 thousand PLN.

- long-term financial assets - note no 4.

Elements of long-term financial assets are valued at their purchase prices taking into account the correction for permanent loss of their value, which as at 30.06. 2004 amounted to 67 923 thousand PLN and concerned:

- provisions for value of financial fixed assets

dependent entities in the amount of	46 961 thousand PLN
other entities in the amount of	20 962 thousand PLN

The amount of provisions for value of long-term financial assets in the first half of the year 2004 was 15 thousand PLN and concerned „Merkury TJ” company.

The value of reversed provisions in the first half of 2004 amounted to 158 146 thousand PLN.

The above value of reversed provisions resulted mainly from:

- sale of shares in Ferrostal Łabędy for the benefit of Złomrex Sp. z o.o. Stalexport reversed the provision of 152 660 thousand PLN, which did not affect the financial result of the period under discussion (use of the provision).
- sale of shares in Walcownia Metali Czechowice – Dziedzice for the benefit of Impexmetal S.A. Stalexport reversed the provisions amounting to 4 486 thousand PLN, of which the amount 1 013 thousand PLN increased the financial result.

Main provisions for long-term financial assets as at the end of the first half of 2004 concerned: Walcownia Rur Jedność in the amount of 16 020 thousand PLN, Złomhut Bodzechów in the amount of 15 207 thousand PLN, Stalexport Wielkopolska Sp. z o.o. – 23 433 thousand PLN, Pioneer Found – 2 699 thousand PLN, Stalexport Serwis Centrum S.A. – 600 thousand PLN and Beskidzki Dom Maklerski – 1 468 thousand PLN, Stalexport Autostrada Dolnośląska – 7 548 thousand PLN.

- long-term deferred liabilities

changes in total assets due to deferred income tax – note no 5

Because of continued high tax loss and no prognosis of taxable profit in the current year the company does not make provisions for deferred taxes.

Current assets

- inventories - note no 6

Inventories consist of:

- goods in transported valued at purchase prices,
- goods in stock valued at purchase prices,
- finished products at production costs,
- disposal of materials valued according to "first in, first out" method
- payments on account of deliveries shown according to value of made advance payments

At the end of the considered period the amount of provisions for inventories amounted to 382 thousand PLN.

- short-term receivables - note no 7

Short-term receivables are shown in the amount to be paid taking into account a conservative estimate principle, i.e. decreased by provisions made as a result of analysis of realization of these debts and decisions made by the Management Board of the Company

The provisions made as at 30.06.2004 amounted to 199 477 thousand PLN.

Receivables in foreign currencies are recorded according to their nominal value, converted into PLN at average exchange rate of NBP binding on 30.06. 2004.

Negative differences on exchange resulting from valuation on the balance sheet date were treated as costs of financial operations, while positive differences on exchange were treated as financial income.

- short-term financial assets - note no 9

Short-term financial assets comprise:

- securities, which are recorded at purchase prices in accordance with "first in, first out" method and are valued as at the

balance sheet date at stock exchange price according to Warsaw Stock Exchange quotation for 30.06.2004.

- short-term loans, the amount of which on 30.06.2004 was 97 210 thousand PLN, provisions for which amounted to 83,680 thousand PLN

- cash - note no 9.

Presented at nominal value, and cash expressed in foreign currencies converted at the average NBP exchange rate for 30.06.2004. Positive differences on exchange increase financial income, and negative foreign exchange differences are financial costs.

- short-term prepayments – note no 10

Short-term prepayments comprise mainly costs of subscriptions, payments for power supply, organization costs incurred at development of the company and other including insurance, guarantees, charge of perpetual usufruct of land.

- the share capital - equity - note no 12

The share capital at the end of the first half of this year amounted to 215 524 thousand PLN.

- reserve capital - note no 14

In accordance with the resolution no 14 adopted by Shareholders' Meeting at XI WZA Stalexport S.A., net financial result for the year 2003 in the amount of 39 678 thousand PLN was appropriated for reserve capital. The amount of the reserve capital

as at 30.06.2004 was 42 312 thousand PLN.

- reserve capital - note no 16

The reserve capital was created in connection with deferred income concerning the arrangement proceedings and as at 30.06.2004 it amounted to 87 242 thousand PLN. The increase of the reserve capital due to repayment of two arrangement instalments in the first half of the year amounted to 6 149 thousand PLN.

- short-term liabilities - note no 20

Are presented in the amount required for payment, and in foreign currencies they are converted according to the average exchange rate of NBP for 30.06.2004. Negative foreign exchange differences resulting from valuation at the balance sheet date were included in costs of financial operations, and positive foreign exchange differences were treated as financial income.

- long-term liabilities – note no 19

These liabilities are presented in the amount to be paid. They comprise payables resulting from credits and loans, bonds and other liabilities that were recorded in connection with the arrangement agreement made by Stalexport S.A. with its creditors taking into account 40 % redemption of claims resulting from the arrangement proceedings as t arrangement obligation and include liabilities of Stalexport S.A. from long-term credits in the amount of 88 043 thousand PLN.

The accounting principles adopted by the company were applied consistently; they do not defer from the principles applied in the previous business year.

5. The auditor examining financial statements did not make any reservations concerning financial statements for previous years and therefore there were no corrections resulting from that in the presented financial statement or comparable financial data.

6. Stalexport SA does not comprise entities preparing financial statements.

7. In the reporting period there were no significant differences between financial statements prepared in accordance with Polish accounting principles and financial statements prepared according to MSR.

8. EURO average exchange rates used for conversion:

31.01.2004	4.7614
29.02.2004	4.8746
31.03.2004	4.7455
30.04.2004	4.8122
31.05.2004	4.6509

30.06.2004 4.5422
28,3868 :6 = 4.7311

8.1. Most important items of the balance sheet, profit and loss account and cash flow statement converted into EURO:

Balance sheet

(in thousand
PLN)

Items	2004		2003	
	PLN	EUR	PLN	EUR
Fixed assets	349 420	76 928	354 585	78 064
Current assets	268 066	59 017	245 973	54 153
Deferred expenditures	1 528	336	2 471	544
Total assets	619 014	136 281	603 029	132 761
Equity capital	-39 121	-8 613	-90 208	-19 860
Provisions	28 309	6 233	87 892	19 350
Liabilities	487 187	107 258	474 174	104 393
Accrued liabilities	142 639	31 403	131 171	28 878
Total liabilities	619 014	136 281	603 029	132 761

Profit and loss account

Items	2004		2003	
	PLN	EUR	PLN	EUR
Net income from sales of products, goods and materials	438 916	92 773	419 793	88 731
Gross profit (loss) on sales	30 154	6 374	63 966	13 520
Profit (loss) on sales	13 379	2 828	7 745	1 637
Operating profit (loss)	92 909	19 638	33 441	7 068
Profit (loss) on business activity	11 463	2 423	12 509	2 644
Result on extraordinary items				
Gross profit (loss)	11 463	2 423	12 509	2 644
Net profit (loss)	11 455	2 421	13 189	2 788

Cash flow statement

Items	2004		2003	
	PLN	EUR	PLN	EUR
Net cash flow from operating activities	-3 919	-863	30 116	6 630
Net cash flow from investment activities	25 960	5 715	-4 828	-1 063
Net cash flow from financial activities	-21 014	-4 626	-26 897	-5 922
Total net cash flow	1 027	226	-1 609	-354

Assets and liabilities in the balance sheet were converted into EURO according to the average exchange rate of 4.5422 of the Narodowy Bank Polski published for the balance sheet date.

Individual items of profit and loss account for the period 01.01.2004-30.06.2004 were converted into EURO at the exchange rate of 4.7311, which is arithmetic average of average courses of published by NBP for the last day of each month.

BALANCE SHEET

	30.06.2004	2003	30.06.2003
ASSETS			
I. Fixed assets	349 420	375 636	354 585
1. Intangible assets, of which:	1 150	1 739	2 326
- goodwill	-	-	-
2. Tangible fixed assets	156 883	164 848	166 463
3. Long-term receivables	60 817	55 144	2 919
3.1. From affiliated companies	50 735	53 057	75
3.2. From other companies	10 082	2 087	2 844
4. Long-term investments	130 570	153 905	182 877
4.1. Real estate	36 658	36 658	20 533
4.2. Intangible assets	-	-	-
4.3. Long-term financial assets	93 712	117 047	150 783
a) in affiliated companies	92 008	110 857	144 593
- of which shares in subsidiary and associated companies valued under the equity method	32	-	-
b) in other companies	1 704	6 190	6 190
4.4. Other long-term investments	200	200	11 561
5. Long-term deferred assets	-	-	-
5.1. Deferred income tax	-	-	-
5.2. Other deferred assets	-	-	-
II. Current assets	269 594	183 716	248 444
1. Inventories	50 939	31 192	13 712
2. Current receivables	190 474	132 413	219 826
2.1. From affiliated companies	38 107	32 822	95 970
2.2. From other companies	152 367	99 591	123 856
3. Short-term investments	26 653	19 591	12 435
3.1. Short-term financial assets	26 653	19 591	12 435
a) in affiliated companies	-	7 000	60
b) in other companies	13 550	515	481
c) cash and cash equivalents	13 103	12 076	11 894
3.2. Other short-term investments	-	-	-
4. Short-term deferred assets	1 528	520	2 471
Total Assets	619 014	559 352	603 029

SHAREHOLDERS' EQUITY AND LIABILITIES			
I. Shareholders' Equity	(39 121)	(56 725)	(90 208)
1. Share capital	215 524	215 524	215 524
2. Not paid-up share capital (negative value)	-	-	-
3. Own shares in treasury (negative value)	-	-	-
4. Reserve capital	42 312	2 634	2 632
5. Revaluation capital	8 488	8 488	8 490
6. Other reserve capitals	87 242	81 093	74 099
7. Prior years' profit (loss)	(404 142)	(404 142)	(404 142)
8. Net profit (loss)	11 455	39 678	13 189
9. Net profit write-offs during the financial year (negative value)	-	-	-
II. Liabilities and reserves for liabilities	658 135	616 077	693 237
1. Reserves for liabilities	28 309	65 842	87 892
1.1. Reserve for deferred income tax	758	749	5 029
1.2. Provisions for pensions and similar benefits	2 737	2 561	3 016
a) long-term provisions	1 788	1 788	3 016
b) short-term provisions	949	773	-
1.3. Other provisions	24 814	62 532	79 847
a) long-term provisions	14 003	56 809	79 847
b) short-term provisions	10 811	5 723	-
2. Long-term liabilities	197 793	222 438	250 213
2.1. To affiliated companies	5 833	6 731	8 974
2.2. To other companies	191 960	215 707	241 239
3. Current liabilities	289 394	174 751	223 961
3.1. To affiliated companies	21 266	27 582	58 761
3.2. To other companies	267 765	146 629	164 478
3.3. Special funds	363	540	722
4. Accrued liabilities	142 639	153 046	131 171
4.1. Negative goodwill	-	-	-
4.2. Accrued expenses and deferred income	142 639	153 046	131 171
a) long-term accruals	118 360	130 218	130 223
b) short-term accruals	24 279	22 828	948
Total Shareholders' Equity and Liabilities	619 014	559 352	603 029

Book value	(39 121)	(56 725)	(90 208)
Number of shares	107 762 023	107 762 023	107 762 023
Book value per share (in zlotys)	(0.36)	(0.53)	(0.84)
Diluted number of shares			
Book value per share (in zlotys) - diluted			

Off-balance sheet liabilities

	30.06.2004	2003	30.06.2003
1. Conditional receivables	-	-	-
1.1. From related entities (by virtue of)	-	-	-
- received warranties and guarantees	-	-	-
- opening of the letter of credit	-	-	-
- bill of exchange	-	-	-
1.2. From other entities (by virtue of)	-	-	-
- received warranties and guarantees	-	-	-
2. Conditional liabilities	307 676	354 273	352 953
2.1. In favour of related entities (by virtue of)	-	1 393	2 038
- granted warranties and guarantees	-	1 393	1 316
- opening of the letter of credit	-	-	-
- bill of exchange	-	-	722
- customs warranties	-	-	-
- interests from guaranteed capital	-	-	-
2.2. In favour of other entities (by virtue of)	307 676	352 880	350 915
- granted warranties and guarantees	306 070	351 349	342 096
- opening of the letter of credit	1 606	1 531	8 819
- interests from the guaranteed capital	-	-	-
- bill of exchange	-	-	-
3. Other (by virtue of)	-	15 150	15 150
- customs warranties	-	15 150	15 150
- other	-	-	-
Off-balance sheet items in total	307 676	369 423	368 103

Profit and loss account

	as on 30.06.2004	as on 30.06.2003
I. Net incomes from the sale of products, goods and materials, including:	438 916	419 793
- from related entities	86 321	81 594
1. Net incomes from the sale of products	54 438	41 829
2. Net incomes from the sale of goods and materials	384 478	377 964
II. Costs of sold goods, products and materials, including:	408 762	355 827
- from related entities	36 754	75 431
1. Cost of manufacturing sold products	52 015	-
2. Value of sold goods and materials	356 747	355 827
III. Gross profit (loss) on sales (I - II)	30 154	63 966
IV. Sales costs	7 129	45 985
V. Costs of general management	9 646	10 236
VI. Profit (loss) on sales (III - IV - V)	13 379	7 745
VII. Other operating incomes	84 895	63 034
1. Profit from selling non-financial fixed assets		
2. Subsidies		
3. Other operating incomes	84 895	63 034
VIII. Other operating costs	5 365	37 338
1. Loss from the sale of non-financial fixed assets	1 886	6 878
2. Updating the value of the non-financial assets	2 114	25 280
3. Other operating costs	1 365	5 180
IX. Profit (loss) from operating activity (VI + VII - VIII)	92 909	33 441
X. Financial incomes	166 426	32 285
1. Dividends and shares in profits, including	1 213	935
- from related entities	1 213	935
2. Interests, including	4 449	6 738
- from related entities	337	5 008
3. Profit from investment sale		
4. Updating the investment value	158 146	7 304
5. Other	2 618	17 308
XI. Financial costs	247 872	53 217
1. Interests, including	15 420	11 785
- for related entities	782	1 488
2. Loss from investment sale	155 453	6 497
3. Updating the investment value	15	29 715
4. Other	76 984	5 220
XII. Profit (loss) on economic activity (IX + X - XI)	11 463	12 509
XIII. Result of extraordinary events (XIII.1 - XIII.2)	-	-
1. Extraordinary profits	-	-
2. Extraordinary losses	-	-
XIV. Gross profit (loss) (XII +/- XIII)	11 463	12 509
XV. Income tax	8	(680)
a) current part	-	-
b) deferred part	8	(680)
XVI. Other obligatory profit decreases (loss increases)	-	-
XVII. Share in net profits (losses) of subsidiary entities evaluated via the method of ownership rights	-	-
XVIII. Net profit (loss) (XIV - XV -XVI +/- XVII)	11 455	13 189
Net profit (loss) (on annual basis)	37 943	(182 300)
Average weighted number of ordinary shares	107 762 023	107 762 023
Profit (loss) per one ordinary share (in zlotys)	0,35	(1,69)
Average weighted diluted number of ordinary shares		
Diluted profit (loss) per one ordinary share (in zlotys)		

Changes in shareholders' equity

	30.06.2004	2003	30.06.2003
I. Equity capital at the beginning of the period (Opening Balance - OB)	(56 725)	(367 352)	(367 352)
a) changes of adopted principles of the accounting (policy)			
b) corrections of basic errors			
I.a. Equity capital at the beginning of the period (OB), after squaring with comparable data	(56 725)	(367 352)	(367 352)
1. Stock capital at the beginning of the period	215 524	25 668	25 668
1.1. Changes of stock capital	-	189 856	189 856
a) increases (by virtue of)	-	189 856	189 856
- share emission (issuing shares)	-	189 856	189 856
b) decreases (by virtue of)	-	-	-
- amortization (of shares)			
- change of nom. price			
1.2. Stock capital at the end of the period	215 524	215 524	215 524
2. Due payments for stock capital at the beginning of the period			
2.1. Changes of due payments for stock capital	-	-	-
a) increases (by virtue of)	-	-	-
b) decreases (by virtue of)	-	-	-
2.2. Due payments for stock capital at the end of the period	-	-	-
3. Own shares at the beginning of the period			
3.1. Changes of own shares	-	-	-
a) increases (by virtue of)	-	-	-
b) decreases (by virtue of)	-	-	-
3.2. Own shares at the end of the period	-	-	-
4. Inventory capital at the beginning of the period	2 634		
4.1. Changes of inventory capital	39 678	2 634	2 632
a) increases (by virtue of)	39 678	2 634	2 632
- share emission above the nominal value			
- from the profit distribution (statutory)	39 678		
- from profit distribution (above the minimal value required by the statute)			
- reclassification of equity capitals			
- sale, liquidation of fixed assets		2 634	2 632
- other			
b) decreases (by virtue of)	-	-	-
- loss coverage			
- reclassification of equity capitals			
4.2. Inventory capital at the end of the period	42 312	2 634	2 632
5. Capital from updating the evaluation at the beginning of the period	8 488	11 122	11 122
5.1. Capital changes from updating the evaluation	-	(2 634)	(2 632)
a) increases (by virtue of)	-	-	-
- reclassification of equity capitals			
b) decreases (by virtue of)	-	2 634	2 632
- the sale of fixed assets		2 634	2 632
- reclassification of equity capitals			
5.2. Capital from updating the evaluation at the end of the period	8 488	8 488	8 490
6. Other reserve capitals at the beginning of the period	81 093		
6.1. Changes of other reserve capitals	6 149	81 093	74 099
a) increases (by virtue of)	6 149	81 093	74 099
- from the lowered stock capital			
- settlement of the conversion from the future period incomes		74 100	74 099
settlement of the future period incomes of payment of arrangement liabilities	6 149	6 993	
b) decreases (by virtue of)	-	-	-
- re-booking into inventory fund			
- loss coverage			
- reclassification of equity capitals			
6.2. Other reserve capitals at the end of the period	87 242	81 093	74 099
7. Profit (loss) from previous years at the beginning of the period	(364 464)	(404 142)	(404 142)
7.1. Profit from previous years at the beginning of the period	39 678		
a) changes of the adopted principles of the accounting (policy)			
b) corrections of basic errors			

7.2. Profit from previous years at the beginning of the period, after squaring with comparable data	39 678	-	-
a) increases (by virtue of)	-	-	-
- profit distribution from previous years			
- reclassification of equity capitals			
b) decreases (by virtue of)	39 678	-	-
- the transfer to the inventory fund	39 678		
- The Institutional Social Benefit Fund			
- bonuses for the staff			
- loss coverage from previous years			
- dividend			
- reclassification of equity capitals			
7.3. Profit from previous years at the end of the period	-	-	-
7.4. Loss from the previous years at the beginning of the period	404 142	404 142	404 142
a) changes of the adopted principles of the accounting (policy)			
b) corrections of basic errors			
7.5. Loss from the previous years at the beginning of the period, after squaring with comparable data	404 142	404 142	404 142
a) increases (by virtue of)		-	-
- loss transfer from previous years for coverage			
- reclassification of equity capitals			
b) decreases (by virtue of)	-	-	-
- loss coverage from inventory and reserve capital			
- reclassification of equity capitals			
7.6. Loss from previous years at the end of the period	404 142	404 142	404 142
7.7. Profit (loss) from previous years at the end of the period	(404 142)	(404 142)	(404 142)
8. Net result	11 455	39 678	13 189
a) net profit	11 455	39 678	13 189
b) net loss			
b) deductions from profit			
II. Equity capital at the end of the period (Closing balance)	(39 121)	(56 725)	(90 208)
III. Equity capital after taking into consideration the proposed profit distribution (loss coverage)			

Cash flow account (indirect method)

	30.06.2004	30.06.2003
A. Net cash flows from operating activity - indirect method		
I. Net profit (loss)	11 455	13 189
II. Corrections in total:	(15 374)	16 927
1. Share in net profits (losses) of subsidiary entities evaluated via the method of ownership rights		
2. Depreciation	4 812	4 878
3. Profits (losses) by virtue of foreign exchange rate differences		
4. Interests and shares in profits (dividends)	7 273	5 092
5. Profit (loss) from investment activity	156 967	17 579
6. Change of the state of reserves	8	(680)
7. Change of the state of inventories	(19 746)	(1 704)
8. State of the state of receivables.	(63 736)	3 695
9. Change of the state of short-term liabilities, with the exception of loans and credits	102 525	16 766
10. Change of the state of interperiod settlements	(48 956)	(119 013)
11. Other corrections	(154 521)	90 314
III. Net cash flows from operating activity (I + II)	(3 919)	30 116
B. Net cash flows from investment activity.		
I. Proceeds	26 316	17 581
1. Sale of intangible and tangible fixed assets	2 406	5 136
2. Sale of investment in the real estate and intangible assets		
3. Sale of financial assets, including:	23 910	12 445
a) in related entities	2 225	11 430
- sale of financial assets	500	8 960
- dividends and shares in profits	1 213	935
- repayment of granted long-term loans	512	
- interests		1 535
- other proceeds from financial assets		
b) in other entities	21 685	1 015
- sale of financial assets	5 500	1 015
- dividends and shares in profits		
- repayment of granted long-term loans	15 000	
- interests		
- other proceeds from financial assets	1 185	
4. Other investment proceeds		
II. Expenses	356	22 409
1. Purchase of intangible assets and tangible fixed assets	189	294
2. Investments in the real estates and intangible assets		20 533
3. For financial assets, including:	167	1 582
a) in related entities	152	1 582
- acquisition of financial assets	152	1 522
- granted long-term loans		60
b) in other entities	15	-
- acquisition of financial assets	15	
- granted long-term loans		
4. Other investment expenses		
III. Net cash flows from investment activity (I - II)	25 960	(4 828)
C. Cash flows from financial activity		
I. Proceeds	6 634	-
1. Net proceeds from the emission of shares (issuing of shares) and other capital instruments and capital surcharges		
2. Credits and loans	6 634	
3. Emission of indebted securities		
4. Other financial proceeds		
II. Expenses	27 648	26 897
1. Acquisition of own shares		
2. Dividends and other payments in favour of owners		

3. Expenses by virtue of profit distribution other than payments in favour of owners		
4. Repayments of credits and loans	19 162	18 334
5. Redemption of indebted securities		1 000
6. By virtue of other financial assets		
7. Payments of liabilities by virtue of financial leasing agreements		
8. Interests	8 486	7 563
9. Other financial expenses		
III. Net cash flows from financial activity (I - II)	(21 014)	(26 897)
D. Net cash flows (A.III+B.III+C.III)	1 027	(1 609)
E. Balance sheet change of the state of cash, including:	1 027	(1 609)
- change of the state of cash by virtue of foreign exchange rate differences	(25)	
F. Cash at the beginning of the period	12 076	13 503
G. Cash at the end of the period (D+F), including	13 103	11 894
- with a limited disposing capacity		

**Additional notes and explanations to S.A.-P
for the period from 1.01.2004 to 30.06.2004**

1. Financial instruments.

Short-term financial instruments comprise a parcel of shares for the amount of 28.1 thousand PLN, which decreased in the period under consideration because of sale of shares of Bytomskie Zakłady Odzieżowe for the amount of 7 thousand PLN, shares of Centrostal Gdańsk for the amount of 452.7 thousand PLN, shares of Fasing for 35.1 thousand PLN.

At the end of 30.06.2004 Stalexport was holding shares of Bytomskie Zakłady Odzieżowe of value of 20.4 thousand PLN and Katowickie Zakłady Metalowe of value of 7.7 thousand PLN.

Because shares of Katowickie Zakłady Metalowe were withdrawn from the Stock Exchange, the provision for the same amount was created. Shares of Bytomskie Zakłady Odzieżowe were valued in accordance with stock exchange quotation for these securities as at 30.06.2004, i.e. at market price.

2. Guarantees

Total amount of guarantees not covered by the arrangement proceedings as at 30.06.2004 is 301 609 thousand PLN and includes:

- foreign currency guarantees 183 805 thousand PLN
- guarantees in Polish złoty 117 804 thousand PLN.

The amount of guarantees in the period under consideration decreased in relation to the end of the year 2003 by 46 566 thousand PLN because of:

- changes in EURO exchange rate in the above specified periods from 4.717 to 4.5422 PLN/1EUR, results of revaluation 7 073 thousand PLN.
- carrying from contingent non-balance sheet liabilities the amount of 37 500 thousand PLN of credit guarantee of Huta Ostrowiec in bankruptcy to liabilities due to the State Treasury.

repayment by Stalexport S.A. of guaranteed credit in the amount of 1 393 thousand PLN for Stalexport Wielkopolska in bankruptcy for the benefit of PEKAO S.A.

- repayment by Huta Szczecin of six instalments of credit guaranteed by Stalexport S.A. for total amount of 600 thousand PLN.

In the amount of guarantees the biggest values has got the guarantee granted to WRJ for 297 123 thousand PLN (without interests), which was not covered by revaluation allowance.

Indebtedness of WRJ under taken credits amounts to 185 777, of which Stalexport guaranteed 26.25% , and the whole amount of guarantee may not exceed the amount of 152 679 . The remaining guarantors of these credits are: Huta Jedność S.A. (32.12 %) and the State Treasury (41.62%). State Treasury guarantee was secured with bills of exchange of WRJ guaranteed by Stalexport S.A.

Moreover, credits are secured with pledge by registration on machines and equipment of WRJ, assignment of claim for the benefit of bank consortium and mortgage on the property of Huta Jedność S.A.

The amount of guarantees covered by the arrangement proceedings amounted to 213 232 thousand PLN, which in accordance with the arrangement agreement were reduced by 40% to the level of 127 939 thousand PLN.

As a result of conversion of liabilities due to guarantees for the share capital of Stalexport S.A. in the amount of 72 900 thousand PLN and payment of three consecutive instalments under the arrangement , the amount of guarantees of covered by the arrangement proceedings as at 30.06.04 was 43 929 thousand PLN.

3. The liabilities towards the state budget and local authorities due to obtaining the title to buildings and structures did not occur in the period under discussion .

4. Discontinuance of business activity.

In the period under consideration there was no discontinuance of business activity.

5. Investment outlays

Investment outlays for own needs of the company at the end of the reporting period amounted to 16 018 thousand PLN and comprised:

- purchase of fixed assets 178 thousand PLN
- purchase of intangible assets 6 thousand PLN
- taking shares of Ferrostal Łabędy 15 667 thousand PLN and shares of S.C. Warszawa in the amount of 152 thousand PLN.

6. Planned investment outlays.
Made and planned investment outlays have been discussed in the "Report of the Management Board".
7. Changes in financial fixed assets – long-term financial assets.
During the first half of the current year net long-term financial assets were reduced by the amount of 24 488 thousand PLN and increased by the amount of 1 152 thousand PLN.

The reduction was due to:

- sale of shares in Ferrostal Łabędy of book value 172 661 thousand PLN. Stalexport S.A. got the selling price for these shares of 20 001 thousand PLN.
The above transaction had no effect on financial result because of provision in the amount of 152 660 thousand PLN made for it earlier.
- sale of shares in Walcownia Metali Dziedzice of book value 8 974 thousand PLN. Stalexport S.A. got the selling price of 5 500 thousand PLN and reversed the provision of 4 486 thousand PLN, therefore the transaction had positive effect on the result in the amount of 1 012 thousand PLN.

The increase was due to:

- decrease of provision for shares in dependent company Stalexport Serwis Centrum Katowice in the amount of 1 000 thousand PLN.
- increase of net financial assets of Stalexport Centrostal Warszawa due to purchase of its shares from Stalexport Zaptor in bankruptcy for total amount of 152 thousand PLN.

- 7.1. Important transactions of Stalexport S.A. - the dominant company with dependent companies covered by consolidation
- mutual receivables and payables (thousand PLN)

Specification	Receivables of Stalexport S.A.	Payables of Stalexport S.A.	Additional payment as at 30.06.2004
Stalexport Autostrada Małopolska S.A. Mysłowice	594	5 862	
Stalexport Autostrada Dolnośląska S.A. Katowice	-	14 589	-
Stalexport Autostrada Śląska S.A. Katowice	-	3 800	
Stalexport Wielkopolska Sp. z o.o. Komorniki	14 154	-	11 361
Stalexport Serwis Centrum S.A. Katowice	6 509	1 688	
Stalexport Centrostal Warszawa S.A. Warszawa	84 381	103	-
- Stalexport Serwis Centrum S.A. Bełchatów	73	7	
- Stalexport Metalzbyt Sp. z o.o. Białystok	71	-	
PPiOZ Złomhut Bodzechów Przyborów	-	37	-
Stalexport Centrostal S.A. Lublin	1 395		200
Stalexport Transroute Autostrada S.A. Mysłowice	34	1 006	-
Biuro Centrum Sp. z o.o. Katowice		6	
Total	107 211	27 098	11 561

- costs and revenues from mutual transactions (in thousand PLN)
 - revenues of Stalexport SA 81 745
 - costs of Stalexport SA 41 712

8. Joint ventures.
There were no joint ventures in the period under consideration.
9. Employment.
Average employment as at 30.06.2004 has been as follows:

- total number of full-time jobs	165,2
- the Management Board	2,0
- sales employees	90,3
- administration and office employees	9,0
- other employees	63,9

Total employment in Stalexport S.A. in comparison with analogical period of the previous year increased by 8.7 full-time jobs. Intensive cost-effective measures made it possible for the company, in spite of increase of employment, to continue slight reduction of overhead costs as compared with a half-year period of the previous year by 5.8%, which makes 590 thousand PLN.

The increase of employment in the first half of the year resulted from the fact that three new wholesale outlets in Wielkopolska, one in Belchatów and one department manufacturing steel reinforcements for building industry „Stalbud” in Katowice - Panewniki.

In the first half of the year all the above wholesale outlets and the production department achieved the sales value of 24 309 thousand PLN and obtaining the result from sales of 2 301 thousand PLN.

On 29 June 2004 XI Annual Shareholders' Meeting of Stalexport S.A. was held, on which Shareholders approved individual and consolidated financial statements for the year 2003 and acknowledged the fulfilment of duties in the year 2003 by members of the Management Board and the Supervisory Board.

Shareholders, in accordance with the adopted resolution no XV fixed the three-year terms of office of the newly appointed Supervisory Board composed of:

Mr Robert Bender, Mr Stanisław Berkiet, Mr Przemysław Majka, Ms Kristina Strzelecka, Mr Zbigniew Szalajda, Mr Tadeusz Włudyka.

The Supervisory Board from among its members appointed the Chairman of Supervisory Board - Mr Zbigniew Szalajda.

The Supervisory Board appointed the Management Board for the new term of office and changed the function of Mr Mieczysław Skołożyński from Member of the Management Board Financial Director to Vice-President of the Company.

10. Total remuneration paid to Proxies, members of the Management Board and Supervisory Board in 2002 for the first half of it amounted to 1 096 thousand PLN and included:

- remuneration for the Management Board and Proxies for issuer's supervision	942 thousand PLN
- remuneration for the Management and Proxies for functions in authorities of dependent companies	95 thousand PLN
- remuneration for the Supervisory Board	59 thousand PLN
11. People managing and supervising the Company did not have any advance payments, credits or guarantees.
12. Stalexport SA did not have legal predecessors.
13. The financial statement did not have to be corrected with inflation index (in the reporting period the inflation index did not exceed 20% annually).
14. Other important events.

On 15 January 2004 the Extraordinary Shareholders' Meeting of Stalexport S.A. acknowledges resignations of four members of the Supervisory Board, namely:

Mr Józef Okolski
 Mr M. Lindsay Forbes
 Mr Antoni Magdoń
 Mr Stanisław Bębenek

In accordance with point 6 of the agenda of the Extraordinary Shareholders' Meeting the composition of the Supervisory Board was completed with the following newly appointed members of the Supervisory Board:

Mr Stanisław Berkiet
 Mr Robert Bender
 Ms Krystyna Strzelecka
 Mr Zbigniew Szalajda

On 13 May 2004 the Extraordinary Shareholders' Meeting took place for the purpose of amending § 8 p.2 of the Articles of the Company concerning conditions of increasing its share capital, what has been discussed in details in the current report no 20/2004.

On 14 May this year the Management Board of Stalexport received a message from the Stock Exchange about including the shares of Stalexport in the index of the biggest companies, i.e. to the list of WIG 20 members and Segment plus.

The company Stalexport Autostrada Śląska S.A. with the registered office in Katowice on 21 June submitted a tender offer in General Directorate of National Roads and Motorways [GDDKiA] for construction and operation of A 4

motorway on the Katowice – Wrocław section. On 15.09.2004 GDDKiA informed Stalexport S.A. that it was selected for negotiations on concession agreement for construction and operation of A 4 motorway Katowice – Wrocław.

By the date of issuing the financial statement for the first half of the year Stalexport S.A. did not receive a reply from the District Court in Poznań to its complaint against declaration of bankruptcy with option of liquidation of Stalexport Wielkopolska.

In order to ensure continuous sales in the region Wielkopolski Stalexport S.A. signed an agreement with trustee of the company Stalexport Wielkopolska in liquidation for lease of the premises and continues commercial activities in this region. As a result of this agreement Stalexport S.A. took over the following points of sale: Komorniki, Zielona Góra, Krzyż Wielkopolski, Kostrzyn nad Odrą and Koszalin, which continue current sale of metallurgical products.

15. Events after the balance sheet date

On 21 July Stalexport S.A. signed an agreement with Celsa Huta Ostrowiec Sp. z o.o with the registered office in Ostrowiec Świętokrzyski for sale of shares in Przedsiębiorstwo Przerobu i obrotu Żłomem „Żłomhut” Sp. z o.o. with the registered office in Bodzechów. Total selling price of shares amounted to 9 500 thousand PLN. Net balance sheet value was 2 219 thousand PLN. The contract was finalized in exchange for striking off a registration pledge by Bank PKO BP. Celsa on behalf of Stalexport S.A. paid to the bank the amount of 5 700 thousand PLN of the selling price as repayment of a part of credits. The sale of shares in „Żłomhut” Sp. z o.o. constitutes the next stage of implementation of the plan of restructuring Capital Group Stalexport S.A.

On 28 July 2004 the concession for the first toll section of the motorway was transferred from Stalexport S.A. to Stalexport Autostrada Małopolska S.A.

The decision about transfer of duties and rights resulting from the concession was made by Minister of Infrastructure on the grounds of art. 60a of the Act dated 27 October 1994 about toll motorways and national Road Fund.

The transfer of the concession makes it easier to obtain long-term credit on the basis of project financing, as it makes it possible to separate the risk related to the motorway project from the risk connected with the remaining business activities of Stalexport S.A.

Transfer of the concession makes it possible for Stalexport S.A. to request repayment by Stalexport Autostrada Małopolska S.A. of investment expenditures made by Stalexport S.A. and connected with motorway business activity. The condition for Stalexport S.A. to receive repayment of its investment expenditures is obtaining financial closing by SAM, which should take place not later than in the first half of the year 2005.

On 1 September 2004 the Management Board of Stalexport S.A. signed with the State Treasury represented by Minister of Finance an agreement on repayment of debt in the amount of 72 592 thousand PLN.

The above amount concerns guarantee for a bill of exchange given by Stalexport for the credit taken by Huta Ostrowiec in Ostrowiec Świętokrzyski.

In accordance with the agreement the debt will be repaid in 72 monthly instalments starting from August 2008 that is after fulfilment of obligations under the arrangement agreement. From the day of signing the agreement the debt is charged with interests equal to WIBOR 1M rate increased by 1.5 percent point.

Stalexport S.A. will also perform another legal assessment of the claim filed on behalf of debtor banks by Bank Polska Kasa Opieki S.A. , which was covered by the arrangement proceedings.

On 1 September Stalexport S.A. signed a Letter of Intent with VINCI Concessions S.A. concerning strategic cooperation with regards to motorway projects.

This co-operation should consider in particular the following concession projects:

- A1 motorway, except for Gdański - Toruń section
- Eastern part of A2 motorway , i.e. from Stryków to the east border.
- A4 motorway with the exception of Kraków – Katowice and Wrocław – Katowice sections.

In the first days of September Stalexport S.A. signed an agreement with Centrostal Rzeszów S.A. concerning lease of real property located in Rzeszów of the area of 16 756 m²

On the real property leased from Centrostal, Stalexport S.A. intends to establish a new warehouse, where storage and sale of steel products will be possible, mainly sheet metals, bars and sections. It will be the tenth warehouse of Stalexport S.A., the biggest one in south-eastern Poland.

**MANAGEMENT BOARD REPORT
ON THE STALEXPORT SA
ACTIVITY
for the first half of 2004**

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IV. THE COMPANY'S DEVELOPMENT PROSPECTS

I. INTRODUCTION

„Report of the Management Board from activities of STALEXPORT Spółka Akcyjna [Joint Stock Company] with the registered office in Katowice for the first half of the year 2004” contains the most important information concerning the functioning of the Company in the reporting period.

Main tasks of STALEXPORT S.A. in the year 2004 and following include:

1. development of effective trading activities based on the existing and developed sales network and maintaining the market position in steel trade,
2. further organizational restructuring of the Company and the Capital Group aimed at its consolidation,
3. continuation and broadening the activities related to motorways through:
 - transfer of the concession for A4 motorway section Katowice – Kraków to the subsidiary company SAM S.A.,
 - obtaining the concession for A-4 motorway section Wrocław – Katowice,
 - participation in new motorway projects in cooperation with VINCI Concessions S.A.
4. repayment of claims under the arrangement agreement and those not covered by it.

By the year 2008 making payments of claims under the arrangement agreement and those not covered by it is the most important task of the Company. The arrangement proceedings and conversion of claims into shares connected with restructuring of debts not covered by the arrangement offered STALEXPORT S.A. a possibility for further functioning. The Company regularly pays its arrangement liabilities. Until now the following 4 arrangement instalments have been repaid with interests:

- 5.10.2003 – 12,719.6 thousand PLN was paid,
- 5.01.2004 – 11,195.4 thousand PLN was paid,
- 5.04.2004 – 11,169.6 thousand PLN was paid,
- 5.07.2004 – 10,981.8 thousand PLN was paid.

The amount to be repaid is still 135.1 mln PLN of arrangement instalments + interests. Debts towards creditors not covered by the arrangement are also paid regularly.

In spite of so large financial burdens, the Company systematically manages to improve its financial results, which confirms the appropriateness of the implemented strategy. Undertaken actions and achieved results are described in detail in next chapters.

The Report of the Management Board consists of:

- **General Part (chapter II)**, which contains the analysis of the profit and loss account and the description of the assets and financial situation. This chapter also discusses the investment activity of the Company in the reporting period.
- **Detailed Part (chapter III)** covering all issues specified in the Decree of the Council of Ministers of 16th October 2001 concerning current and periodic information provided by issuers of securities (Journal on Laws: Dz.U. of 2001, No.139, item 1569 with amendments).

- **The Part (chapter IV)** describing perspectives of development of t Company, as well as entire actions of the Management Board of STALEXPORT S.A. taken up in order to determine conditions for further development of STALEXPORT S.A. and continuation of activities of the Company in the following years.

II. GENERAL PART

1. FINANCIAL RESULTS OF STALEXPORT S.A.

1.1. Financial results of STALEXPORT S.A. for the first half of in the years 2003-4 are presented in the table below.

In thousand PLN	the first half of 2003	the first half of 2004	Change
I. Net income from sales of products, goods and materials	419 793	438 916	4,6%
1. Net income from sales of products	41 829	54 438	30,1%
2. Net income from sales of goods and materials	377 964	384 478	1,7%
II. Costs of sold products, goods and materials	355 827	408 762	14,9%
1. Production costs of sold products	0	52 015	x
2. Value of sold goods and materials	355 827	356 747	0,3%
III. Gross profit/loss on sales	63 966	30 154	-52,9%
IV. Costs of sales	45 985	7 129	-84,5%
V. Costs of general management	10 236	9 646	-5,8%
VI. Profit on sales	7 745	13 379	72,7%
VII. Other operating income	63 034	84 895	34,7%
VIII. Other operating costs	37 338	5 365	-85,6%
IX. Profit (loss) on operating activity	33 441	92 909	177,8%
X. Financial income	32 285	166 426	415,5%
XI. Financial costs	53 217	247 872	365,8%
XII. Result on financial activity	-20 932	-81 446	289,1%
XIII. Profit (loss) on business activity	12 509	11 463	-8,4%
XIV. Result on extraordinary items	0	0	x
1. Extraordinary gains	0	0	x
2. Extraordinary losses	0	0	x
XV. Gross profit (loss)	12 509	11 463	-8,4%
XVI. Income tax - the current part	0	0	x
XVII. Income tax - the deferred part	-680	8	-101,2%
XVIII. Net profit (loss)	13 189	11 455	-13,1%

1.2. Results on basic activities

In the first half of the year 2004 income from sales of STALEXPORT S.A. amounted to 438,916 thousand PLN and were by 4.6 % bigger than in the analogical period of the year 2003.

In the structural aspect by sales directions, income from sales in the period under consideration were as follows:

In thousand PLN	the first half of 2003	the first half of 2004	% share in total turnover 2004	Change %
I. Total income from sales including:	419 793	438 916	100,0	4,6
1. Trading activity	377 964	396 112	90,2	4,8
a) export (and re-export)	105 385	125 851	28,7	19,4
b) import	59 432	71 397	16,3	20,1
c) Poland	213 147	186 922	42,6	-12,3
d) StalBud branch	0	11 942	2,7	x
2. Other sales	1 702	1 267	0,3	-25,6
3. A-4 motorway	40 127	41 537	9,5	3,5
II. Costs of purchase and sale	401 812	415 891	x	3,5
III. Sale margin	17 981	23 025	x	28,1
Margin ratio in % (total)	4,3%	5,3%	x	22,7

The value of sold goods, products and materials at purchase prices in the first half of the year 2004 amounted to 408,762 thousand PLN. There was a slight change in sales directions as compared with the year 2003. The domestic market remains the basic market with its share in sales above 70%, of which imported goods (mainly iron ore) constitute more than 16%. Export share in total sales amounts to nearly 29%. Main export markets are countries of both Americas and the European Union.

The achieved gross profit on sales amounted to 30,154 thousand PLN and was almost 53% lower than in the first half of the year 2003. This considerable decrease of gross profit on sales is the result of changed presentation of costs of motorway services and removing them in the year 2004 from other costs of sales to production costs of sold products. Making the data comparable by moving the amount of 39,918 thousand PLN from costs of sale to cost of production of sold goods, gross profit on sales in the first half of 2003 would amount to 24,047 thousand PLN. Thus, in comparable conditions, in the above period there was an increase in gross profit from sales by 25.4%.

Taking into account the costs of sale in the amount of 7,129 thousand PLN and costs of general management of 9,646 thousand PLN, profit on sales amounted to 13,379 thousand PLN and was by 72.7% higher than in the analogical period of the year 2003.

The decrease of general management costs by the amount of 590 thousand PLN, i.e. by 5.8% as compared with the first half of the year 2003 should also be positively assessed. It confirms the tendency prevailing for almost 4 years of permanent cost reduction and maintaining discipline in this respect.

Main reasons for mass margin increase and effectiveness of operation on metallurgical market comprise, first of all, consistent implementation of the strategy adopted more than 3 years ago. Our limited working capital was used only for trading activities (production assets were sold, as well as other assets regarded as unnecessary). Within the framework of trading, processing activity was started, as it generates the highest percent of profit margin. The quality of trade receivables definitely improved. Improving economic situation, especially on metallurgical market, also contributed to the increase of margin. However, lack of access to external sources of financing prevented us from taking full advantage of improved economic situation, and increased prices for metallurgical products reduced the demand for them addressed to the Company.

Motorway activity – in accordance with the provisions of the Concession Agreement – does not bring profit for the Company now. Any revenues from toll collection and rents are immediately transferred to the daughter company (Stalexport Autostrada Małopolska S.A.) and they have their mirror image in the profit and loss account of STALEXPORT S.A. only on the side of income and costs of their production. With transfer of the concession to Stalexport Autostrada Małopolska S.A., which took place at the end of July 2004, STALEXPORT S.A. will not record any income or costs related to operation of the motorway.

1.3. Other operating income and costs

Other operating income amounted to 84,895 thousand PLN, while other operating costs were 5,365 thousand PLN. The balance on other operating activity amounted to 79,530 thousand PLN.

As for other operating income, provisions in total amount of 81,459 thousand PLN were reversed, of which:

- 37,500 thousand PLN were claims against Huta Ostrowiec S.A. for guarantees,
- 30,514 thousand PLN were claims against Ferrostal-Łabędy Sp. z o.o. for granted loans and guarantees,
- 9,222 thousand PLN were payables towards Huta Kościuszko,
- 2,267 thousand PLN were payables towards Stalexport Zaptor S.A. in liquidation.

Moreover, the amount of 3,283 thousand PLN resulting from settlement of deferred income due to payments of consecutive arrangement instalments was recorded in operating incomes.

The level of the remaining costs was mainly affected by revaluation of non-financial assets for total amount of 2,114 thousand PLN, of which 2,007 thousand PLN concerned write-off of claims of Mimex and the loss of 1,830 thousand PLN connected with the sale of the real property of Huta Gliwice S.A..

1.4. Financial income and costs

Financial income amounted to 166,426 thousand PLN, while financial costs to 247,872 thousand PLN. Loss was incurred on financial activity in the amount of 81,446 thousand PLN, which resulted mainly from the fact that State Treasury made claim against

STALEXPORT S.A. for payment of 72,592 thousand PLN in connection with guarantees granted for Huta Ostrowiec S.A.

The highest items within the financial activity in the first half of the year 2004 concern two important transactions that, however, had neutral or positive effect on financial result, namely:

- sale of shares in Ferrostal-Łabędy Sp. z o.o. with the loss of 152,660 thousand PLN, with simultaneous reversal of provisions for these shares in the amount of 152,660 thousand PLN ;
- sale of shares of Walcownia Metali Dziedzice S.A. with the loss of 3,472 thousand PLN, with simultaneous reversal of provisions in the amount of 4,486 thousand PLN.

Other items that should be noted with regards to financial income comprise interests in the amount of 4,449 thousand PLN, including 1,310 thousand PLN on restructuring agreement with Ferrostal-Łabędy Sp. z o.o., 1,227 thousand PLN on conditional liabilities paid up to Huta Ostrowiec S.A., apart from this dividend was paid by Stalexport Transroute Autostrada S.A. in the amount of 1,213 thousand PLN.

Negative financial balance resulted also from financial costs of interests for total amount of 15,420 thousand PLN, of which 7,899 thousand PLN were interests on credits, and 4,817 thousand PLN - interests on the arrangement claims. Other cost items comprise repayment of credit for Stalexport Wielkopolska Sp. z o.o. in the amount of 1,492 thousand PLN and creating a provision for interests due by Huta Ostrowiec S.A. of 1,316 thousand PLN.

1.5. Financial results - summary

All the actions and events described above had direct effect on results of the Company achieved in the first half of the year 2004.

Profit on sales amounted to 13,379 thousand PLN (3.9 m PLN in the first quarter and 9.5 m PLN in the second quarter) and was higher by 73% from the profit of sales in the analogical period of the previous year.

The balance of other operating income and costs closes with income of 79,530 thousand PLN (7.8 m PLN in the first quarter and 71.7 m PLN in the second quarter), what means that operating profit amounted to 92,909 thousand PLN and was almost 3-times higher than operating profit for the first half of the year 2003. Reversal of provisions against assets had the greatest effect on it.

The balance of financial income and costs closed with a loss of 81,446 thousand PLN (3.8 m PLN in the first quarter and 77.6 m PLN in the second quarter), thus profit on business activity amounted to 11,463 thousand PLN and was 8% lower than the profit for the first half of the year 2003.

Gross profit of STALEXPORT S.A. for the first half of the year 2004 amounted to 11,463 thousand PLN. Decrease of gross profit due to corporate income tax (deferred) amounts to 8 thousand PLN.

Net profit of STALEXPORT S.A. for the first half of the year 2004 amounted to 11,455 thousand PLN in relation to 13,189 thousand PLN net profit in the analogical period of the year 2003.

We forecast that at the level of income from sales and profit on sales the result for the year 2004 will be comparable or slightly better than the results for the year 2003.

2. ASSETS AND FINANCIAL SITUATION

2.1. Assets and liabilities of the Company

Balance sheet (in thousand PLN)	As at 31.12.03	As at 30.06.04	Dynamics 2004/2003	Structure	
				31.12.03	30.06.04
I. Fixed assets	375 636	349 420	-7,0%	67%	56%
1. Intangible fixed assets	1 739	1 150	-33,9%	0%	0%
2. Tangible fixed assets	164 848	156 883	-4,8%	29%	25%
3. Long-term receivables	55 144	60 817	10,3%	10%	10%
4. Long-term investments	153 905	130 570	-15,2%	28%	21%
5. Long-term deferred expenditures	0	0	x	0%	0%
II. Current assets	183 716	269 594	46,7%	33%	44%
1. Inventories	31 192	50 939	63,3%	6%	8%
2. Short-term receivables	132 413	190 474	43,8%	24%	31%
3. Short-term investments	19 591	26 653	36,0%	4%	4%
4. Short-term deferred expenditures	520	1 528	193,8%	0%	0%
Total assets	559 352	619 014	10,7%	100%	100%
I. Equity capital	-56 725	-39 121	-31,0%	-10%	-6%
1. Share capital	215 524	215 524	0,0%	39%	35%
2. Subscribed but unpaid capital	0	0	x	0%	0%
3. Supplementary capital	2 634	42 312	1506,4%	0%	7%
4. Revaluation reserve	8 488	8 488	0,0%	2%	1%
5. Other reserve capital	81 093	87 242	7,6%	14%	14%
6. Profit (loss) from previous years	-404 142	-404 142	0,0%	-72%	-65%
7. Net profit (loss)	39 678	11 455	-71,1%	7%	2%
II. Liabilities and provisions for liabilities	616 077	658 135	6,8%	110%	106%
1. Provisions for liabilities	65 842	28 309	-57,0%	12%	5%
2. Long-term liabilities	222 438	197 793	-11,1%	40%	32%
3. Short-term liabilities	174 751	289 394	65,6%	31%	47%
4. Accrued liabilities	153 046	142 639	-6,8%	27%	23%

Total liabilities	559 352	619 014	10,7%	100%	100%
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Total assets of the Company as at 30 June 2004 increased in relation to 31 December 2003. The increase of total assets during the first half of the year 2004 from 559,352 thousand PLN to 619,014 thousand PLN constitutes a change by 59,662 thousand PLN, i.e. by 10.7 %.

In the balance sheet assets the increase was noted only in current assets by 46.7%, while fixed assets decreased by 7%. The biggest changes in respect of value occurred in short-term receivables, which increased by the amount of 58,061 thousand PLN, mainly due to big dynamics of sales in the first months of 2004. The increase in total receivables was also connected with the sale of fixed assets. Apart from this, inventories increased during the first half of the year 2004 by 19,747 thousand PLN. Significant decrease, however, took place in long-term investments, the value of which decreased by 23,335 thousand PLN. At the beginning of the year agreements on sale of shares in Ferrostal-Łabędy Sp. z o.o. and shares of Walcownia Metali Dziedzice S.A. came into force.

The share of fixed assets in total assets decreased from 67% at the end of 2003 to 56% at the end of the first half of the year 2004, while percentage share of current assets increased in the considered period from 33% to 44%.

In balance sheet liabilities the amount of negative equity capital decreased by the amount of 17,604 thousand PLN, thanks to profit of the previous year of 39,678 thousand PLN appropriated in accordance with the resolution of General Shareholders' Meeting for supplementary capital and net profit generated in the first half of the year 2004 in the amount of 11,455 thousand PLN.

Total liabilities and provisions for liabilities increased during the first half of the year 2004 by 42,058 thousand PLN, i.e. by 6.8%. Provisions for liabilities decreased by 37,533 thousand PLN, long-term liabilities also decreased by 24,645 thousand PLN, as well as accrued liabilities by 10,407 thousand PLN. However, significant increase was observed in short-term liabilities - from 174,751 thousand PLN to 289,394 thousand PLN, i.e. by 65.6% which was caused by disclosed liabilities of STALEXPORT S.A. towards the State Treasury in the amount of 72,592 thousand PLN for bill of exchange guarantee. The agreement signed on 1 September 2004 with the State Treasury about repayment of debt fixing the time of beginning of repayments in August 2008 makes it possible to transfer the amount of 72,592 thousand PLN from short-term liabilities to long-term liabilities in the next reporting period.

Provisions for liabilities include the following items (in thousand PLN):

- Provision for deferred corporate income tax 758
- Provision for pensions and similar benefits 2.737
- Provision for conditional liabilities 6.577
- Accrued liabilities 18.237

Decrease in the amount of provisions resulted from reversal of provisions for conditional liabilities of 37,500 thousand PLN for guarantees given to Huta Ostrowiec S.A.

Long-term liabilities at the end of June 2004, as compared with the year 2003, decreased by 11.1%. This results from fulfilling the conditions of the arrangement proceedings, which provide for quarterly repayment of arrangement liabilities, and simultaneously repayment of bank credits takes place in accordance with the schedule of restructuring agreements signed with banks.

Short-term liabilities increased mainly due to increase of trade liabilities by 52,675 thousand PLN and increase of the remaining liabilities by the amount of 71,795 thousand PLN. Other liabilities comprise liabilities related to the State Treasury's claim against the Company for payment of 72,592 thousand PLN under guarantees granted by STALEXPORT S.A. to Huta Ostrowiec S.A.

The amount of 289,394 thousand PLN of short-term liabilities comprises the following items (w thousand PLN):

- bank credits outside the arrangement	26.881
- arrangement liabilities to be paid within 24 months	36.341
- trading liabilities	129.545
- liabilities resulting from received loans	13.000
- liabilities due to taxes, duties and insurance	1.228
- bill of exchange liabilities	1.100
- special funds	540
- other liabilities	80.936

Accrued liabilities were mostly affected by decrease of liabilities related with redeemed [arrangement](#) claims from the amount of 100,605 thousand PLN to 91,913 thousand PLN.

2.2. Structure of financing sources

Changes in absolute values in the balance sheet liabilities also changed the structure of assets financing sources.

Debt ratio (relation between liabilities and balance sheet total) decreased from 110 % to 106 %.

As for Liquidity Ratio calculated as ratio of current assets to short-term liabilities, it reached the level of 0.93 (at the end of 2003 it was 1.05), while Quick Ratio, being the ratio of current assets decreased by value of inventories to short-term liabilities, was 0.76 (at the end of 2003 it was 0.87). Worse current liquidity ratios result from considerable increase of short-term liabilities because of debt towards the State Treasury in the amount of 72,592 thousand PLN. The agreement signed with the State Treasury about repayment of debt makes it possible to record the amount of 72,592 thousand PLN in long-term liabilities in the next reporting period.

3. DESCRIPTION OF INVESTMENT ACTIVITIES

Global value of fixed assets investment expenditures (without granted long-term loans) incurred in the first half of the year 2004 is presented in the table below.

Amount and structure of investment outlays of STALEXPORT S.A. in the first half of the year 2004

Investment outlays	31.12.2003	%	30.06.2004	%
Total in thousand PLN including:	42.969	100,0	16.018	100,0
1) intangible fixed assets	146	0,3	6	0,0
2) tangible fixed assets	4.643	10,8	178	1,1
3) financial fixed assets	1.522	3,5	15.834	98,9
4) real property	36.658	85,4	0	0,0

Total amount of investment outlays made in the first half of the year 2004 has been 16,018 thousand PLN, and comprises mainly (98.9%) outlays for financial fixed assets.

Investment outlays for **financial fixed assets** in the amount of **15,834 thousand PLN** the biggest item was taking new shares in Ferrostal-Łabędy Sp. z o.o. for the value of 15,667 thousand PLN. The amount of 152 thousand PLN refers to shares in Stalexport Centrostal Warszawa S.A. acquired as a result of mutual settlement from Stalexport-Zaptor S.A. - in liquidation.

III. DETAILED PART

1. Information on principal goods, merchandise and services

Sales revenues in the 1st half of 2004 rose by 5% on the 1st half of 2003. Product structure is shown in the table below.

Principal products and services in STALEXPORT S.A. turnover in the 1st half of 2004.

	Quantity in thousands of tons	Value of sales in PLNm	% of revenues
Steel profiles	67,3	105,8	24,1%
Steel sheet and strip	38,2	85,3	19,4%
Unalloyed steel bar	28,7	54,9	12,5%
Iron ore	305,1	53,6	12,2%
Motorway-related services	x	41,5	9,5%
Tubes / pipes	7,5	19,3	4,4%
Semi-finished products	12,0	19,2	4,4%
Metallurgic materials	x	17,5	4,0%
Non-ferrous metal products	0,8	8,6	2,0%
Refractories	2,4	8,6	2,0%

As in previous years metallurgic products had dominant position in 1st half 2004 turnover of STALEXPORT S.A. A significant part of sales revenues came also from motorway-related services.

The first half of 2004 recorded further changes in the range of products, both in the group of metallurgic products and in the group of materials provided for metallurgic sector.

Major goods supplied for metallurgical sector in the first half of 2004 included: iron ores - 54%, semi-finished products - 19% , metallurgic materials - 17% and refractories - 9% of the total supply for the sector; whereas in the same period of the previous year the following items had the biggest share in the total supply for the sector: semi-finished products - 31%, iron ores - 23% refractories - 16% and metallurgic materials - 14%. The supply of iron ores grew significantly (by 54%). However, a substantial fall in the supply of refractories (by 68%), semi-finished products (by 59%) and metallurgic materials (by 40%) was noticed.

In the first half of 2003 the biggest share in the metallurgic products belonged to hot rolled heavy profiles (25%), cold rolled sheet and strip (16%), ribbed bar (15%), hot rolled plates and thick band iron (14%), whereas in the first half of 2004 the biggest share belonged to hot rolled heavy profiles (34% of total metallurgical products), ribbed bars (18%), cold rolled sheet and strip (12%). The most significant growth was in the range of hot rolled heavy profiles: from PLN 55.8m in the first half of 2003 to PLN 96.0m of sales revenues in the first half of 2004 (by 72%). Slight drop of sales was noticed in the group of pipes cold rolled sheet.

2. Sales Markets and Suppliers

Sales Markets

In the breakdown of turnover in the first half of 2004 export share rose from 25% to 19% and import share from 14% to 16% of total compared with the same half of 2003.

Domestic sales share (excluding revenues from the motorway) dropped by 5% compared with the same period of 2003. Although the volume of domestic sales revenues decreased, margin volume increased compared with the 1st half of 2003.

Geography of export changed as well. In the first half of 2003, as in 2000 and 2001, the European Union had the biggest share in the sales (54% of export). The second biggest, with 24% share, were the sales to the South America. Whereas in the first half of 2004 South America was recorded to have the biggest share in exports (34%). North America, with its 27% share was on the second position. However, sales to the EU countries fell (25% of exports).

Traditionally dominant position in product breakdown for the 1st half of 2004 belonged to steel profiles (75%). The second position was taken by semi-finished goods (9% of exports).

Main products exported by STALEXPORT S.A. in H1-2004

Product	Q'ty '000 tons	Value PLN m	Share
Steel profiles	55,2	94,8	75%
Semi-finished goods	6,3	11,3	9%
Non-ferrous metal products	0,8	8,1	6,4%
Pipes	2,5	6,9	5,5%

Increased concentration of export on several product groups must be deemed unfavourable.

Principal products and services sold in the domestic market in the first half 2004 (including domestic supplies and imports)

Product	Q'ty '000 of tons	Value PLNm	Share %
Steel sheet, strips	38,2	85,3	31%
Iron ore	305,1	53,6	20%
Ribbed bars	26,2	49,7	18%
Tubes / pipes	5,0	12,3	5%
Steel profiles	5,3	11,1	4%
Metallurgic materials	85,4	8,9	3%
Refractories	2,4	8,6	3%
Semi-finished products	5,8	8,1	3%

Slight changes in proportion between metallurgical products and supplies for metallurgic sector were noticed. Share of metallurgic products in domestic sales grew from 50% in the first half of 2003 to 58% in H1 - 2004.

Main products sold in the domestic market were sheet steel and strips, iron ores and ribbed bars. Iron ore share was increased in effect of co-operation with ISPAT Polska Stal S.A. Growth of sales of ribbed bars is greatly attributable to initiation of reinforcement elements production. Sales of refractories and metallurgic materials fell in the period.

Principal suppliers

The co-operation with ISPAT Polska Stal S.A. has been continued; 42% of total sales in the first half of 2004 came from the concern. (Huta im.T.Sendzimira - 22%, Huta Katowice - 19%, Huta Cedler - 1%). In the same period of previous year supplies from ISPAT Polska Stal S.A. (former name: Polskie Huty Stali S.A.) constituted 39%.

**Suppliers with more than 5% share in sales to STALEXPORT S.A.
in H-1 - 2004**

Supplier	Share %
ISPAT Polska Stal S.A.	42%
IOC TRADING GMBH	12%
CMC Zawiercie	6%
Ferrostal Łabędy Sp. z o.o.	5%

Principal customers

Structure of customers changed slightly in the first half of 2004 compared with the same period of previous year. ISPAT Polska Stal S.A. has remained the biggest customer with 21% share in total sales revenues. Other biggest customers were the companies Stalexport Centrostal Warszawa S.A. (12%), Baustal (6%) oraz Stalexport Serwis Centrum S.A., Katowice (4%).

The companies which belong to the distribution network of Grupa Kapitałowa STALEXPORT maintained their significant position in the customer structure (over 19% of total sales revenues were from 4 companies from the distribution network).

ISPAT Polska Stal and Baustal are not associated with STALEXPORT S.A. The company, however, has 88,72% stake in Stalexport Centrostal Warszawa S.A. and 97,78 % stake in Stalexport Serwis Centrum S.A. w Katowicach.

3. Information on contracts, significant for the issuer's activity, including contracts between shareholders, of which the issuer knows

- **On 16 January 2004** a contract concluded on 17 November 2003 between Impexmetal S.A. and STALEXPORT S.A. came into force. Under this contract STALEXPORT S.A. sold 87 285 common shares and 3 630 preferred shares to Walcownia Metali Dziedzice S.A. with the registered office in Czechowice-Dziedzice of nominal value 100 Polish zlotys each, together representing 37% of votes on the general meeting of shareholders of Walcownia Metali Dziedzice S.A., being 17.15% of the shareholders' equity of that Company. In effect of this transaction STALEXPORT S.A. does not hold any shares of Walcownia Metali Dziedzice S.A.

- **On 1 March 2004** STALEXPORT S.A. received the information that all conditions which suspended entering into force of the "Sales of Shares Contract" between STALEXPORT S.A. based in Katowice and ZŁOMREX Sp. z o.o. based in Poraj had been fulfilled. The contract concerned the sale of 146 449 shares of Ferrostal-Łabędy Sp. z o.o. of nominal value 1000 Polish zlotys each.

- **On 13 May 2004** "Sales of Shares Contract" between STALEXPORT S.A. and ZŁOMREX Sp. z o.o. based in Poraj entered into force. The object of the contract was the sale of 15 667 shares of Ferrostal-Łabędy Sp. z o.o. of nominal value 1000 PLN each. In

effect of this deal STALEXPORT S.A. does not hold any shares of Ferrostal-Łabędy Sp. z o.o.

On 14 June 2004 an Agreement no. DR 1/31/0/2004 was concluded with Bank Przemysłowo-Handlowy PBK S.A. based in Krakow, on restructuring of debt from the credit contract amounting to 10 795 914.70 PLN and the unpaid part of default interest in the amount of 9 902 200.56 PLN, allowing for payments of debt instalments within 31.08.2005, with possibility to extend the repayment term to further periods. The above agreements completed the restructuring of loans that were not covered by agreements with creditors.

▪ **On 21 July 2004** a contract of sale of shares was signed between STALEXPORT S.A. and Celsa Huta Ostrowiec Sp. z o.o. with its registered office in Ostrowiec Świętokrzyski. The contract concerned the sale by STALEXPORT S.A. of 17,426 shares in Przedsiębiorstwo Przerobu i Obrotu Żłomem „Żłomhut” Sp. z o.o. based in Bodzechow, of nominal value 1000 PLN each, representing 65,45% of the shareholders equity and votes on the general meeting of shareholders. Total price of sale of shares was 9,500,000 PLN. Balance sheet value of shares as at 20.07.2004 was 2,218,735.51 PLN. The Contract took effect on 30 July 2004 after a suspensory condition, that is the transfer of title of ownership of shares against submitting to the Buyer (Celsa) a statement from Bank PKO BP SA of consent to strike off from the Register of Pledges the pledge by registration which secured part of loans granted to STALEXPORT S.A. by the Bank, had been fulfilled. For cancelling the pledge by registration by the Bank, the Buyer (Celsa) has paid to the bank on behalf of the Seller (STALEXPORT S.A.) the sum of 5,700,000 PLN from the sale price as the partial payment of the credits. After the above transaction STALEXPORT S.A. does not hold any shares in Przedsiębiorstwo Przerobu i Obrotu Żłomem „Żłomhut” Sp. z o.o. with its registered office in Bodzechow.

▪ **On 28 July 2004** a concession for the first, paid section of the A-4 motorway between Katowice and Kraków was assigned from STALEXPORT S.A. to Stalexport Autostrada Małopolska S.A. (a 100 % subsidiary of STALEXPORT S.A.). The decision of assignment of rights and responsibilities under the concession was taken by the Minister of Infrastructure, basing on Art. 60a of the law of paid motorways and on the National Road Fund dated 27 October 1994. The assignment of the concession facilitates obtaining a long-term credit for financing the project, as it enables separation of risk related to the motorway project from the risk relating to other operations of STALEXPORT S.A.

▪ **On 18 August 2004** a factoring agreement no. 216-121/1-FP/2004 was concluded with Bank PKO BP S.A. On the basis of this agreement the Factor is allowed to buy the trade receivables of STALEXPORT S.A. up to total amount of about PLN 20 million in August-September 2004.

▪ **On 1 September 2004** STALEXPORT S.A. signed a letter of intent with VINCI Concessions S.A., on strategic co-operation in future motorway-related projects. The co-operation shall particularly refer to the following concession project:

- A1 Motorway, with the exclusion of section between Gdansk and Torun,
- eastern part of the A2 Motorway, from Strykow to the eastern border,
- the A4 Motorway, except the sections between Krakow and Katowice and between Wroclaw and Katowice.

The scope of the planned co-operation shall include the assistance in execution of projects related to motorways which require concessions, promotion of new methods of project financing, exchange of legislative, finance and institutional information and, above all, participation of the partners in construction and later use of the motorways.

▪ **On 1 September 2004** STALEXPORT S.A. signed an agreement with the State Treasury, represented by the Minister of Finance, on repayment of debt from the guarantee granted by him in 1997 against a credit for execution of investment „Complex modernisation of the steel production in Huta Ostrowiec S.A.”. Total liability of STALEXPORT S.A. under this contract amounts to 72,591,830.15 PLN. The parties to the agreement mutually agreed that the receivables will be paid in 72 monthly instalments, beginning with August 2008, as follows:

- 1) 71 equal monthly instalments of 1,008,219.86 PLN each,
- 2) the last monthly instalment in the amount of 1,008,220.09 PLN.

The agreement comes into force on the day it is signed, with the exception of the provision which defines the rule for fulfilling the liabilities by STALEXPORT S.A. The said provision of the agreement will be suspended on condition that the relevant opinion is obtained of Chairman of the Consumer and Competition Protection Office or the European Commission, stating that the repayment of Receivables according to the terms and conditions of the agreement is not a public aid as for the purpose of rules for public aid for entrepreneurs, or an opinion of the European Commission that the repayment of receivables according to the terms of this agreement is the public aid permitted by law. According to the agreement interest will be charged on the receivables since the date of its signing according to WIBOR 1M rate increased by 1.5 percentage point. The interest, calculated from the date the agreement comes into force, can be paid within 7 days since that date or it can be capitalised to increase the principal debt. Since that day the interest will be paid monthly. The agreement that was signed will not affect the financial result of the company in the third quarter of 2004. All liabilities of STALEXPORT S.A. under this agreement have already been shown in the quarterly report of STALEXPORT S.A. for Q2- 2004. STALEXPORT S.A. decided to dissolve the provision in the amount of 37.5 million zlotys for guarantees granted to Huta Ostrowiec S.A. and appropriated the sum of 72.7 million zlotys to costs of Q2-2004.

Furthermore, in the first half of 2004 STALEXPORT S.A. signed a number of trade contracts, of which the most important are:

- contracts for export of metallurgic products for total value of about PLN 68m,
- supply contracts for Ukrainian iron ores for Steel Mills associated in the Concern IPS (ISPA T Polska Stal) for total value of about PLN 45m.
- contracts for the supply of iron ore pellets from Russia for Steel Mills associated in the Concern IPS (ISPA T Polska Stal) for total value of about PLN 9m
- exports contracts for the value of about PLN 30m5m for the supply of profiles, seamless pipes and ribbed bars to South American countries, the USA and EU countries.
- contracts for export of metallurgical products for the total value about PLN 9.1m - for the supply of semi-finished products to Germany, bars to the Czech Republic and Hungary and forged **shafts** to Norway.

4. Information on changes in organisational or capital interrelations of the issuer with other entities and defining his principal domestic and foreign investments and description of their financing.

▪ **On 16 January 2004** the transaction between Impexmetal S.A. and STALEXPORT S.A. from 17 November 2003 was closed. Under this contract STALEXPORT S.A. sold 87 285 common shares and 3 630 preferred shares to Walcownia Metali Dziedzice S.A. with the registered office in Czechowice-Dziedzice of nominal value 100 Polish zlotys each, together representing 37% of votes on the general meeting of shareholders of Walcownia Metali Dziedzice S.A., being 17.15% of the shareholders' equity of that Company. In effect of this transaction STALEXPORT S.A. does not hold any shares of Walcownia Metali Dziedzice S.A.

▪ **On 1 March 2004** STALEXPORT S.A. received information that all conditions which suspended coming into force of the "Sales of Shares Contract" between STALEXPORT S.A. based in Katowice and ZŁOMREX Sp. z o.o. based in Poraj had been fulfilled. The contract concerned the sale of 146 449 shares of Ferrostal-Łabędy Sp. z o.o. of nominal value 1000 Polish zlotys each.

▪ **On 13 May 2004** "Sales of Shares Contract" between STALEXPORT S.A. and ZŁOMREX Sp. z o.o. based in Poraj entered into force. The object of the contract was the sale of 15 667 shares of Ferrostal-Łabędy Sp. z o.o. of nominal value 1000 PLN each. In effect of this deal STALEXPORT S.A. does not hold any shares of Ferrostal-Łabędy Sp. z o.o.

▪ **On 19 May 2004** by the decision of the District Court in Poznan, bankruptcy of "Stalexport Wielkopolska" Sp. z o.o. in Komorniki was declared with an option of liquidation. The Judge Donata Starosta was appointed judge commissioner, legal counsel Krystyna Bartoszevska was appointed official receiver of bankruptcy assets. The decision is not valid.. On 31 May 2004 the Management Board of Stalexport Wielkopolska Sp. z o.o. lodged a complaint against the decision of the Court to declare bankruptcy of the Company.

▪ **On 11 May 2004** an agreement was made between STALEXPORT S.A., Stalexport Autostrada Dolnośląska S.A., Egis Projects S.A. (France) and NCC AB (Sweden) which changed the composition of shareholders of Autostrada Śląska S.A. As NCC AB decided to eithdraw from the Company, the remaining shareholders agreed that Strabag AG (Austria) can enter the Company. After the above changes, the shareholders of Stalexport Autostrada Śląska S.A. are: Stalexport Autostrada Dolnośląska S.A. 37,5% of equity and votes, Egis Projects S.A. 37,5% of equity and votes, Strabag AG 25,0% of equity and votes.

▪ **On 21 July 2004** a contract of sale of shares was signed between STALEXPORT S.A. and Celsa Huta Ostrowiec Sp. z o.o. with its registered office in Ostrowiec Świętokrzyski. The contract concerned the sale by STALEXPORT S.A. of 17,426 shares in Przedsiębiorstwo Przerobu i Obrotu Żłomem „Żłomhut” Sp. z o.o. based in Bodzechow, of nominal value 1000 PLN each, representing 65,45% of the shareholders equity and votes on the general meeting of shareholders. The Contract took effect on 30 July 2004 after a suspensory condition had been fulfilled. After the above transaction STALEXPORT S.A does not hold any shares in Przedsiębiorstwo Przerobu i Obrotu Żłomem „Żłomhut” Sp. z o.o. with its registered office in Bodzechow

5. Transactions with associated companies

Description of transactions with associated companies is included in the explanatory note no 7.1. to the financial statements.

6. Information on received credits and loan contracts with their due dates of payment, and granted guarantees and sureties

Long-term liabilities from bank credits amount to 88,043 thousands of PLN, and comprise credits covered by restructuring agreements. Short-term liabilities from bank credits amounted to PLN 29,454 thousand, of which PLN 28,701 thousand refer to long-term credit in the period of repayment.

Short-term liabilities from contracted loans amount to PLN 13,000 thousand.

Creditor/ registered office	Amount borrowed	Due date	Notes
Stalexport Transroute Autostrada S.A. Mysłowice	1 000 000.00	15.09.2004.	Extension of repayment date to 31.01.2005 was agreed.
Stalexport Autostrada Dolnośląska S.A. Katowice	8 200 000.00	31.07.2004.	Repayment date was extended to 31.10.2004 by an annex signed on 29.07.04
Stalexport Autostrada Śląska S.A. Katowice	3 800 000.00	24.12.2004.	
Total	13 000 000.00		

Total debt of the Company from credits, as of the end of the first half of 2004, was 117,497 thousand Polish zloty.

Compared with the figures for 31.12.2004 credit amount was reduced by 19,161 thousand zlotys. The difference is mainly due to:

- repayment of the credit from Bank Handlowy S.A. in the amount 8,948 thousand PLN,
- reduction of debt from credit capital from PKO BP by 4,100 thousand PLN,
- reduction of debt from credit capital from BPH PBK S.A. by 4,912 thousand PLN.

Details of contracted credits according to their due repayment dates are provided in the table below.

Utilisation of credits as of 30.06.2004 (in '000 PLN)

NAME OF CREDITOR	REGISTERED OFFICE	CREDIT AMOUNT UTILIZATION '000 PLN	DUE REPAYMENT DATE
BANK HANDLOWY S.A.	KATOWICE	10 610	as per signed restructuring agreement
BANK HANDLOWY S.A.	KATOWICE	21 037	as per signed restructuring agreement
BANK HANDLOWY S.A.	KATOWICE	29 949	as per signed restructuring agreement
BANK HANDLOWY S.A.	KATOWICE	750	30.09.2004
BRE BANK S.A.	KATOWICE	8 627	as per signed restructuring agreement
ING BANK ŚLĄSKI	KATOWICE	900	as per signed restructuring agreement
PKO B.P. II	KATOWICE	35 533	as per signed restructuring agreement
BPH PBK S.A.	SOSNOWIEC	10 088	as per signed restructuring agreement
Other		3	
Total		117 497	

7. Granted loans, with their due dates of repayment; granted guarantees and sureties, with due regard to loans, guarantees and sureties granted to companies associated with the issuer

Total receivables from loans granted by STALEXPORT S.A. amount to 97,210 thousand PLN. Revaluation allowance for liabilities from loans amount to 83,680 thousand PLN and does not include the sum of loan granted to Ferrostal-Łabedy Sp. z o.o., due to collaterals provided for in the restructuring agreement which has been concluded. Compared with December 2003 the receivables from granted loans were reduced by 15,512 thousand PLN. Details of the granted loans are specified in the table below.

Loans granted - as of 30.06.2004 (in '000 PLN)

Due date	Debtor	Capital to be paid
31.12.2002	Huta Ostrowiec	5 000
31.12.2002	Huta Ostrowiec	31 500
31.12.2002	Huta Ostrowiec	36 000
31.12.2002	Huta Ostrowiec	5 600
31.12.2003*	Ferrostal Łabędy Sp. z o.o.	5 430
31.12.2003*	Ferrostal Łabędy Sp. z o.o.	8 100
30.09.2001	Centrozłom Warszawa	3 500
30.06.2001	Centrozłom Warszawa	2 081
	Total	97 210

* covered by the restructuring agreement of 26.11.2003.

Total value of off-balance sheet debit amounted to 306,070 thousand PLN, which included contingent liability from guarantees and sureties granted.

The biggest item in contingent liability were guarantees granted by STALEXPORT S.A., for the total amount 301,609 thousand zlotys, of which:

- for Walcownia Rur Jedność Sp. z o.o. (WRJ) in the amount of 297,123 thousand zlotys,
- Huta Szczecin S.A. in the amount of 4,482 thousand zlotys
- Stalexport Wielkopolska Sp. z o.o. in the amount of 1,401 thousand zlotys.

Compared with the end of 2003 guarantees decreased by 46,566 thousand PLN, in result of:

- reduction of the level of guarantees for WRJ by 7,073 thousand zlotys, due to the change of EURO exchange rate.
- writing off the guarantee for Huta Ostrowiec in the amount of 37,500 zlotys;
- paying off by STALEXPORT S.A. the guaranteed credit in the amount 1,393 thousand zlotys for Stalexport Wielkopolska Sp. z o.o. in bankruptcy for the benefit of PEKAO S.A.,
- settlement by Huta Szczecin S.A. 6 consecutive instalments, i.e. 600 thousand PLN, of the credit guaranteed by STALEXPORT S.A.

The biggest share in the total of guarantees has the guarantee for Walcownia Rur Jedność Sp. z o.o. (WRJ), which amounts to 297,123 thousands PLN. (without interest) and was not covered by the revaluation allowance. Total debt of WRJ from taken credits is 185,777 thousand zlotys, of which 26.25% was guaranteed by STALEXPORT S.A. Other guarantors of the credits are: Huta Jedność S.A. (32,12%) and the State Treasury (41,62%).

That means that, with the present total debt from credits, any direct claim of banks coming from the secured guarantee can amount to 48,766 thousand PLN. Upper limit of the guarantee is 152,860 thousand zlotys which was established basing on the biggest value of debt for credit of WRJ. As the banks' explicitly maintain that in the present state

of investments no further credit tranches will be released, the increase in WRJ debt against banks can only be caused by charging interest.

The guarantee from the State Treasury was secured by WRJ bills guaranteed by STALEXPORT S.A. Furthermore, the credits are secured by a pledge by registration on plant and machines which belong to WRJ, assignment of receivables to the consortium of banks and a mortgage on the property of Huta Jedność S.A. Only in case of call upon guarantors to discharge the granted guarantees, without banks' satisfaction from WRJ property and if the State Treasury pays off the guaranteed liability, total claim against STALEXPORT S.A. can grow up to total debt of WRJ, i.e. to the amount of PLN 185,8 million.

8. Information on issuance of securities including the description of utilisation of income from the issue by the issuers.

In the first half of 2004 STALEXPORT S.A. did not issue any securities, but they took steps to prepare new issue of shares within authorised capital..

9. Explaining differences between financial results shown in the half-year report (SAP) and forecasts released earlier

Differences between the presented items of the profit and loss account as shown in the annual report (SAR) and the quarterly report (SAQ) do not exceed 4.5%.

10. Appraisal, including justification, of financial resources management, with particular attention to capability to meet the contracted obligations and defining possible threats and actions taken or intended to be taken by the issuer in order to overcome the threats

Appraisal of the financial resources management refers mainly to events which affect liquidity and profitability of the Company. To assess the liquidity and profitability, the following ratio were used:

- current ratio – current assets/current liabilities,
- quick ratio – (current assets–stock)/ current liabilities,
- return on sales – profit from sales/sales revenues,
- net profitability – net profit/sales revenues,
- return on assets (ROA) – net profit / assets.

Ratio	H1 - 2003	H1 - 2004
Current ratio	1.05	0.93
Quick ratio	0.87	0.76
Return on sales	1.84%	3.05%
Net profitability	3.14%	2.10%
Return on assets	2.19%	1.85%

Current and quick ratios were worse in the first half of 2004 compared with the same period of 2003. This can be explained by a single increase in current liabilities due to showing the contingent liabilities to the State Treasury on guarantees for Huta Ostrowiec S.A.. After

the agreement with the State Treasury has been signed the liabilities will be converted into long-term ones in the 3rd quarter of 2004.

The situation of financial flows was mainly affected by the necessity to pay off credit which do not fall under the arrangements (PLN 37.2m inc. interest) and paying-off the principal creditors as result of provisions of the proceedings for an arrangement with creditors (PLN 22.3m). For these reasons the current capital of the Company was decreased, and, consequently, the possibilities for growth of sales revenues limited.

A great burden for the Company liquidity was the claim of the State Treasury for PLN 72.6m related to the guarantees for Huta Ostrowiec. The Management Board of the Company started negotiations with the Ministry of Finance to explain the situation and to fix the final amount of the terms of deferment of payment. As a result, on 1 September 2004 an agreement was signed which allows the debt to be paid in 72 monthly instalments, beginning with August 2008, that is after the payments fixed in the agreement with creditors will have been effected.

In the first half of 2005 the return on STALEXPORT S.A. expenditure on the motorway-related investment is forecasted, due to the transfer of the concession to SAM S.A., which is expected to improve the quick ration significantly.

In the first half of 2004 the Company was still refused to have an access to financing by substantial bank credits, which hindered more dynamic growth of sales revenues than actual.

Events which could adversely affect the financial liquidity of the Company were hampered significantly, owing to more effective trading policy reflected in the increased margin, and to obtaining circulating assets of PLN 23m through the sale of some fixed assets of the Company.

It is best seen in the significant rise of return on sales from 1.84% to 3.05%. Due to this growth profit from sales amounted to 13,379 thousand PLN, nearly 73% higher on prior period.

Net profitability ratio dropped on last year due to negative balance of financial operations.

Similarly, return on assets shows falling tendency, which is caused by the growth of current assets by 47% during the first six months of 2004.

Owing to the above actions and continued disciplined reduction and control of overhead expenses, both in the Company and in companies which belong to the Capital Group, STALEXPORT S.A. reached relatively high profitability and maintained financial liquidity on the level which allowed the Company to fulfil the financial programme and timely payments of debt in agreement and also helped to meet the structured financial liabilities from credits and other debts.

11. Assessment of the capacity to execute the investment projects

For the obligation to repay the instalments under agreement, no investment projects that require expenses in cash are planned until the end of 2004.

12. Assessment of factors and extraordinary events which affected the result of the Company' operations

The most important extraordinary events which affected the result of STALEXPORT S.A. in the first half of 2004 were:

a) Disposal of shares in Ferrostal-Łabędy Sp. z o.o.

On 26.11.2003 STALEXPORT S.A. signed contracts of sale of shares in Ferrostal-Łabędy Sp. z o.o. to Złomrex Sp. z o.o. The contracts came into force in the first and second quarters of 2004. They have neutral impact on the result (because of the provisions created in prior years) and is reflected in items:

- Financial income (revaluation of investment value) in the sum of PLN 152,7m through dissolution of provision for shares (Q1 – PLN 137.0m; Q2 – PLN 15.7m),
- Financial expenses (loss on disposal of investment) in the amount of PLN 152.7m (Q1 – PLN 139.0m; Q2 – PLN 13.7m).

b) Restructuring agreement with Ferrostal-Łabędy Sp. z o.o.

On 26.11.2003 STALEXPORT S.A. signed an agreement on restructuring of debt with Ferrostal-Łabędy Sp. z o.o. The agreement stipulated the payment of PLN 30m of the reduced debt amount till May 2004. Up till now Ferrostal-Łabędy Sp. z o.o. pays their liabilities (principal debt + interest) in full and on due dates. Furthermore, the economic-financial situation of the debtor improves substantially. The performance of the company, beside the existing security of debt repayment on the debtor's property, additionally guarantees the settlement of the remaining debt (until 2008). Therefore, in the first half of 2004 STALEXPORT S.A. decided to dissolve a portion of revaluation allowance. Impact of the decision was reflected in the profit and loss account in the item: other operating income (other income) amounting to PLN 30.5m (Q1– PLN 5.5m, Q2 – PLN 25.0m). Other payments due from Ferrostal-Łabędy Sp. z o.o., in the amount of PLN 37.9m are covered by allowances of PLN 12.2m, which, depending on the debtor's standing and his repaying of remaining obligations will be successively dissolved. Interest paid when falling due (PLN 1.7m in the first half of 2004) increased the financial income from interest.

c) Guarantee on the bill of exchange for the State Treasury.

The Management Board of STALEXPORT S.A. in their report 38/2004 informed about the receipt of the notice of payment of PLN 72.7m for the benefit of Bank PEKAO S.A. by the State Treasury (represented by the Minister of Finance) as their guarantee for the debt of Huta Ostrowiec S.A. Receivables of the State Treasury from Huta Ostrowiec S.A. due from the guarantee was secured by blank bills with a promissory note declaration of STALEXPORT S.A.

Thus the amount of PLN 72.7m became a due debt of STALEXPORT S.A. to the State Treasury.

As Huta Ostrowiec S.A. was declared bankrupt and claim of STALEXPORT S.A. on the guarantee secured for the company cannot be satisfied, STALEXPORT S.A. appropriated the sum of PLN 37.5m from the dissolved revaluation allowance (provision made for the receivable from Huta) and additional PLN 35,2m to current liabilities and thus debited the costs of the current period with total PLN 72.7m. Consequently, the Q2 result was decreased by PLN 35.2m. The amount of PLN 37.5m did not influence the financial result, owing to dissolution of the revaluation allowance with simultaneous inclusion in costs. The event is reflected in the profit and loss account in the following items (for Q2 - 2004):

a) Other operating income (other) from dissolution of the allowance in the amount of PLN 37.5m.

b) Financial expenses (other) due to cost of bills for the State Treasury in the amount of PLN 72.7m.

13. External and internal factors, essential for the development of the issuer and economic activity development forecasts

Macroeconomic situation of Poland.

Economic growth rate remained high in the first two quarters of 2004 (6%) and doubled the figures for the same period of 2003. For the first time in two years there was a substantial rise in expenditure for fixed assets in the country's economy. Industrial production sold rose by some 18%. Industrial suppliers and producers of investment goods noted still higher growth, 22% and 49% respectively. Construction and erection production volume rose by 0.5% on the same period year earlier. However, volume of investment work was 1.2% lower than the year earlier and their share in total construction and erection dropped from 74% to 73%. Sales of repair works increased by more than 5% in the period. Production sold in mining rose by 3%. In general, steel products consuming industries showed growth tendencies.

In the first six months of 2004 the inflation reached 2.6%, and average exchange rates were 3.93 Polish zloty for an American dollar and 4.73 Polish zloty for a Euro in May.

Compared to the same period of 2003 value of exports rose by more than 44%, an of imports by nearly 40% (calculated in USD).

Production and commercial situation of the Polish metallurgy

In the period from January to May 2004 Polish steel industry faced the growth in production compared to the same period of 2003. Polish steel mills produced 2.7 million tons of pig iron (21% growth), and 4.5 million tons of ordinary steel (25% growth). Production of semi-finished goods from continuous casting (COS) rose by 28% on the same period year earlier. Hot-rolled products volume amounted to total 3.3 million of tons (26% growth).

Dynamic growth was achieved in the production of both long (by 23%) and flat (32%) products. Production volume of cold-rolled sheet and zinc-coated sheet also increased on prior year (by 20% and 26% respectively).

Production volume of tubes reached 151000 tons, and was 32% higher than in the same period of the previous year, in this seamless tubes – 56 000 tons (17% increase), and welded tubes – 96 000 tons (42% increase).

Between January and April 2004 total exports of steel products was 1 649 000 tons, total imports 1220 000 tons. Foreign trade balance of steel product quantities (export - import) was favourable and was 428 000 tons (in the comparable period of the year earlier it was also favourable and was 348 000 tons). In terms of value total foreign trade balance remained negative and was USD (-)292m (in the same period of 2003 it was also negative and was USD (-)187m).

Between January and April 2004 the disclosed consumption of steel products was 27 million of tons, 27% higher on the same period of 2003.

Breakdown of disclosed consumption in the reported period shows the increase in the disclosed consumption of flat products (by 38%), long products (by 13%) and tubes (by 30%).

After four months of 2004 imports had 40.3% share in open consumption (in the same period year earlier it was 38.7%).

The steel market in the first half of 2004, both international and Polish, was greatly influenced by a significant growth and fluctuations of prices for basic raw materials for metallurgy, mainly coke and scrap (2-3-times) and, to a lesser degree iron ore. That resulted in the increase in prices of finished goods in the domestic market, particularly of long products (e.g. bars and wire rods by 80-100%) and flat products (sheet by 50-70%) compared to average prices in the second half of 2003.

That significant price growth had impact on the situation of metallurgical products consumers, bigger for the construction sector (here product of metallurgy account for 15-30% production costs), smaller for the processing industry. However, owing to the general economic growth the demand for steel even increased, and new prices of steel was accepted by the market.

Privatisation of the Polish metallurgical sector

Following the privatisation, which covered almost 90% of the Polish metallurgical sector, and the growth in prices of metallurgical products, the economic situation of the production plants, their profitability and financial liquidity. Trade policies introduced by new owners led to dramatic reduction of offsetting deals in favour of cash settlements. Producers started a consequent policy of eliminating transit intermediaries, that is, companies which do not have their own sales networks or warehouses. The tendencies bring about promotion of distributors with both suitable infrastructure for trading in steel and sound financial standing. Fears of attempts to eliminate or take over all steel distributors by new investor in the metallurgical sector proved unjustified.

Macroeconomic forecast for Poland.

In the opinion of the National Bank of Poland (NBP), favourable business situation should be maintained in the third quarter of 2004. However, slower growth rate than in the second quarter shall be expected, mainly due to seasonal factors. Thus, NBP scaled economic

situation index maintains on the level over 50 (which means boom), but with a downward trend compared with the previous quarter. Statement of index changes shows the advantage of improving estimates and forecasts in the pool of all estimates and forecasts considered. The second quarter 2004 marked a significant improvement of the economic situation of enterprises. It is shown both in subjective opinions of surveyed entrepreneurs and in the percentage growth of respondents who declare lack of serious problems which put back the development of the company, improvement of liquidity, improvement of capacity to service the debt owed to banks or other business entities. The number of contracts with exporters increased together with the growing profitability of sales to foreign markets. That good image of economic standing of the companies is spoiled by a small increase of excessive stocks. It followed the series of downturns and at present it is difficult to assess if we experience breaking the trend or rather the increase of stocks in Q2 is of incidental nature.

As the situation improved and owing to favourable growth conditions, which appeared after Poland's accession to the EU, the surveyed enterprises changed their attitudes in the area of employment. For the first time since 1998 the percentage of companies which intend to increase the employment slightly outnumbered those which plan reductions. Furthermore, as early as in June the number of employed persons in the sample increased compared to March (which was not suggested in earlier forecasts). Such growth was noted in five sectors of economic activity according to the Polish Classification of Activity /PKD/ (except mining, transport and trade) and also in companies employing up to 50 persons and big companies (not the biggest, however).

Investing activity of companies will be slightly lower in the third quarter than was in the second quarter of 2004, but still higher growth rate than in 2003 can be expected.. Investing is planned mainly by big companies and exporters. And though there are no signs of dramatic improvement of situation in this area, an impulse to drive the investment may come from continually growing level of utilisation of the production capacity. In the end of the second quarter 2004 it reached the highest level in the whole history of surveys (80,7%) and is the proof for strong inflation pressure in the companies..

Slight downturn in the demand, production, orders and exports is expected in the third quarter 2004. Slow down of the growth rate of these values is seasonal. Despite the slump, expectations of entrepreneurs are higher than in the same period of the previous year.

There is a remarkable growth of optimism of forecasts of the companies which offer their products and services for domestic market only, against certain stabilisation of expectations among exporters. The recovery is also visible in the smallest companies (up to 50 employees). At present expectations of this group as to demand, production, orders and changes in the situation in the nearest future are the most optimistic.

Growing increase of inflation expectations (CPI and PPI) is predominant. For the second quarter the companies have substantially boosted their forecasts (during a quarter of the year forecasts of the CPI index rose by 0.7 point). To a slightly lesser degree than expected growth of prices in the economy, companies intend to increase prices of their own products and services. Slight slow down of price growth rate on the previous quarter is a positive signal.

There is a growing belief that interest rates are to be raised. Some companies experienced the growth of credit cost, mainly long-term credit, as early as in the second quarter of 2004. Increase in interest rates may be one of the reasons for the slower growth of

credit indebtedness, as fewer companies intend to increase their debt in banks than in the previous quarter. Present level of bank credit utilization for current operations is the lowest since 2000.

Forecasts for European and world metallurgical sector

The nearest half of the year should bring the growth in production of steel and steel products. Strong demand in the construction sector (mainly in South America) and in automotive industry will be maintained. In European countries outside the EU a drop in demand is expected.

In the nearest future the level of stock will continue to decrease, particularly due to the EU, NAFTA and South America.

Forecasts for the Polish steel consumer sector

Generally, economic forecasts for the second half of 2004 for steel consumer sector are favourable.

General climate of growth in the processing industry was positive. The opinion was formed mainly by favourable forecasts for orders and production. The growth climate was estimated higher in private firms than in public companies.

General growth rate index in the construction sector had positive opinions. They resulted from optimistic assessment of the present and future order backlog and construction and erection output.

Improvement of the financial standing of companies, including liquidity, is expected both in the processing industry and in the construction and erection sector.

As far as the demand and prices of steel products are concerned, stabilisation with slight growing trend is forecasted, possible drop in export growth rate among domestic steel consumers should be balanced with the increase of steel-consuming internal investments.

Internal factors which are essential for the development of the issuer with the prospects for development of economic activity are discussed in section IV.

14. Changes in basic principles of managing the issuer's company and his capital group

No essential changes were introduced to the basic principles of managing the Company in the first six months of 2004. The Management Board of STALEXPORT S.A. continued the implementation of the strategy, which had been adopted earlier, consisting in deep financial and organisational restructuring of the Company and the whole Capital Group.

The Management Board - after efficient financial restructuring which included composition of arrangement, signing agreements with secured creditors and effective conversion of debt to shares - continues to focus on priorities defined in the strategy, and in particular on:

- increase of the cash inflow gained from the market through the development and integration of sales network, improvement of customer service, growth of share in the steel trading market and further development of motorway-related operations,
- cutting operational costs by improvement of internal processes in every functional area of STALEXPORT S.A. and the Capital Group,
- internal integration of marketing, sales and financial functions, based on the integration of IT systems in the Capital Group,
- improvement of internal communication, focused on integrating the managerial staff and employees around the restructuring programme for STALEXPORT SA.

Fulfilment of the above objectives requires constant involvement of almost all employees, which is achieved through the work of interdisciplinary teams appointed in order to solve a particular problem. Usually once in three months the Management Board holds a plenary session with the teams responsible for implementation of particular restructuring-bound tasks. During one of the meetings targets and tasks were set that need to be implemented or continued within the restructuring programme for 2004. They include:

- development and implementation of the system of analysing the market environment, identification and monitoring of opportunities and threats of the economic activity,
- development and implementation of the system of analysing and optimization of the value chain,
- integration of STALEXPORT S.A. and the Capital Group, development of the sales network,
- development and implementation of the appraisal system of the level of implementing the strategy,
- ensuring efficient and safe operation of the A4 Motorway: Katowice – Kraków and obtaining a concession for the A4 section Katowice- Wrocław,

To implement the above tasks the Management Board appointed:

- by the order 1/2004 of 19.01.2004 - A task team for consolidation of sales force of Capital Group STALEXPORT ,
- by the order 5/2004 of 10.03.2004 - Marketing strategy team, which replaced the former team for marketing integration, enhancing sales performance and increasing the volume of revenues.

On the meeting of the Supervisory Board in April the Management Board of STALEXPORT S.A. presented „**MARKETING AND SALES STRATEGY OF STALEXPORT S.A. for 2004 and next years**”. The strategy presents a coherent set of restructuring actions which focus on such marketing and sales behaviours that will cause the working capital at the disposal of the company generate a growing margin which, in turn, will cover the settlement of debts under arrangement, facilitate the growth of value for shareholders and increase profit..

External conditions which are changing, including macroeconomic factors, forces the Management Board to constantly monitor and modify the management system applied since 2002. The principal objective of the new model of management was to prepare STALEXPORT S.A. to the situation when the company will be able to generate cash surplus in the amount sufficient to meet the obligations resulting from the arrangement with creditors and related to the agreement.

At first the assumption was made that all companies would maintain their legal capacity but would be managed in the „crisis management” system. In practice it meant close operating co-operation in planning, production and sales, which was reflected in the Regulation of the President of the Management Board of STALEXPORT S.A. dated 30 August 2002 on streamlining the system of managing the Company and the STALEXPORT Capital Group. It is still binding, after a few minor organisational modifications. A system of weekly and then biweekly personnel briefings was introduced. This facilitates better planning and accounting for obtained results. Synergy effect, although only slight, can be observed, which should be attributed to better coordination of trade policy, more integrated money management, significant reduction of stocks and debt.

The restructuring resulted in further modification of the organisational structure and rationalisation of employment. The strategy of focus on trading operations being introduced since July 2001 is reflected in the organisational structure. STALEXPORT SA is organised in two basic divisions: trade and finance. Strategic organisational, legal and personnel issues report directly to the President of the Management Board.

Having assumed that the core activity of STALEXPORT S.A. - beside motorway-related operations - is trading in steel, the company focused on the optimisation of value chain which comprises customer service, logistics, procurement and after-sales. Due to implementation of this concept the service time has been minimised, doubling of functions and actions limited and 20% of major factors which generate 80% of service costs defined..

Those efforts enhanced the productivity of the whole Capital Group, while they did not incur substantial capital expenditure. Further reduction of operating costs must bring the company to the next step of organisation restructuring - consolidation of the STALEXPORT commercial group. To implement this stage of restructuring, the real property in Pila, Gniezno and Gostyn belonging to Stalexport Wielkopolska Sp. z o.o. were taken over for debt. Furthermore, on the basis of leased property, other depots were opened in Belchatow (April 2004) Krzyz Wielkopolski, Komorniki, Koszalin, Kostrzyn nad Odrą (July and August 2004) and Zielona Gora (September 2004). It is planned to start the greatest depot in Rzeszów by the end of September 2004. STALEXPORT S.A. took over the reinforced concrete plant, Stalbud, from Stalexport Serwis Centrum S.A. Katowice.

It must be emphasised that the management model introduced in 2002 and modified in following years resulted in increased productivity of STALEXPORT S.A. and closer co-operation within the Capital Group, both in planning and operations, improved the managing process and brought about the reduction of costs. Efforts to improve the principles of managing the Company are of a continuous nature.

15. Changes in the composition of managing and supervisory bodies

a) The Management Board

There were no changes in the composition of the Management Board during the first six months of 2004. On 29.06.2004 the Board was appointed for the next term of office in the same composition. As of the end of June 2004 the Management Board consists of:

- **from 31.01.2004 to 25.03.2004**
 - 1) Urszula Dzierżoń,
 - 2) Małgorzata Michalunio-Kępyś,
- **since 26.03.2004 onwards**
 - 1) Urszula Dzierżoń,
 - 2) Małgorzata Michalunio-Kępyś,
 - 3) Marek Bury,
 - 4) Marek Cywiński.

16. Remuneration of the issuer's managing and supervisory staff

Remuneration for the Management Board and the Supervisory Board are presented in ten explanatory note no. 10 to the financial statements.

17. Due receivables from unpaid loans

As of the end of the first half of 2004 no due receivables from unpaid loans granted to the managing or supervisory staff or their relatives were revealed; nor were any guarantees given to them.

18. The issuer's shares or shares of his associated companies owned by the members of the management or supervisory board

Number and nominal value of STALEXPORT S.A. shares owned by the members of the Management and Supervisory Boards as of the end of June 2004:

1. Krystyna Strzelecka	4.075 shares of nominal value PLN 8.150
2. Emil Wąsacz	59.000 shares of nominal value PLN 118,000
3. Urszula Dzierżoń	15.800 shares of nominal value PLN 31,600

Persons who manage or supervise the issuer do not hold shares in the associated companies or subsidiaries.

19. Shareholders who have at least 5% of total number of votes.

Shareholders who have at least 5% of total number of votes (107,762,023) as of 30 June 2004:

- The National Environmental Protection and Water Management Fund	-	16,72 %
- Powszechna Kasa Oszczędności BP S.A.	-	7,10 %
- Bank Zachodni WBK S.A.	-	5,47 %

20. Information on changes in shareholder breakdown and on contracts that can affect the change in proportion of shares owned by present shareholders or bond holders and of which the issuer knows

As of 31 December 2003 BPH PBK S.A. held 9.12% of the Company shares and was ranked as a major shareholder. Having sold a number of owned shares the stake held by BPH PBK S.A. fell below 5% of the threshold over which the Bank would be obliged to inform the Company about the number of shares owned by them.

The Company does not have any knowledge about contracts, which could cause future changes in the breakdown of stake owned by the present shareholders or bond holders.

IV. THE COMPANY'S DEVELOPMENT PROSPECTS

A. Strategy for the Company's further development and internal factors essential for its development

Successful completion of financial restructuring means that STALEXPORT S.A., achieving financial stability and the conditions necessary for payment of composition instalments, may formulate the basic assumptions of its further development.

STALEXPORT S.A.'s verified mission concentrates on the development of domestic commercial activities, pursued by the head office and a network of distribution companies and, by way of niche, on export and import, as well as the development of motorway activities.

STALEXPORT S.A.'s corporation strategy, after financial restructuring, is based on:

1. development of efficient commercial activities based on the existing and developed sales network,
2. further organizational restructuring of the Company and the Capital Group, aimed at its consolidation,
3. further reduction of the Company's and the Capital Group's costs,
4. development of motorway activities.

1. Development of efficient commercial activities based on the existing and developed sales network

Operations aimed at increasing the efficiency of commercial area included:

- working out and implementation of the principles of consistent marketing, commercial and logistic policy, enabling to use existing potential (scales and synergy effect) within the framework of the Capital Group;
- concentration on home trade and the maintaining of a significant market position in a selected range of products in foreign trade, which has resulted in the optimization of distribution channels and the range of products and goods on offer;
- based on these assumptions, **'STALEXPORT S.A.'S MARKETING AND COMMERCIAL STRATEGY for 2004 and the following years'** has been prepared. Its purpose is such coordination of the restructuring and marketing-commercial operations that the working capital at the disposal of STALEXPORT

S.A. should generate an increasing margin to make it possible to pay composition liabilities, increase the firm's value for the shareholders, and carry on increasing profits.

What is essential to the marketing strategy is division of STALEXPORT S.A.'s operating activities into segments based on experience gained in the restructuring process, in particular separation of characteristic groups of products and goods, markets and customers taking into account the specific character of service and distribution channels. Such division, undergoing constant modification because of constantly changing market conditions, is supported by organizational structure adapting to the requirements of optimal service of so formed segments. In the supportive structure the emphasis is put on consolidation process, data processing support for commercial processes, logistics and, in particular, obtaining current assets and strengthening the sales network. The whole is crowned with a motivation system. So that its working capital could be used more and more efficiently, STALEXPORT S.A. is continuously improving the market analysing and monitoring system.

Analyses which have been made and experience gained indicate that flexible policy as regards margin fixing is reflected in an increase in sales and in the margin in total.

A Marketing Database, currently developed, which, after starting a Virtual Store, is accessible to all the Capital Group Companies, constitutes a good base for providing better service to key, strategic customers. Market research suggests a possible increase in the sale of steel, non-ferrous metal and alloy steel products. STALEXPORT S.A.'s modified website, oriented towards commercial purposes and the firm's promotion, constitutes a firm basis for improvement of the Company's business communication, internal and external.

The principle of current cooperation with strategic customers who contribute most to the firm's sales and margin is being implemented. Respective customers are under the care of individual sales employees. There is continuous monitoring of customers' financial position with respect to their financial liquidity and the amount of mercantile credit. A list of existing customers has been made and work on attracting new ones started.

The possibility of achieving better results with less outlays has appeared due to the monitoring and analysing of individual transactions. Such an approach has enabled to eliminate those transactions which are too capital-consuming and do not bring assumed benefits, e.g. owing to recipients' failure to effect payments in time.

Trying to make better use of the conditions favourable to sales promotion, the Board is making efforts to increase working capitals. Through negotiations with suppliers and financial institutions, they aim at obtaining loans; also, they have started to make endeavours for putting a new issue of shares on the market.

2. Further organizational restructuring of the Company and the Capital Group

The commercial area restructuring carried out is supported by a parallel restructuring of the Company's and Capital Group's organization.

In a synthetic view, this organizational restructuring covers the following areas:

- a) business integration supported by data processing integration,**
- b) management integration,**
- c) organizational integration.**

Ref. a) Business integration supported by data processing integration

An analysis of the value-creation chain and the level of margins obtained has been the basis for its optimization with respect to cost minimization. A characteristic feature of the steel trade is a decreasing value of margin and a developing consolidation process, based on the intention to minimize costs. The consolidation process has been preceded by a data processing integration process.

The data processing integration scheme included:

- modification of internet portals (internal and external), improving the flow of information inside the firm,
- starting of a virtual store system in order to optimize the stock in the Capital Group,
- prepared and accepted a system of goods identification abbreviations, which was used in the modernization of STALEXPORT S.A.'s product catalogue and implementation of the 'Branżysta' system.

STALEXPORT S.A.'s computer system has included newly established commercial stores, thus making it possible to provide service to customers directly on behalf (by) STALEXPORT S.A. in the following towns: Pi³a, Gniezno, Gostyń, Krzyż Wielkopolski, Komorniki, Koszalin, Kostrzyn nad Odr¹, Zielona Góra, and Be³chatów. By the end of September 2004 the system will have included the commercial store in Rzeszów. Apart from that, STALEXPORT S.A. has added to its computer and organizational structure the

department of reinforced concrete constructions prefabrication Stalbud, which formerly belonged to Stalexport Serwis Centrum S.A., Katowice.

The experience gained in adding individual stores to STALEXPORT S.A.'s computer system indicates a possibility of entire consolidation of the Capital-Group-owned commercial network in the scope of customer service and ability to effect financial settlements and, at the same time, confirms a possibility of further reduction of the operating costs of commercial activities.

The starting of a central metallurgic products catalogue for the purposes of the firm's own commercial stores and the arranging of the flow of storage documents and invoices between individual stores and the central system is an important stage in business integration. Commercial employees possess current information about the quantities of goods in wholesale houses and may look at store documents, invoices and wholesalers' customers' settlements.

The direction of further data processing integration will result from traders' direct demands and trends in the steel market. The creation of the product catalogue and virtual store provides a springboard to the development of trade with fuller utilization of the Internet.

Further data processing integration depends on the development of organizational integration, i.e. setting up new commercial stores in Poland.

Ref. b) Management integration

What is a factor in improving competitiveness, reducing the costs of the Company's operations and contributing to punctual deliveries is a logistics management system which is integrated within the Capital Group. The successful results of the data processing integration carried out change STALEXPORT S.A.'s manner of conducting commercial activities. There is a rise of the significance of STALEXPORT S.A. as a commercial operator. The knowledge of the market, collaboration with direct recipients, coordination of the operation of commercial stores and completion of orders as well as optimization of the order chain so as to minimize the cost and time of order execution will be the basis for STALEXPORT S.A.'s competitive predominance in the near future.

The undertakings realized have brought about a situation where STALEXPORT S.A.'s Management Board as well as respective functional departments have at their disposal current

management information about the financial standing of STALEXPORT S.A. and the Capital Group companies.

For the purposes of the system for monitoring the Capital Group companies' results there have been uniform principles of assets and liabilities valuation defined and uniform classification of type costs introduced. Thus results in the entire Group have become comparable to one another. The database that has been set up makes it possible to generate (suitable for the needs) management reports.

Ref. c) Organizational integration

The introduced management pattern led to closer collaboration between STALEXPORT S.A. and the Capital Group companies, both in the scope of planning and of operation.

In view of the efficiency of work and management in STALEXPORT S.A., there have been major changes made in the firm's organizational structure, consisting in its flattening and simplification. The new organizational design and regulations match the present conditions of carrying on commercial activities. However, they are not closed in nature but undergo changes and modifications organically, according to the conditions of carrying on commercial activities.

The results obtained constitute a proper basis for further consolidation of distribution network. The Management Board is of an opinion that the customer service system and the supporting organizational structure contain a potential of unused possibilities. The second stage of consolidation, currently under realization, (the first stage consisting in the consolidation of 13 distribution companies down to four companies), which consists in the inclusion in STALEXPORT S.A.'s structure of individual commercial stores of Companies and selling agencies as the Company's branches, is being carried out efficiently.

An interdisciplinary team has been set up whose task was to prepare a plan of the consolidation of the Capital Group, in particular:

- to prepare an optimal and effective pattern of commercial consolidation within the framework of the Capital Group,
- to propose formal and legal, organizational, data processing, and logistic solutions necessary for the efficient implementation of the prepared pattern,
- to prepare a schedule of the Capital Group's consolidation.

The first steps towards consolidation were taken in connection with the difficult situation of Stalexport Wielkopolska Sp. z o.o. in Komorniki. As part of clearing Stalexport Wielkopolska's debts to STALEXPORT S.A., there was a takeover of 3 commercial stores (Pi³a, Gostyñ, Gniezno) in September 2003. Moreover, after the proclamation of Stalexport Wielkopolska Sp. z o.o.'s bankruptcy with a liquidation option, STALEXPORT S.A., acting under crisis circumstances, included in its commercial structure further commercial stores in the Wielkopolska Region (on the basis of lease agreements), in this way maintaining the market and promoting sales, and establishing its commercial stores in other regions (Rzeszów, Bia³ystok, łódŹ) as well. However, it should be stressed that in the case of the stores established based on what was Stalexport Wielkopolska Sp. z o.o.'s assets, STALEXPORT S.A. is not the owner of land, which poses a threat of termination of the lease agreements by the Trustee or a sale of the property to entities other than STALEXPORT S.A. In such an event STALEXPORT S.A. plans to acquire other business-allocated premises in the area.

So conducted distribution network consolidation process bring further facilitation of commercial activities, reduction of sales costs and better management of working capital.

The consolidation of all steel distribution network entities is expected to be realized by the end of 2005.

3. Further reduction of the costs of the Company's and Capital Group's operation

An analysis of the costs of STALEXPORT S.A.'s operation and an analysis and optimization of internal processes have brought effects in the form of sharp reduction of the Company's functioning costs.

The general management costs in the first half of 2004 underwent further reduction, by 5,6%, while the 2003 costs were reduced by 36% as compared with 2002, 61% in relation to 2001, and 66% in relation to 2000.

The total cost reduction in the Capital Group in 2003 was 29% in relation to 2002 and 36% in relation to 2001.

The reducing of the costs of STALEXPORT S.A.'s and capital Group's operation is still an area of the Management Board's special attention. However, when analysing the general management costs in 2004 and the following years one should take into account the fact that, within the framework of consolidation and acquisition, STALEXPORT S.A.'s

organizational structure is being and will be extended to include new organizational units (wholesale businesses and commercial stores).

In the Board's opinion, what is the path to further reduction of the costs of operation of the Capital Group and, at the same time, to improving its efficiency and competitive quality, is the already-started consolidation of the Capital Group companies.

According to the Board's assessment, the sales network consolidation process should result in continued reduction of Capital Group costs, by 15 to 20%. Hence this process will attract the Board's attention in this and the following years.

4. Development of motorway activities

STALEXPORT S.A. has already have one, granted in 1997, 30-year concession for the adaptation of the A4 Motorway Katowice-Kraków section to the conditions of toll-motorway and for operating this motorway section (transferred as of 28th July 2004 to the subsidiary Stalexport Autostrada Ma³opolska S.A.).

The profitability of the A4 Katowice-Kraków motorway project is most satisfactory. The average 24-hours' traffic in the above-mentioned section in 2003 was 18.997 cars, which makes 105,8% of that in 2002. The net revenues for 2003 totalled PLN 76,16 million, i.e. 5,9% above those of 2002. These data confirm a thesis based on highly-developed countries' experience that traffic generation in toll-motorways is resistant to fluctuations in the economic situation and that motorway projects are among the most financially-stable investments.

Because of that the Company's Management Board has recognized the continuation and development of motorway activities as one of the main goals of the development strategy pursued by STALEXPORT S.A.

Key tasks in the scope of the motorway scheme include:

- a) arriving at the financial close for the Katowice-Kraków section of the A4 motorway, which involves the realization of stage II investments regarding travellers' safety and environment protection;
- b) obtaining a concession for the operating of the A4 motorway in the Katowice-Wroc³aw section by the Stalexport Autostrada ĆEł'ska S.A. company;
- c) participation in new motorway projects in collaboration with VINCI Concessions S.A.

Ref. a) Arriving at the financial close for the Katowice-Kraków section of the A4 motorway

The achieving of financial close for the A4 motorway Katowice-Kraków section is essential being a prerequisite for the realization of investment tasks stipulated in the motorway concession and because this will enable recovery of part of the investment outlays incurred by STALEXPORT S.A. in previous years for the construction and operation of the motorway.

The financial close is enabled by the amendment to the Toll-motorways Act, which came into effect as of 1st January 2004, as the amended Act includes a provision (art. 60a) making possible transfer of the concession held by STALEXPORT S.A. to a subsidiary company.

STALEXPORT S.A. applied for such a transfer on 30th January 2004. On 28th July 2004 the Ministry of Infrastructure issued a decision allowing for the transfer of the concession for the operating of the Katowice-Kraków toll-section of the A4 motorway from STALEXPORT S.A. to a specific-purpose company, Stalexport Autostrada Ma³opolska S.A. (SAM), established for the purpose of carrying on motorway activities.

Such a transfer of the concession means that the concessionaire is now Stalexport Autostrada Ma³opolska S.A. (whose 100% of shares are held by STALEXPORT S.A.). In this way the credit risk has been limited to the project risk, which is fully acceptable to banks. So it is possible to arrive at a financial close for the project and then Stalexport Autostrada Ma³opolska S.A. will be able to return to STALEXPORT S.A. the latter's investment outlays connected with motorway activities, which is expected not later than the first half of 2005.

Ref. b) Obtaining a concession for the operating of the A4 motorway in the Katowice-Wroc³aw section by the Stalexport Autostrada Cieliska S.A. company

On 20th February 2004 the General Directorate for National Highways and Motorways (G³ówna Dyrekcja Dróg Krajowych i Autostrad) resumed the tendering procedure for granting a concession for the construction by means of adaptation to operation of the A4 motorway in the Wroc³aw-Katowice section. Invitation to tender was addressed to three companies. The deadline for making tenders expired on 21st June 2004. Tenders were lodged by two companies, among them Stalexport Autostrada Cieliska S.A., whose shareholders are:

Stalexport Autostrada Dolnośląska S.A., a company controlled in 100% by STALEXPORT S.A. (37,5%), EGIS Projects S.A. (37,5%) and STRABAG AG (25%).

On 15th September 2004 the company was notified in a letter from the General Directorate for National Highways and Motorways, Warsaw, that the Directorate, having examined the results of the tender for granting concession for the construction by adaptation to toll-motorway requirements and for the operating of the Katowice-Wrocław section of the A4 motorway, decided that negotiations regarding the contract for the construction and operation of the motorway would be conducted exclusively with Stalexport Autostrada Śląska S.A.

Ref. c) Participation in new motorway projects in collaboration with VINCI Concessions S.A.

In order to strengthen its position on the motorway services market, STALEXPORT S.A.'s Management Board on 1st September 2004 signed a letter of intention with a world leader in the field of motorway projects, VINCI Concessions S.A., regarding strategic cooperation in future motorway projects. The cooperation is to cover, in particular, the following concession projects:

- A1 motorway, except the Gdańsk-Toruń section,
- eastern part of the A2 motorway, i.e. from Stryków to the eastern border,
- A4 motorway, except the Kraków-Katowice and Wrocław-Katowice sections.

The scope of the intended collaboration includes supporting the realization of concession motorway projects, promoting modern techniques of financing projects, exchange of information on legal, financial and institutional changes **and, most of all, the partners' participation in the process of the construction and, later on, operation of motorways.**

The VINCI Concessions S.A. company has a vast experience in the preparation and realization of motorway projects. The cooperation will expand the possibilities of the financing and realization of the investments and contribute to the introduction into the Polish market of the world's highest standards of motorway project management.

B. Risk factors and threats to the realization of the Company's strategy in 2004-2005 and actions reducing such risks

The risk factors and threats to the realization of STALEXPORT S.A.'s and the Capital Group's strategy cover the following areas of the Company's activities:

- 1. commercial activities**
- 2. financial activities**

Ref. 1

The main threats as regards commercial activities include:

- **commercial policy of steelworks' new owners**
- **activities of the competition**

Commercial policy of the new owners of steelworks

In 2003 and in this year 2004 there are revolutionary changes taking place in the steel producers' ownership. Almost all the metallurgic plants have or will soon have particular sector-oriented investors, in large part including strong foreign concerns.

The concern ISPAT Polska Stal S.A. (formerly Polskie Huty Stali S.A.), composed of the steelworks formerly known as: Huta Katowice, Huta im. T. Sendzimira, Huta Cedler, Huta Florian and, indirectly, Huta Królewska, Huta Bankowa, Huta Batory, has been taken over by the LNM concern. Huta Ostrowiec S.A. has been taken over by CELSA and Huta Zawiercie S.A. by CMC. In 2004 Ferrostal-Łabędy Sp. z o.o. was bought by Z³omrex Sp. z o.o., while Huta Stali Czêstochowa is currently under tender.

On taking over the steelworks, the new owners join the market play in the Polish and European steel market. Each of these firms enters respective works with their own strategy and idea of carrying on commercial activities. One may risk proposing a thesis that that will result in changes in the manner of management, the offset share in commercial settlements will be reduced with simultaneous increase of the share of cash settlements, and there will be normalization of commercial transactions between customer, commercial operator and producer, approaching the European requirements. A new arrangement of trade and greater transparency will strengthen companies of good financial status, renowned brand, with direct access to customers: sales network and own stores. One of such companies in the Polish market is STALEXPORT S.A. with its Capital Group.

Competitors' activities

The Steel Distribution Sector is made up by several hundreds entities. STALEXPORT S.A. along with its Capital Group cover with their research and, in part, by their monitoring more than 200 companies. Today, about 25 firms play a significant part on the market. The biggest are: STALEXPORT S.A., Stalprofil S.A., Stalprodukt S.A., Grupa Polska Stal, Energostal, etc. Intensified competition has resulted in a falling value of the margin.

After Poland's accession to EU the competition extended further, to include distributors connected with the European producers of metallurgical products.

Actions intended to reduce the above risks

In view of the above-mentioned major threats in the area of commercial activities, the Board is carrying on negotiations with all the new owners of steel industry plants in order to define the conditions and principles of mutual trade cooperation. In order to reduce the risk of monopolizing the market by the biggest domestic producers and the possible results of a radical change of their trade policy, there is also analysis carried out of alternative sources for supplying the Polish market by producers of Germany, Czech Republic and Slovakia.

At the same time, there are actions carried on aimed at strengthening STALEXPORT Capital Group's position in the steel products market, in particular in such areas as:

- **further consolidation of the Group and extension of the range of activities (acquisition of new commercial stores),**
- **motivating employees.**

Further consolidation of the Group and extension of the range of activities

STALEXPORT S.A., along with its Capital Group and a network of sales agencies throughout the country, with traditions of trading in steel and with own customers, negotiating and making purchases, is taking advantage in a more and more effective way of the effect of economies of scale and, through more and more efficient logistic system, serves its customers better and better. The Company has an optimal, flat organizational structure as well as computer support which provides a platform for data exchange and a basis for a better synergistic effect.

Simultaneously, there is analysis carried out of possible extension of the Capital Group's activity area and strengthening its market position by means of acquisition of other distribution groups.

Motivating employees

The actions in the scope of trade optimization are supported by change of the Collective Labour Agreement and introduction, in the second quarter of this year, of a new system of motivation, whose basic elements include:

- extension of the competence of commercial employees directly responsible for commercial transactions,
- a progressive bonus system, whose main criteria will be the profitability of transactions, value of sales, and effectiveness of debt recovery.

This system already covers the employees of STALEXPORT S.A. and, in the course of the Company's taking over other commercial stores, it will cover such stores' employees as well. The functioning of the new system of motivation is under constant monitoring, however, the results of its introduction will be fully evaluated in the beginning of 2005, i.e. after closing the current financial year. Then the system will be evaluated and, possibly, modified.

Ref. 2 Financial activities

The main threats in the area of financial activities include:

- **limited access to current assets,**
- **possibility of the recovery of the security and guarantee granted to Walcownia Rur Jednoœæ Sp. z o.o. (Jednoœæ Tube Mill Ltd.).**

Limited access to current assets

In view of the fulfilment of composition and non-composition obligations, STALEXPORT S.A. has limited access to current assets.

While the steel market, due to intense competition, is characterized by a falling value of margin, increased working capital, involving better conditions of payment, would enable obtaining better supply condition from producers. Also, this would improve significantly our competitive capacity and directly entail an increase of our share in the market.

The above interdependence becomes especially significant in the time of boom in the world steel markets. A great rise in prices accompanied by increased demand for metallurgical products may result in a significant increase in the sales of commercial companies, however, the barrier to such an increase may be formed by insufficient access to sources of financing of working capital.

We expect that, with the Company's recovering confidence in the market, as a result of regular payment of our liabilities and due to good financial results, the banking market will gradually resume granting credits to STALEXPORT S.A.

Actions intended to reduce the above risk

The following actions will contribute to reducing the unfavourable effects of the limited access to current assets:

- further optimization of the costs of operation and rationalization of the processes taking place in STALEXPORT S.A. and the entire Capital Group, which should be assisted by the consolidation of the Capital Group. The process of the consolidation of distribution companies should be completed by the end of 2005,
- sale of redundant assets, not related to the Company's basic activities,
- return of the investment outlays incurred by STALEXPORT S.A. for the adaptation of the A4 motorway Katowice-Kraków section, in connection with the transfer of the concession to Stalexport Autostrada Małopolska S.A.,
- new issue of shares. Already in the middle of May 2004 the shareholders authorized the Board to increase the initial capital within the framework of target capital. Within three years, once or in several stages, the Board may decide to issue up to 50 million shares (increase of capital by 46%). The new issue of shares, originally planned for 2004, will probably be effected in the first half of 2005, after clarification of the problem of the guarantee for the credits for Walcownia Rur Jedność Sp. z o.o.

Possibility of the recovery of the security and guarantee granted to Walcownia Rur Jedność Sp. z o.o.

The issue of the security and guarantee granted to Walcownia Rur Jedność Sp. z o.o. has been discussed in detail in chapter III, section 7 above.

Actions intended to reduce the above risk

The security and guarantee were granted back in 1990s but they encumber the Company's current operation. Walcownia Rur Jedność (WRJ), having already disbursed about PLN 700 million for the construction of a rolling mill, is not able to complete the

project. According to some sources, it needs a further PLN 200 million but banks have stopped financing. In order to reduce the bad results of the security and guarantee, STALEXPORT S.A. is taking part in negotiations with banks, WRJ's creditors, and the State Treasury. All the parties are in favour of a decision that an investor for the firm should soon be found. An optimistic scenario assumes that such an investor may be appointed by the end of this year. TFI Silesia (WRJ's main shareholder) has appointed an adviser who is to prepare a few variants of WRJ's restructuring and estimate what amount is necessary for WRJ to complete the investment and how much money may be recovered by the shareholders and creditors if the investment should be given up and the assets sold.

The guarantees granted by STALEXPORT S.A. to banks for Walcownia Rur Jedność investment credits amount to over PLN 297 million. However, it should be stressed that even according to the black scenario what will be due will not be the whole amount. WRJ has not taken all the credits, the banks not intending to give the next instalments. The maximum amount of STALEXPORT S.A.'s current exposure to WRJ's debts is more or less PLN 186 million. The minimum amount is slightly less than PLN 50 million. Banks have guarantees in WRJ's fixed assets and before recovery from STALEXPORT S.A. they should satisfy themselves from them. Also, there are some doubts of legal nature as to the effectiveness of claims on guarantors in virtue of guarantees.

C. Summary

In the Board's opinion the financial stability achieved by STALEXPORT S.A. allowed for transition to moderate, balanced development.

For such development to be possible, the Company should obtain financial means, first of all, to add to the working capital and for the strengthening and extension of the distribution network as well as for the extension of motorway activities, next for possible acquisition.

After analysing stock exchange's interest in STALEXPORT S.A.'s shares, the Board took steps in order to attract capital by means of public issue of shares.

The Company's tasks in the near future are:

- **discharge of restructured liabilities,**
- **improvement of efficiency through the organizational integration of the distribution section of the Capital Group,**
- **acquisition of new entities to be included in the distribution network in**

order to extend the Company's share in the market and strengthen its position,

- **development of motorway activities.**

Conditions for the fulfilment of these tasks:

- **maintaining the Company's market credibility and good image,**
- **obtaining financial means from the credit and capital market,**
- **stabilization of shareholding structure and shareholders' proper cooperation with the Board.**

Katowice, 16th September 2004

**Chairman of the Board
General Manager**

Emil Wąsacz

**Vice-chairman of the Board
Financial Manager**

Mieczysław Skołożyński