

SECURITIES AND STOCK EXCHANGE COMMITTEE

Semi-annual report SA-PS 2004

according to § 57 passage 2 of the Decree of the Cabinet dated 16th October 2001 - Journal on Laws no 139, item 1569 with later amendments
(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

29.10.2005
(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)	
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BDO Polska Sp. z o.o.

(entity entitled to carry out the examination)

The consolidated semi-annual report contains :

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

SELECTED FINANCIAL DATA	thousand zlotys		thousand zlotys	
	30.06.2004.	30.06.2003	30.06.2004	30.06.2003
I. Net incomes from sales of products, goods and materials	605 501	576 718	127 983	133 778
II. Profit (loss) on operating activity	116 080	60 307	24 536	13 989
III. Gross profit (loss)	33 518	64 649	7 085	14 996
IV. Net profit (loss)	26 572	59 576	5 616	13 820
V. Net cash flows from operating activity	-7 974	46 463	-1 756	10 425
VI. Net cash flows from investment activity	16 494	5 595	3 631	1 255
VII. Net cash flows from financial activity	-24 601	-56 430	-5 416	-12 661
VIII. Net cash flows in total	-16 081	-4 372	-3 540	-981
IX. Assets in total	736 931	878 893	162 241	197 194
X. Liabilities and reserves for liabilities	672 142	796 064	147 977	178 610
XI. Long-term liabilities	210 275	291 070	46 294	65 306
XII. Short-term liabilities	317 341	277 429	69 865	62 246
XIII. Equity capital	56 160	57 636	12 364	12 932
XIV. Stock capital	215 524	215 524	47 449	48 356
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)	0,25	0,55	0,05	0,13
XVII. Diluted profit (loss) per one ordinary share (in zlotys/EURO)				
XVIII. Book value per one share (in zlotys/EURO)	0,52	0,53	0,11	0,12
XIX. Diluted book value per one share (in zlotys/EURO)				
XX. Declared or paid dividend per one share (in zlotys/EURO)				

The independent auditor's report from the review of the consolidated financial statements covering the period from 1 January to 30 June 2004

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

We have audited the enclosed consolidated mid-year financial statements of the Capital Group in which **Stalexport S.A.** is the dominant entity, with its registered office in Katowice, at 29 Mickiewicza Street, that consists of:

- introduction to the consolidated financial statements,
- consolidated balance sheet drawn as at 30 June 2004, which shows the assets and liabilities in the amount of **736,931 thousand zlotys**,
- consolidated profit and loss account for the period from 1 January 2004 to 30 June 2004 showing net profit of **26,572 thousand zlotys**,
- statement of changes in consolidated shareholders' equity, showing a decrease in shareholders equity by the amount of **68,047 thousand zlotys**,
- consolidated cash flow statement, showing net cash a decrease in the period from 1st January until 31st December 2004 by the amount of **16,081 thousand zlotys**,
- additional information and explanatory notes.

Management Board of the dominant entity is responsible for the preparation of the consolidated 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 consolidated financial statements do not contain material irregularities.

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

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

Results of the carried out audit indicate that:

1. The value of shareholders' equity of the Holding Company Stalexport S.A. is still negative, despite its significant growth due to: conversion of the debt payable according to

the composition with creditors into share capital, depreciation of the value of debt payable according to the composition with creditors transferred to reserve capital, and positive financial result achieved by the Company for the first half of the year ended 30 June.

Despite the above, the financial statements were made with the assumption that the operations of the Company will continue. This continuation is conditioned mainly by the provisions of the composition with creditors agreement and by timely payment of credit installments and interest. Up till now the Company has paid all his structured liabilities as scheduled.

2. The amount of guarantees of investment credits, 297,123 thousand zloty, is still unchanged and it is still uncertain where the relevant investment process ends successfully, so the given guarantees may become mature.

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 (Dz.U. of 2002 No 76, item 694 with later amendments) 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) also taking into consideration the par. 18 passage 2 point 5 of the Decree of Council of Ministers of 11.08.2004 on detailed conditions that must be met by prospectus and abridgement of prospectus (Dz. U. No 186, item 1921) 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).

With consideration to the above, we highlight the following issues:

1. The consolidated financial statements include the statements of related entities, which were not covered by the audit as at 30 June 2004. The share of those companies in the balance total and sales revenues before exclusions is 16.5% and 15,8%, respectively.
2. As at 30 June 2004 the subsidiary whose bankruptcy with an option of liquidation was announced on 19 May 2004 by the District Court in Poznan, XV Economic Department for Bankruptcy and Repair Proceedings was excluded from the consolidation. Disagreeing with the decision, Stalexport S.A. as its main creditor and the Company lodged a complaint and filed a declaration of bankruptcy with an option of composition agreement, but until the audit date no decision from the Court was received. The exclusion was the consequence of refusal by the Receiver to allow an access to the data necessary for preparing the consolidated financial statements.

Katowice, 22 October 2004

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INTRODUCTION
to the Consolidated Financial Statements
of STALEXPORT S.A.
for the first half 2004
ended 30 June

On 3rd July 2001 the District Court in Katowice 8th Economic Department of the Domestic Judicial register entered Stalexport Joint Stock Company to the Register of Entrepreneurs under KRS 16854 which replaced the previous registration under RHB 101130.

The core business of Stalexport SA according to the European Business Classification is the wholesale of metals and iron ores – PKD 5152.

In entities comprising the Stalexport SA Capital Group the following business segments are:

- ⇒ Wholesale of metals and iron ores,
- ⇒ Operation and construction of the motorway,
- ⇒ Production of reinforcement for building construction.

The majority of subsidiary companies comprise the sales network of Stalexport SA. They have storage areas of metallurgical products and deal mainly with their sale, Stalexport SA- however- supplies them with metallurgical products of domestic production and from import.

The duration of entities comprising the capital group is not determined.

Interior organizational units drawing up financial reports separately do not comprise Stalexport SA, as well as other entities comprising the capital group.

The consolidated financial report was drawn up under the assumption that the economic activity of the Stalexport SA capital group continues in the foreseeable future.

Enclosure No.1 to the Introduction presents a list of entities comprising the capital group covered by the consolidation and a list of entities not covered by the consolidation with the indication of the value of their net incomes from the sale of goods and products and financial operations at the end of the mid-year 2004, and also the balance sheet sum as on 30.06.2004.

There are no data in enclosure No.1 concerning companies which are in liquidation, as well as, those which are not consolidated by dominant companies of the lower level.

The expert auditor examining the financial report did not make any reservations as to the financial reports for the previous years and therefore there were no corrections in the presented financial report or the comparable financial data.

The consolidated financial report for the 1st half 2004 was drawn up according to the regulations of the Act on accounting of 29th September 1994 (Journal on Laws, No. 121, item 591 with later amendments) thereafter called the act and according to the Decree of the Cabinet of Ministers of 16th October 2001 in regard to current and periodic information handed over by issuers of securities (Journal on Laws, No.139, item 1569 and from 2002 No. 31, item 280 and from 2003 No. 220, item 2169)) and the decree of the Minister of Finance of 12th December 2001 in regard to detailed principles of drawing up the financial reports of related entities by units other than banks and insurance companies (Journal on Laws from 2001, No 152, item 1729).

Methods of evaluation particular assets and liabilities in the Stalexport SA capital group.

The Stalexport SA Capital Group forms reserves for termination pays and holiday leaves.

The state of reserves in the group as on 30th June 2004 amounts to 3 076 thousand zlotys, out of which:

- long-term one amounts to 2 005 thousand zlotys
- short-term one amounts to 1 071 thousand zlotys

Intangible assets

Intangible assets were entered into the books according to prices of their purchase or costs incurred for them decreased by depreciation or amortization deductions and also by write offs by virtue of the permanent value loss. The depreciation write offs are carried out according to the depreciation plan, commencing on the first day of the month following the month in which the item was included in the record until the end of the month in which the value of depreciation write offs were levelled with its initial value or in which the item was appropriated for liquidation or sold. The depreciation write offs are carried out via the line method in the period of 5 years.

Tangible fixed assets

Fixed assets and fixed assets under construction constitute the tangible fixed assets.

The initial value of fixed assets is entered into the books according to prices of their purchase or costs incurred for their production, development or modernization, decreased by depreciation or amortization write offs and also by write offs by virtue of the permanent loss of value. The tangible fixed assets are indicated in the net value, ie. decreased by the accumulated depreciation. Amortization write offs are carried out according to the principles determined in the Act on 15th February 1992 on income tax from legal entities (Journal on Laws of 2000, No.54, item. 654)

Exemplary amortization rates are the following:

buildings:	2.5%
constructions:	4.0%
machines and devices:	5.0%-30.0%

transport means: 20.0%
other fixed assets: 14.0%-20.0%
perpetual usufruct of land: 5.0%

According to the provisions of the amended act on accounting, the right of perpetual usufruct of land and the cooperative property right to the apartment were included in the fixed assets.

Right of perpetual usufruct of land

It is assumed that the right of perpetual usufruct of land constitutes 100% of the land value. For the cooperative property right to the apartment the depreciation rate of 2.5% was adopted.

Fixed tangible assets under construction

Fixed tangible assets under construction are understood as total incurred costs directly related to the construction, purchase or erection which have not yet been finished and are assessed according to their purchase prices with consideration to revaluation allowance for suspended investments.

The amount of revaluation allowance for fixed tangible assets in Stalexport S.A. has been the same for the whole first half of 2004 and amounts to 8,231 thousand zloty and comprises:

- Centrum Biznesu - 7,888 thousand zloty
- Metbud Chorzów - 170 thousand zloty

and the project bound with putting the sheet cutting line into operation, worth 173 thousand zloty.

The Capital Group companies did not make any such allowances in the statements.

Long-term financial assets

Long-term financial assets are evaluated according to the purchase prices decreased by write offs by virtue of the permanent value loss.

In relation to shares and stocks possessed by the entity, the write off by virtue of a permanent value loss is determined according to the formula:

$$CN - KW \times \% = TUW$$

where:

CN - the purchase price of shares or stocks,

KW - net assets (equity capital) of the company in which the entity possesses shares or stocks,

% - per cent of the possessed share in the stock capital

TUW - permanent value loss

The permanent value loss takes place when TUW is a positive value.

The state of write offs by virtue of the permanent value loss of long-term fixed assets in Stalexport SA amounts to 67 923 thousand zlotys, out of which:

- for subordinated entities - consolidated 23 355 thousand zlotys
- for subordinated entities - not consolidated 23 606 thousand zlotys
- for other entities 20 962 thousand zlotys

Short-term financial assets

Securities are indicated according to the purchase prices according to the principle *first in first out* and are subject to updating as on the balance sheet day according to the stock rate indicated by the Warsaw Stock Exchange as on 30th June 2004.

The granted loans are indicated in net values, ie. after decreasing by updated write offs.

Materials

The materials are evaluated according to the purchase prices by applying the method *first in, first out (FIFO)*.

Goods

Goods are evaluated according to purchase prices by applying the method *first in, first out (FIFO)*.

Products in the course of production

Products in the course of production are evaluated according to the average technical cost of manufacturing.

Ready products

Ready products are evaluated according to the average technical cost of manufacturing.

Short-term receivables

Short-term receivables are indicated in the net value, ie. after decreasing by updated write offs. Receivables in foreign currency are indicated according to the nominal value calculated into zloty according to the average NBP rate which is binding as on 30th June 2004.

Updating receivables

The receivables are updated in cases determined in art. 35 b passage 1 of the Act on accounting and also:

- for receivables by virtue of supplies and services if the delay in payment exceeds 180 days from the payment exactability.
- for receivables by virtue of interests if the delay in payment exceeds 180 days from the payment exactability.

The updated write offs as on 30.06.2004 in the Stalexport SA Capital Group amount to:

for long-term receivables (SAPS – note 4 A) 2 404 thousand zloty

for short-term receivables (SAPS – note 8 A) 222 926 thousand zloty

out of which

for short-term receivables by virtue of supplies, works and services (SAPS – note 8 E) -

81 643 thousand zloty.

Cash

Cash in national currency is shown in its nominal value.

Cash in other currencies have been shown in the books in their nominal value converted to Polish zloty according to the NBP average exchange rate at 30 June 2004.

Stalexport Transroute Autostrada S.A. in Myslowice - following the licence issued by the Chairman of the National Bank of Poland - buys foreign currencies according to the exchange rate they have been purchased, but not higher than the average rate fixed by the NBP for each currency as at the balance sheet date.

Positive exchange differences increase the financial revenues, whereas negative differences increase financial costs.

Deferred corporate income tax

At the end of the financial period reserves are set up for the transient difference by virtue of income tax from legal entities caused by the dissimilarity of the moment of regarding the income as achieved or cost as incurred according to the act on accounting and tax regulations assuming that the difference will be settled in the future. The positive difference is indicated as the increase of burdens by virtue of income tax from legal entities in the profit and loss account, the negative difference- as a decrease.

The values concerning the deferred income tax resulting from setting up the write offs updating the assets, not constituting tax deductibles until the moment of using or dissolving the write off are indicated as a decrease of income tax from legal entities, thus they cause an increase of the net profit.

Due to the maintained tax loss and lack of prospects for creating tax profit the holding company Stalexport S.A. is not writing down any assets on deferred annual taxes.

Incomes

Incomes from sales cover due or received values from sales decreased by the due VAT and excise tax.

The financial result was indicated in the consolidated profit and loss account, drawn up in the calculative version.

The average PLN/EURO exchange rate in the periods covered by the consolidated financial report determined by the National Bank of Poland used for calculation:

31.01.2004 - 4, 7614 zloty

29.02.2004 - 4, 8746 zloty

31.03.2004 - 4, 7455 zloty

30.04.2004 - 4, 8122 zloty

31.05.2004 - 4, 6509 zloty

30.06.2004 - 4, 5422 zloty

Razem: 28, 3868 : 6 = 4, 7311 zloty

The below tables present the calculation of the basic items of the consolidated balance sheet, profit and loss account and cash flow statement into EURO:

Consolidated balance sheet (in thousand zloty)

Items	30.06.2004		30.06.2003	
	zloty	EUR	zloty	EUR
Fixed assets	374 347	82 415	547 618	120 562
Current assets, including:	393 900	86 720	331 275	72 933
Short-term interperiod settlements	3 081	678	7 530	1 658
Assets in total	768 247	169 135	878 893	193 495
Equity capital	56 160	12 364	57 636	12 689
Minority capitals	8 594	1 892	24 386	5 369
Negative company value of subordinated entities	35	8	807	178
Liabilities and reserves for liabilities	703 458	154 871	796 064	175 259
Liabilities in total	768 247	169 135	878 893	193 495

Consolidated profit and loss account (in thousand zloty)

Items	30.06.2004		30.06.2003	
	zloty	EUR	zloty	EUR
Net incomes from selling products, goods and materials.	605 501	127 983	576 718	121 899
Costs of selling products, goods and materials	529 901	112 004	503 570	106 438
Gross profit (loss) on sales	75 600	15 979	73 148	15 461
Profit (loss) on sales	37 563	7 939	20 568	4 347
Profit (loss) on operating activity	116 080	24 536	60 307	12 747
Profit (loss) on economic activity	146 816	31 032	59 389	12 553
Result of extraordinary events	-113 300	-23 948	5 153	1 089
Gross profit (loss)	33 518	7 085	64 649	13 665
Net profit (loss)	26 572	5 616	59 576	12 592

Consolidated cash flow statement (in thousand zloty)

Items	30.06.2004		30.06.2003	
	zloty	EUR	zloty	EUR
Net cash flows from operating activity	-7 974	-1 685	46 463	9 821
Net cash flows from investment activity	16 494	3 486	5 595	1 182
Net cash flows from financial activity	-24 601	-5 200	-56 430	-11 927
Net cash flows in total	-16 081	-3 399	-4 372	-924

Assets and liabilities were translated according to the average rate valid on 30.06.2004 (4.5422 PLN), announced by the NBP.

The selected items of the profit and loss account were translated according to the average rate for the first half of the year, ended 30 June 2004 (4,7311 zloty), which was an arithmetic mean of rates as at the last day of each month, announced by the NBP.

Accounting principles adopted by the capital group Stalexport S.A. were applied continuously and they do not differ from the principles applied in the previous financial year.

Essential differences between the financial statements prepared according to the Polish Accounting Principles and the statement which would be prepared according to International Financial Reporting Standards.

Companies included in the Capital Group keep their books according to Polish Accounting Principles (PAP) and the accounting practice followed by Polish enterprises, as required by the accounting act of 29 September 1994. Some items in the present consolidated financial statements differ from those which would be shown in the financial statements made according to the IFRS in the following:

a) revaluation of fixed tangible assets

Polish enterprises have to revalue their fixed tangible assets according to separate regulations. The last revaluation of those assets was made as at 1995 according to the ordinance of the Council of Ministers of 20 January 1995 (Journal of Laws No 7, item 34) and applied to fixed tangible assets acquired before that date. The IFRS allow for regular revaluating up to fair value as at the day of revaluation, with consideration to future depreciation allowance.

b) capitalisation of financial costs

In the PAP capitalisation of financial costs (including related differences in exchange rates) is allowable when the costs cover interest and differences in exchange rates on credits and loans arranged for financing the purchase or construction of a fixed asset. According to the IFRS, financial

costs bound with credits and loans shall be recognised as costs in the period they were incurred, regardless their application.

c) hyperinflation

In the separate financial statements of the companies the effects of hyperinflation were not shown according to the IAS 29 – Reporting in the hyperinflation conditions It refers to the items of fixed assets which were acquired in hyperinflation periods in prior years. Polish economy had met the hyperinflation criteria until the end of 1996. Since 1997 it des not meet those criteria.

d) Deferred tax

Balance of deferred tax would be different in statements according to PAP and IFRS because of differences in accounting principles as described above.

e) scope of revealing

Some items of the financial statements can significantly differ in the PAP and IFRS accounting. Furthermore, the scope of explanatory notes to the consolidated statements prepared according to the PAP requirements is smaller than the scope required by the IFRS.

Attachment no 1

Subsidiaries

L.p.	Description	Balance sheet sum	% share in Stalexport	Incomes from sales and financial operations	% share in Stalexport
	Stalexport S.A. Katowice	619 014	100,00%	605 342	100,00%
1.	Stalexport Autostrada Malopolska S.A. Myslowice	120 010	19,39%	37 868	6,26%
2.	Stalexport Autostrada Dolnośląska S.A. Katowice	26 682	4,31%	753	0,12%
3.	Stalexport Transroute Autostrada S.A. Myslowice	13 370	2,16%	11 263	1,86%
4.	Stalexport Serwis Centrum S.A. Katowice	32 133	5,19%	43 649	7,21%
5.	Stalexport Centrostal S.A. Warszawa	148 192	23,94%	117 831	19,47%
6.	Stalexport Centrostal S.A. Lublin	6 465	1,04%	12 793	2,11%
7.	PPiOZ Złomhut Sp. z o.o. Przyborów Gm. Bodzechów	13 381	2,16%	24 972	4,13%
8.	Stalexport Serwis Centrum Belchatów S.A.	5 154	0,83%	1 069	0,18%
9.	Stalexport Metalzbyt Sp. z o.o. Białystok	8 151	1,32%	493	0,08%
10.	Stalexport Wielkopolska Sp. z o.o. (w upadłości)	Lack of data	x	Lack of data	x
11.	Stalexport Zaptor S.A. Olsztyn (w likwidacji)	Lack of data	x	Lack of data	x
12.	Petrostal S.A. Warszawa	Lack of data	x	Lack of data	x
13.	In Bud Sp. z o.o. Ostrołęka	Lack of data	x	Lack of data	x
14.	Universal PHZ Kraków	Lack of data	x	Lack of data	x
	Subsidiary in total	373 538		250 691	

Commentary:

- subsidiaries specified in items 1 through 7 are consolidated according to the full method by the holding company Stalexport S.A.,
- subsidiaries specified in items 8 and 9 are consolidated by the holding company of lower tier - Stalexport Centrostal S.A. Warszawa.
- the company in item 10, until the date when its bankruptcy with a liquidation option was announced, i.e. until the control of the company was lost, was included in the consolidation only in respect of the profit and loss account.

Associated Companies

	Description	Balance total	% share in Stalexport	Revenues from shares and financial operations	% share in Stalexport
15.	Biuro Centrum Sp. z o.o. Katowice	1 248	0.20%	2 563	0.42%
16.	Stalexport Autostrada Śląska S.A. Katowice	12 001	1.94%	725	0.12%
17.	Invest Centrostal Sp. z o.o. Warszawa	6 471	1.05%	13 457	2.22%
18.	Centrostal Profil Sp. z o.o. Kraków	lack of data	x	lack of data	x
	Total associated companies	19 720		16 745	

Commentary:

- the associated company in item 15 is consolidated by the holding company Stalexport S.A. and the company in item 16 is consolidated by the holding company of the lower tier - Stalexport Autostrada Dolnośląska SA

Total

Total	1 012 272	100,00	872 778	100,00
Included in the consolidation	1 005 801	99,36	859 321	98,46
Not included in the consolidation	6 471	0,64	13 457	1,54

Consolidated balance sheet

	30.06.2004	2003	30.06.2003
ASSETS			
I. Fixed assets	344 406	534 645	547 618
1. Intangible assets, including:	1 429	4 356	5 405
- goodwill	0	0	0
2. Goodwill of the subordinated entities	41	46	52
3. Tangible assets	267 299	450 251	461 054
4. Long-term receivables	10 081	2 087	2 844
4.1. from related entities	0	0	0
4.2. from other entities	10 081	2 087	2 844
5. Long-term investments	59 077	71 043	69 052
5.1. Real estates	36 658	36 658	20 533
5.2. Intangible assets	0	0	0
5.3. Long-term financial assets	22 419	34 385	48 519
a) in related entities, including:	20 653	28 092	27 142
- stocks or shares in subsidiary entities evaluated via the method of ownership rights	4 590	317	348
shares in subsidiary and associated entities not covered by consolidation	16 063	27 775	26 794
b) in other entities	1 766	6 293	21 377
5.4. Other long-term investments	0	0	0
6. Long-term interperiod settlements	6 479	6 862	9 211
6.1. Assets by virtue of the deferred income tax	6 479	6 247	8 141
6.2. Other interperiod settlements	0	615	1 070
II. Current assets	392 525	304 515	331 275
1. Inventories	87 943	68 300	70 661
2. Short-term receivables	249 732	166 923	217 315
2.1 from related entities	6 440	1 596	3 121
2.2. From other entities	243 292	165 327	214 194
3. Short-term investments	53 144	62 016	35 769
3.1. Short-term financial assets	53 144	61 013	35 769
a) in related entities	0	4 824	4 640
b) in other entities	13 551	515	481
c) cash and other cash assets	39 593	55 674	30 648
3.2. Other short-term investments	0	1 003	0
4. Short-term interperiod settlements	1 706	7 276	7 530
Assets in total	736 931	839 160	878 893
LIABILITIES			
I. Equity capital	56 169	124 207	57 636
1. Stock capital	215 524	215 524	215 524
2. Due payments for the stock capital (negative value)	0	0	0
3. Own shares (negative value)	-44	-3 449	-10 575
4. Inventory capital	113 121	18 200	15 814
5. Capital from updating evaluation	12 411	13 323	13 101
6. Other reserve capitals	88 709	82 560	75 567
7. Differences in rates from re-counting of the subordinated entities	0	0	0
a) positive differences in rates	0	0	0
b) negative differences in rates	0	0	0
7. Profit (loss) from previous years	-400 133	-285 229	-311 371
8. Net profit (loss)	26 572	83 278	59 576
9. Deductions from net profit within the financial year (negative value)	0	0	0
II. The capital of the minority	8 594	25 987	24 386
III. The negative goodwill	35	498	807
IV. Liabilities and reserves for liabilities	672 142	688 468	796 064
1. Reserves for liabilities	32 037	74 396	95 125
1.1. Reserve by virtue of the deferred income tax	3 380	3 553	8 239

1.2. Reserve for pension and similar benefits	3 076	4 939	5 838
a) long-term	2 005	4 045	5 544
b) short-term	1 071	894	294
1.3. Other reserves	25 581	65 904	81 048
a) long-term	14 004	56 809	79 848
b) short-term	11 577	9 095	1 200
2. Long-term liabilities	210 275	278 624	291 070
2.1. Towards related entities	0	0	0
2.2. Towards other entities	210 275	278 624	291 070
3. Short-term liabilities	317 341	213 574	277 429
3.1 Towards related entities	5 071	763	1 267
3.2. Towards other entities	311 553	211 624	274 216
3.3. Special funds	717	1 187	1 946
4. Interperiod settlements	112 489	121 874	132 440
4.1. Negative goodwill	0	0	0
4.2 Other interperiod settlements	112 489	121 874	132 440
a) long-term	89 350	100 635	131 369
b) short-term	23 139	21 239	1 071
Liabilities in total	736 940	839 160	878 893

Book value	56 169	124 207	57 636
Number of shares	107 762 023	107 762 023	107 762 023
Book value per share (in zlotys)	0,52	1,15	0,53
Diluted number of shares			
Book value per share (in zlotys) - diluted			

Off-balance sheet items

	półrocze 2004	2003	półrocze 2003
1. Conditional receivables	500	500	900
1.1. From related entities (by virtue of)	500	500	900
- received warranties and guarantees	500	500	900
	0	0	0
	0	0	0
1.2. From other entities (by virtue of)	0	0	0
- received warranties and guarantees	0	0	0
	0	0	0
	0	0	0
2. Conditional liabilities	307 927	355 973	375 507
2.1. In favour of related entities (by virtue of)	250	1 693	2 358
- granted warranties and guarantees	250	1 693	1 636
	0	0	722
other	0	0	0
2.2. In favour of other entities (by virtue of)	307 677	354 280	373 149
- granted warranties and guarantees	306 070	351 350	359 346
letter of credit opening	1 607	1 531	8 819
other	0	1 399	4 984
3. Other (by virtue of)	23 206	31 050	19 595
mortgage	13 495	12 000	1 910
	0	15 150	15 150
other	9 711	3 900	2 535
Off-balance sheet items in total	331 633	387 523	396 002

Consolidated profit and loss account

	30.06.2004	30.06.2003
I. Net incomes from the sale of products, goods and materials, including:	605 501	576 718
- from related entities	9 540	1 919
1. Net incomes from the sale of products	117 933	134 611
2. Net incomes from the sale of goods and materials	487 568	442 107
II. Costs of sold goods, products and materials, including:	529 901	503 570
- from related entities	47	
1. Cost of manufacturing sold products	91 787	147 833
2. Value of sold goods and materials	438 114	355 737
III. Gross profit (loss) on sales (I - II)	75 600	73 148
IV. Sales costs	17 013	30 014
V. Costs of general management	21 024	22 566
VI. Profit (loss) on sales (III - IV - V)	37 563	20 568
VII. Other operating incomes	87 588	79 159
1. Profit from selling non-financial fixed assets	424	83
2. Subsidies		
3. Other operating incomes	87 164	79 076
VIII. Other operating costs	9 071	39 420
1. Loss from the sale of non-financial fixed assets	1 886	6 937
2. Updating the value of the non-financial assets	2 688	19 585
3. Other operating costs	4 497	12 898
IX. Profit (loss) from operating activity (VI + VII - VIII)	116 080	60 307
X. Financial incomes	176 743	33 106
1. Dividends and shares in profits, including	0	0
- from related entities	0	0
2. Interests, including	4 233	3 908
- from related entities	58	119
3. Profit from investment sale	0	351
4. Updating the investment value	157 146	7 405
5. Other	15 364	21 442
XI. Financial costs	111 422	22 133
1. Interests, including	15 697	9 285
- for related entities	170	0
2. Loss from investment sale	16 528	
3. Updating the investment value	14	4 531
4. Other	79 183	8 317
XII. Profit (loss) on sales of total or part of shares in subordinated entities	-34 585	-11 891
XIII. Profit (loss) on economic activity (IX + X - XI)	146 816	59 389
XIV. Result of extraordinary events (XIII.1 - XIII.2)	-113 300	5 153
1. Extraordinary profits	3	5 203
2. Extraordinary losses	113 303	50
XV. Write-downs of goodwill of the subordinated entities	5	6
XVI. Write-downs of the negative goodwill of the subordinated entities	7	113
XVII. Gross profit (loss) (XII +/- XIII)	33 518	64 649
XVIII. Income tax	4 264	5 387
a) current part	4 565	6 162
b) deferred part	-301	-775

XIX. Other obligatory profit decreases (loss increases)	0	0
XX. Share in net profits (losses) of subsidiary entities evaluated via the method of ownership rights	4	-52
XXI. Profits (losses) of minority	-2 686	366
XXII. Net profit (loss) (XVII - XVIII -XIX +/- XX +/- XXI)	26 572	59 576

Net profit (loss)	50 274	4 444
Average weighted number of ordinary shares	107 762 023	107 762 023
Profit (loss) per one ordinary share (in PLN)	0,47	0,04
Average weighted diluted number of ordinary shares		
Diluted profit (loss) per one ordinary share (in PLN)		

Changes in consolidated equity capital

	30.06.2004	2003	30.06.2003
I. Equity capital at the beginning of the period (Opening Balance - OB)	124 207	-246 070	-246 070
a) changes of adopted principles of the accounting (policy)	0	0	0
b) corrections of basic errors	0	0	0
I.a. Equity capital at the beginning of the period (OB), after squaring with comparable data	124 207	-246 070	-246 070
1. Stock capital at the beginning of the period	215 524	25 668	25 668
1.1. Changes of stock capital	0	189 856	189 856
a) increases (by virtue of)	0	190 016	189 856
- share emission (issuing shares)	0	190 016	189 856
increase in basic capital	0	0	0
b) decreases (by virtue of)	0	160	0
- amortization (of shares)	0	0	0
decrease in basic capital	0	160	0
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	0	0	0
2.1. Changes of due payments for stock capital	0	0	0
a) increases (by virtue of)	6 389	7 141	0
	6 389	7 141	0
	0	0	0
b) decreases (by virtue of)	6 389	7 141	0
	-752	0	0
	7 141	7 141	0
2.2. Due payments for stock capital at the end of the period	0	0	0
3. Own shares at the beginning of the period	-3 449	-44	-44
3.1. Changes of own shares	3 405	-3 405	-10 531
a) increases (by virtue of)	3 405	0	0
- amortisation	0	0	0
	3 405	0	0
b) decreases (by virtue of)	0	3 405	10 531
	0	0	0
	0	3 405	10 531
3.2. Own shares at the end of the period	-44	-3 449	-10 575
4. Stock capital at the beginning of the period	18 200	14 411	14 411
4.1. Changes of inventory capital	94 921	3 789	1 403
a) increases (by virtue of)	99 109	7 606	5 283
- share emission above the nominal value	0	0	0
- from the profit distribution (statutory)	99 105	1 132	1 132
- from profit distribution (above the minimal value required by the statute)	0	0	0
	4	3 821	1 506
other	0	2 653	2 645
	0	0	0
b) decreases (by virtue of)	4 188	3 817	3 880
- loss coverage	32	3 817	2 341
	200	0	0
	3 956	0	1 539
4.2. Inventory capital at the end of the period	113 121	18 200	15 814
5. Capital from updating the evaluation at the beginning of the period	13 323	15 599	15 599
5.1. Capital changes from updating the evaluation	-912	-2 276	-2 498
a) increases (by virtue of)	0	377	133
	0	0	0
	0	377	133
b) decreases (by virtue of)	912	2 653	2 631
- the sale of fixed assets	0	2 653	2 631
	0	0	0
	912	0	0
5.2. Capital from updating the evaluation at the end of the period	12 411	13 323	13 101
6. Other reserve capitals at the beginning of the period	82 560	4 255	4 255

6.1. Changes of other reserve capitals	6 149	78 305	71 312
a) increases (by virtue of)	6 149	81 238	74 245
	0	74 099	0
other	6 149	6 993	74 099
-settlement of the repayment of arrangement liabilities from future period incomes	0	146	146
b) decreases (by virtue of)	0	2 933	2 933
	0	0	0
loss coverage	0	2 933	2 500
other	0	0	0
	0	0	433
6.2. Other reserve capitals at the end of the period	88 709	82 560	75 567
7. Differences of rates from re-calculation of the subordinated entities	0	0	0
8. Profit (loss) from previous years at the beginning of the period	-285 229	-44 037	-44 037
8.1. Profit from previous years at the beginning of the period	310 845	21 430	21 430
a) changes of the adopted principles of the accounting (policy)	0	0	0
b) corrections of basic errors	0	0	0
8.2. Profit from previous years at the beginning of the period, after squaring with comparable data	310 845	21 430	21 430
a) increases (by virtue of)	46 575	298 929	270 318
- profit distribution from previous years	5 142	3 237	4 541
other	0	0	0
	41 433	295 692	265 777
b) decreases (by virtue of)	315 357	9 514	11 369
- the transfer to the inventory fund	39 731	27	27
- The Institutional Social Benefit Fund	0	0	0
dividend	3 184	2 500	2 500
other	12	710	710
	0	0	0
	0	0	0
- reclassification of equity capitals	272 430	6 277	8 132
8.3. Profit from previous years at the end of the period	42 063	310 845	280 379
8.4. Loss from the previous years at the beginning of the period	596 074	65 467	65 467
a) changes of the adopted principles of the accounting (policy)	0	0	0
b) corrections of basic errors	0	5 298	0
8.5. Loss from the previous years at the beginning of the period, after squaring with comparable data	596 074	70 765	65 467
a) increases (by virtue of)	1 730	534 097	531 853
- loss transfer from previous years for coverage	1 162	68 544	344 460
- other	0	0	4 661
- reclassification of equity capitals	568	465 553	182 732
b) decreases (by virtue of)	155 608	8 788	5 570
- loss coverage from inventory and reserve capital	244	7 035	3 889
	155 364	1 753	1 681
8.6. Loss from previous years at the end of the period	442 196	596 074	591 750
8.7. Profit (loss) from previous years at the end of the period	-400 133	-285 229	-311 371
9. Net result	26 572	83 278	59 576
a) net profit	26 572	83 278	59 576
b) net loss	0	0	0
b) deductions from profit	0	0	0
II. Equity capital at the end of the period (Closing balance)	56 160	124 207	57 636
III. Equity capital after taking into consideration the proposed profit distribution (loss coverage)	56 160	124 207	57 636

Consolidated cash flow account

	30.06.2004	30.06.2003
A. Net cash flows from operating activity - indirect method		
I. Net profit (loss)	26 572	59 576
II. Corrections in total:	-34 546	-13 113
1. Profits of the minority	2 686	-366
2. Share in net profits (losses) of subsidiary entities evaluated via the method of ownership rights	-4	52
3. Depreciation,	9 155	18 504
write-downs of goodwill of the subordinated or negative goodwill of the subordinated entities	-2	-107
4. Profits (losses) by virtue of foreign exchange rate differences	229	-349
5. Interests and shares in profits (dividends)	7 862	8 737
6. Profit (loss) from investment activity	157 209	17 642
7. Change of the state of reserves	-236	-2 930
8. Change of the state of inventories	-35 445	-5 466
9. State of the state of receivables.	33 478	-15 199
10. Change of the state of short-term liabilities, with the exception of loans and credits	-9 697	37 305
11. Change of the state of interperiod settlements	-48 772	-119 759
12. Other corrections	-151 011	48 716
III. Net cash flows from operating activity (I + II)	-7 974	46 463
B. Net cash flows from investment activity.		
I. Proceeds	34 088	34 037
1. Sale of intangible and tangible fixed assets	3 961	5 044
2. Sale of investment in the real estate and intangible assets	0	0
3. Sale of financial assets, including:	30 127	28 929
a) in related entities	2 258	23 606
- sale of financial assets	500	21 107
- dividends and shares in profits	1 213	935
- repayment of granted long-term loans	512	0
- interests	33	1 564
- other proceeds from financial assets	0	0
b) in other entities	27 869	5 323
- sale of financial assets	10 934	5 048
- dividends and shares in profits	0	0
- repayment of granted long-term loans	15 000	0
- interests	751	275
- other proceeds from financial assets	1 184	0
4. Other investment proceeds	0	64
II. Expenses	17 594	28 442
1. Purchase of intangible assets and tangible fixed assets	17 266	3 747
2. Investments in the real estates and intangible assets	0	20 533
3. For financial assets, including:	218	4 162
a) in related entities	203	4 162
- acquisition of financial assets	203	4 102
- granted long-term loans	0	60
b) in other entities	15	0
- acquisition of financial assets	15	0
- granted long-term loans	0	0
4. Dividends and other share in profits paid to minority	0	0
5. Other investing expenses	110	0
III. Net cash flows from investment activity (I - II)	16 494	5 595

C. Cash flows from financial activity		
I. Proceeds	22 679	2 112
1. Net proceeds from the emission of shares (issuing of shares) and other capital instruments and capital surcharges	0	0
2. Credits and loans	22 432	471
3. Emission of indebted securities	0	0
4. Other financial proceeds	247	1 641
II. Expenses	47 280	58 542
1. Acquisition of own shares	0	2 188
2. Dividends and other payments in favour of owners	2 206	1 725
3. Expenses by virtue of profit distribution other than payments in favour of owners	0	0
4. Repayments of credits and loans	22 719	40 856
5. Redemption of indebted securities	0	1 000
6. By virtue of other financial assets	0	0
7. Payments of liabilities by virtue of financial leasing agreements	902	585
8. Interests	9 651	12 166
9. Other financial expenses	11 802	22
III. Net cash flows from financial activity (I - II)	-24 601	-56 430
D. Net cash flows (A.III+B.III+C.III)	-16 081	-4 372
E. Balance sheet change of the state of cash, including:	-16 081	-4 372
- change of the state of cash by virtue of foreign exchange rate differences	0	0
F. Cash at the beginning of the period	55 674	35 020
G. Cash at the end of the period (D+F), including	39 593	30 648
- with a limited disposing capacity	76	0

ADDITIONAL EXPLANATORY NOTES
to the consolidated financial statement
of the Capital Group STALEXPORT SA
prepared for 30.06.2004

1. Financial Instruments

The dominant company Stalexport S.A. included in short-term financial instruments a parcel of shares for the amount of 28 thousand zloty consisting of shares of Bytomskie Zakłady Odzieżowe for the amount of 20 thousand zloty and Katowickie Zakłady Metalowe for the amount of 8 thousand zloty. The parcel of shares decreased as compared with the previous year because of sale of shares of Bytomskie Zakłady Odzieżowe for the amount of 7 thousand zloty, shares of Centrostal Gdańsk for the amount of 453 thousand zloty, shares of Fasing for 35.1 thousand zloty.

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

Stalexport Serwis Centrum S.A. Katowice included in short-term financial instruments a parcel of shares for the amount of 1,558 thousand zloty, consisting of shares of Atlantico Trans-Ex Sp. z o.o. in Katowice for 350 thousand zloty, for which a provision was created in full amount, shares of APC Metalchem S.A. in Opole of value amounting to 8 thousand zloty, for which a provision was also created in full amount and shares of Towarzystwo Inwestycyjne Merkury of value amounting to 1,200 thousand zloty, and provision for it amounts to 1,184 thousand zloty. The parcel of shares did not changed as compared with the previous year.

Other companies covered by the consolidated financial statement for the first half of the year 2004 did not show any financial instruments.

2. Important data on conditional liabilities

The contingent liabilities of the Stalexport SA capital group as on the balance sheet day amount to

331 133 thousand zloty, out of which:

by virtue of guarantees and warranties	306,320 thousand zloty
out of which:	
- in favour of entities not covered by the consolidation	250 thousand zloty
- in favour of other entities	306,070 thousand zloty
by virtue of other liabilities	24 ,813 thousand zloty
out of which:	
in favour of related entities	
in favour of other entities	24, 813 thousand zloty

Conditional liabilities of Stalexport Centrostal S.A. Lublin are for total amount of 3,606 thousand zloty. These are: guarantee for a bill of exchange for 1,200 thousand zloty, - credit security on fixed and current assets for total amount of 1,495 thousand zloty and transfer of title by Bank Handlowy in Lublin of goods for the amount of 911 thousand zloty, constituting security for granted credit.

Conditional liabilities of Stalexport Serwis Centrum S.A. Katowice are for total amount of 19,600 thousand zloty. These are: guarantee for a bill of exchange for 3,900 thousand zloty, which are security for commercial transactions with Stalprodukt Centrostal Sp. z o.o. in Kraków (500 thousand zloty), with Huta Bankowa in Dąbrowa Górnicza (400 thousand zloty) and security for credit in Nordea Bank Polska S.A.(3,000 thousand zloty). Credit security on fixed and current assets for total amount of 12,000 thousand zloty and transfer of title for inventories for the amount of 3,700 thousand zloty, constituting security for commercial transactions with Stalprofil S.A. in Dąbrowa Górnicza (2,500 thousand zloty) and security for credit in Nordea Bank Polska S.A. (1,200 thousand zloty).

Conditional liabilities of Stalexport Centrostal S.A. Warszawa are for the amount of 250 thousand zloty. This is credit guarantee granted to subsidiary company In Bud Sp. z o.o. with the registered office in Ostrołęka, not covered by consolidation. At the same time Stalexport Centrostal S.A. Warszawa in out-of-balance sheet items shows conditional receivable under received guarantee from dominant company Stalexport S.A., in the amount 500 thousand zloty.

Stalexport S.A. has got conditional liabilities towards other entities for the total amount of 307,677 thousand zloty:

- for granted guarantees and securities	306,070 thousand zloty
- due to opened letter of credit	1,607 thousand zloty.

In the amount of guarantees the biggest amount is the guarantee granted to Walcownia Rur Jedność Sp. z o.o. in Siemianowice Śląskie in the amount of 297,123 thousand zloty, for which no provision was made, while guaranteed credits have got securities in the form of pledge by registration on machines and equipment of WRJ, assignment of claims for the benefit of the bank consortium and mortgage on assets of Huta Jedność S.A. .

Other subsidiary and affiliated companies covered by this report do not show any conditional liabilities.

3. Data concerning liabilities towards the budget due to obtaining the title to buildings and structures in the Capital Group

Stalexport SA and subsidiary and affiliated companies covered by the consolidation as for 30.06.2004 do not show any liabilities towards the State Treasury or local authorities due to obtaining the title to buildings and structures, except for Stalexport Autostrada Małopolska S.A., which as at the balance sheet date has got the title to the police building with garages. In connection with the above, it is obliged to pay tax on real estate to the commune of Kraków Zabierzów.

4. Information on income, costs and result of discontinued business activities

The subsidiary and affiliated companies covered by the consolidated financial statement did not discontinue their business in the first half of the year 2004 and they do not plan discontinuance in future.

5. Manufacturing costs of investment in progress, fixed assets and expenses for own needs of the Company

In Stalexport S.A. investment outlays for own needs of the company at the end of the reporting period amounted to 16,018 thousand zloty and comprised:

- purchase of fixed assets	178 thousand zloty
- purchase of intangible assets	6 thousand zloty
- taking shares of Ferrostal Łabędy	15.667 thousand zloty
- taking shares of Stalexport Centrostal Warszawa S.A.	152 thousand zloty
- taking shares of Towarzystwo Inwestycyjne Merkury	15 thousand zloty

In Stalexport Serwis Centrum S.A. Katowice investment outlays for own needs of the company at the end of the reporting period amounted to 118 thousand zloty and comprised:

- purchase of fixed assets	87 thousand zloty
- adaptation of storage hall in Wrocław	26 thousand zloty
- modernization of overhead crane	5 thousand zloty

In Stalexport Transroute Autostrada S.A. in Mysłowice in the reporting period expenditures were made for purchase of fixed assets in total amount of 532 thousand zloty.

In Stalexport Autostrada Małopolska S.A. in Mysłowice in the reporting period expenditures were made for fixed assets under construction in total amount of 14,369 thousand zloty.

In PPIOZ Złomhut Sp. z o.o. in Bodzechów in the reporting period expenditures were made for purchase of fixed assets in total amount of 503 thousand zloty.

6. Made investment outlays

a) fixed assets under construction – as at 31.12.2003	29,439 thousand zloty
b) fixed assets under construction – as at 30.06.2004	41,423 thousand zloty
c) Changes of fixed assets under construction in the first half of the year 2004 (b -a)	11,984 thousand zloty
d) Fixed assets from investments and purchased in the first half of 2004	4,881 thousand zloty
e) Intangible assets taken from investments or purchased in the first half of the year 2004	138 thousand zloty
Change in investment outlays – total (c+d+e)	17,003 thousand zloty
Planned investment outlays	

Planned investment outlays in the dominant company have been discussed in the Report of the Management Board.

Planned investment outlays in companies of the Capital Group Stalexport S.A. are presented in the table below.

Specification	thousand zloty
Planned investment outlays for acquisition of stocks and shares in subsidiary and associated companies in the next 12 months	0
Planned investment outlays for intangible assets and fixed assets, as well as stock and shares in companies outside the Group in the next 12 months	180
in this: for environmental protection	0
Planned investment outlays in the next 12 months – total	180

7.1 Information on transactions of the issuer / associated companies with associated companies concerning transfer of rights and liabilities

Information about transfer of rights and obligations resulting from the motorway concession is included in p.13.

7.2 Data concerning subsidiary companies of Stalexport S.A.

Data concerning the share in management of these companies are presented in note 5 E to the consolidated financial statement. Their mutual receivables and liabilities are presented in the table below:

Specification		Receivables Stalexport SA	Liabilities Stalexport SA	Additional payments as at 30.06.2004
Stalexport Autostrada Małopolska	Mysłowice	594	5 862	-
Stalexport Autostrada Dolnośląska	Katowice	-	14 589	-
Stalexport Autostrada Śląska S.A.	Katowice	-	3 800	-
Stalexport Serwis Centrum	Katowice	6 509	1 688	-
Stalexport Centrostal	Warszawa	84 381	103	-
- Stalexport Serwis Centrum	Bełchatów	73	7	-
- Stalexport Metalzbyt Sp. z o.o.	Białystok	71	-	-
PPiOZ Złomhut Bodzechów	Przyborów	-	37	-
Stalexport Centrostal	Lublin	1 395	-	200
Stalexport Transroute Autostrada SA	Mysłowice	34	1 006	-
Biuro Centrum Sp. z o.o.	Katowice	-	6	-
Total		93 057	27 098	200

Costs and income (financial income including) from their mutual transactions:

- income of Stalexport S.A. 81,745 thousand zloty
- costs of Stalexport S.A. 41,712 thousand zloty

Information on mutual undertakings which are not consolidated

In the 1st half 2004 the capital group did not execute mutual undertakings, which would not be subject to the consolidation via the full method or ownership rights.

9. Average employment in the Capital Group is as follows:

total employment		683
in this:	- non-manual workers	358
	- manual workers	322
	- persons on child care leave and unpaid leave	3

The increase in employment in Stalexport S.A. in the first half of the year 2004 resulted from the fact that three new wholesale outlets in Wielkopolska, one in Bełchatów and one department manufacturing steel reinforcements for building industry "Stalbud" in Katowice - Panewniki were opened.

The following table presents information on remuneration paid to managing and supervising persons in the dominant company, in the subsidiary and affiliated entities – covered by consolidation (in thousand zloty):

Company	Managing persons and authorized clerks	Supervising persons
The dominant Company		
Stalexport SA, including:	1037	59
by virtue of performing the function in the authorities of the subsidiary entities	95	
Subsidiary entities		
Stalexport Serwis Centrum S.A. Katowice	353	87
Stalexport Autostrada Małopolska S.A. - Mysłówice	201	72
Ferrostał Sp. z o.o. Gliwice	172	48
Stalexport Centrostal Lublin S.A.	171	44
Stalexport Transroute Autostrada S.A. Mysłówice	232	103
Subsidiary entities constituting the capital group of a lower level		
Stalexport Autostrada Dolnośląska S.A. - Katowice	105	-
Stalexport Centrostal Warszawa S.A.	451	115
Affiliated companies		
Biuro Centrum Sp. z o.o. Katowice	58	28

Managing persons in total - 2 780 thousand zloty
 Supervising persons in total - 556 thousand zloty

11. Information about amounts of advances, credits, loans and guarantees given to managerial and supervisory staff

In Stalexport SA or in subsidiary and associated companies in the first half of the year 2004 no advances, credits, loans or guarantees were given to people on managerial or supervisory positions or to other people, with whom they are personally related, except for Stalexport Autostrada Małopolska S.A, which made an advance payment to a member of the Management Board in the amount of 2 thousand zloty.

12. Events of previous years taken into account in the consolidated financial statement for the first half of the year 2004.

In financial statements of Stalexport SA and subsidiary and associated companies covered by consolidation for the first half of the year 2004 it was not necessary to account for any events from previous years, except for Stalexport Serwis Centrum Katowice S.A. In the reporting period in the company an event from previous years occurred, cost of 35 thousand zloty was paid because of court decision obligating the company to pay to former employee of Stal-Bud Sp. z o.o. the remuneration for overtime hours, leave and interests for default.

13. 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 17,426 shares in Przedsiębiorstwo Przerobu I obrotu Żłomem „Żłomhut” Sp. z o.o. with the registered office in Bodzechów (the company owned by Stalexport S.A. in 65.45 %). Total selling price of shares amounted to 9,500 thousand zloty. The contract was finalized on 30.07.2004 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 zloty of the selling price as repayment of a part of credits granted to Stalexport SA. 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 Katowice-Kraków 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 in the first half of the year 2005.

In the period of June – August 2004 the company is 88.72% dependent on Stalexport S.A. - Stalexport Centrostal S.A. Warszawa signed an agreement with Hochtief Polska Sp. z o. o. for prefabrication of reinforcement bars for total amount of 14,000 thousand zloty. The agreement was signed for the period of 1 year, and payment for execution of the works will be made monthly.

On 1 September 2004 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 zloty. 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 Gdańsk - 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.

On 3.09.2004 with validity from 01.09.2004 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 Stalexport S.A. intends to establish a new warehouse, where storage and sale of steel products will be possible. It will be the tenth warehouse of Stalexport S.A., the biggest in this part of Poland.

In the first half of the year 2004 and on 22.09.2004 persons managing the company (commercial representatives including) purchased on the stock exchange 12,690 shares of Stalexport S.A. Totally people managing the company as at 30.10.2004 hold 66,690 shares of Stalexport S.A. People supervising the Company have not got any shares of Stalexport S.A.

14. Information about relations between legal predecessor and the issuer

Stalexport SA has not got a legal predecessor.

15. Stalexport SA did not correct the consolidated financial report by the inflation index as in the last three years the level of inflation was below 20%.

16. Differences between consolidated financial statement published earlier for the second quarter of 2004, (SA-QS 2/2004) and this consolidated financial statement (SA-PS 2004) are not significant. Consolidated financial result changed by 5%.

17. On 1.01.1999 "Accounting Principles of the Capital Group Stalexport SA" were introduced, which are updated in accordance with changes of legal regulations.

Upon drawing up the consolidated financial report of the Stalexport SA capital group the following consolidation methods were applied:

- full method - the financial reports of subsidiary entities
 - method of ownership rights - the financial reports of affiliated entities.
- The full method consists in summing up the particular items of the balance sheet, profit and loss account and the cash flow statement of the dominant entity Stalexport SA and the subsidiary entities comprising the capital group which were covered by consolidation and next carrying out the following exemptions:
- the purchase value of shares/stocks possessed by the dominant entity in subsidiary entities and the net assets of subsidiary entities (net assets are balance sheet assets decreased by reserves, liabilities, including special funds, passive interperiod settlements and incomes of future periods; the value of net assets is equal to the value of equity capital),
 - mutual receivables and liabilities of entities covered by the consolidation,
 - incomes and costs concerning operations carried out between entities covered by the consolidation,
 - due dividends to the company Stalexport SA from the subsidiary entities which are subject to consolidation.

In the course of consolidating affiliated entities by the method of ownership rights the value of shares in these companies was corrected by the difference between the purchase price of shares and the value of the net assets of the affiliated entity that is due to the dominant entity.

The negative goodwill from consolidation is amortized according to the line method in a period of 5 years. However, the goodwill from consolidation is written off in a single operation.

18. Description of important achievements in the Capital Group Stalexport SA in the period from 01.01.2004 to 30.06.2004.

Stalexport S.A. carrying out the decisions of the arrangement proceedings in the first half of the year 2004 paid the second and the third quarterly instalment for main creditors in total amount of 22,370 thousand zloty.

On 15 January 2004 the Extraordinary Shareholders' Meeting of Stalexport S.A. acknowledged resignations of four members of the Supervisory Board, namely: Mr Józef Okolski, Mr M. Lindsay Forbes, Mr Antoni Magdoń and Mr Stanisław Bębenek.

On 16.01.2004 conditions were fulfilled of the agreement concluded on 17.11.2003 between Stalexport S.A. and Impexmetal S.A. and concerning disposal of 87,285 ordinary shares and 3,630 preferential shares in Walcownia Metali Dziedzice S.A. with the registered office in Czechowice Dziedzice.

The sale of shares in Walcownia Metali Dziedzice S.A. was another stage in implementation of the restructuring plan of Capital Group Stalexport S.A.

In the first quarter of 2004 the contract concerning disposal of shares in Ferrostal Łabędy Sp. z o.o. with the registered office in Gliwice (company owned in 90.61%) was finalized. Suspending conditions were fulfilled, i.e. Złomrex Sp. z o.o. with the registered office in Poraj – the purchaser of the shares of the said company - obtained the consent from the Consumer and Competition Protection Office for purchase of those shares and the shareholder did not exercise the right of pre-emption.

On 11.05.2004 Shareholders of Stalexport Autostrada Śląska S.A. signed an agreement as a result of which changes in the shareholding of the company took place. The place of the Swedish shareholder NCC AB was taken by the Austrian Strabag AG.

After these changes new shareholders in Stalexport Autostrada Śląska S.A. are as follows:

Stalexport Autostrada Dolnośląska S.A.	- 37.5 % capital and votes at GSM
Egis Projects S.A.	- 37.5 % „
Strabag AG	- 25.0% „

On 13.05.2004 Extraordinary Shareholders' Meeting of Stalexport S.A. was held, which amended § 8 p. 2 of the Articles of the company concerning conditions for increasing the share capital of the company.

On 14 May this year Stalexport SA 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.

On 19.05.2004 the District Court in Poznań declared the bankruptcy with option of liquidation of Stalexport Wielkopolska Sp. z o.o. in Komorniki. On 31.05.2004 Stalexport Wielkopolska Sp. z o. o. filed a complaint against the decision of the District Court in Poznań of 19.05.2004.

Stalexport S.A. in co-operation with the Management Board of Stalexport Wielkopolska Sp. z o.o. took steps aimed at continuation of commercial activities in this region through taking over sales personnel and using leased assets of the company. Declaration of bankruptcy caused loss of control over the company and it was not included in consolidation in this financial statement.

In the previous years Stalexport S.A. created 100 % provisions for shares and bad debts of Stalexport Wielkopolska Sp. z o.o., which were withdrawn so far from consolidated balance sheets and decreased losses from previous years. Because of loss of control over the company, in this consolidated financial statement these provisions were not covered by consolidation adjustments. That means increase of loss from previous years and at the same time decrease of equity capital by 35,000 thousand zloty.

By the date of issuing the consolidated financial statement for the first half of the year 2004 Stalexport S.A. did not receive a reply from the District Court in Poznań to the complaint filed by Stalexport Wielkopolska.

On 22.06.2004 Stalexport Autostrada Śląska S.A. submitted its tender offer in Central Directorate of National Roads and Motorways for granting the concession for construction and operation of A-4 motorway at Katowice-Wrocław section.

On 29 June 2004 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 Krystyna 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.

On 14.09.2004 Stalexport S.A. received a letter from Central Directorate of National Roads and Motorways informing that considering the results of tender for granting a concession, negotiations of contract conditions for construction and operation of the motorway would be conducted with Stalexport Autostrada Śląska S.A. in Katowice.

**REPORT
OF THE MANAGEMENT
BOARD
FROM THE ACTIVITIES
OF STALEXPORT
CAPITAL GROUP
FOR THE FIRST HALF OF
THE YEAR 2004**

Katowice, October 2004

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I. INTRODUCTION

“Report of the Management Board from activities of STALEXPORT Capital Group 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 Capital Group 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 dominant Company and the Capital Group aimed at its consolidation,
3. continuation and broadening the activities related to motorways through:
 - obtaining the financial closing for A4 motorway section Katowice – Kraków
 - signing the contract for management and operation 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

Up to 2008 the most important task of the dominant company is to pay the arrangement and off-arrangement liabilities. The arrangement proceedings and the receivables conversion into share in connection with the restructuring of the off arrangement commitments, created the possibility of further functioning of Stalexport SA. The dominant entity systematically fulfils its arrangement commitments. Up to now 5 arrangement instalments together with interests were paid:

- 5.10.2003 paid 12.719,6 thousand zloty,
- 5.01.2004 paid 11.195,4 thousand zloty,
- 5.04.2004 paid 11.169,6 thousand zloty,
- 5.07.2004 paid 10.981,8 thousand zloty,
- 5.10.2004 paid 11.093,4 thousand zloty,

The sum of 126,6 m zlotys of the arrangement instalments plus interests still remains to be paid. The liabilities towards off-arrangement creditors are also paid currently.

Despite such considerable burdens the Capital Group of Stalexport SA systematically improves achieved financial results, what fully confirms the legitimacy of the carried out strategy. The taken up and attained results are discussed in detail in the consecutive chapters.

Further parts of the Report of the Management Board consist of:

Characteristics of STALEXPORT Capital Group (chapter II) informing about subsidiary and affiliated companies and business entities covered by consolidated financial statements.

General Part (chapter III), which contains the analysis of the profit and loss account and the description of the assets and financial situation.

Detailed Part (chapter IV) covering all issues specified in § 64 p.7 of the Decree of the Council of Ministers of 16 October 2001 concerning current and periodic information provided by issuers of securities (Journal on Laws: Dz.U. of 2001, No.139, item 1569, of 2002 No 31 item 280 and of 2003 No 220 item 2169).

The Part (chapter V) describing perspectives of development of Stalexport Capital Group and events and circumstances occurring after closing of the reporting period, as well as entire actions of the Management Board of STALEXPORT S.A. taken up in order to determine conditions for further development and continuation of activities of the Capital Group in the following years.

II. CHARACTERISTICS OF STALEXPORT CAPITAL GROUP

1. Consolidation principles

The Stalexport Capital Group according to the state as on 30th June 2004 consists of 18 economic entities, including:

- the dominant entity – Stalexport SA
- 14 subsidiary entities
- 3 affiliated entities

The changes in the composition of the Capital Group in the course of the financial year were presented in chapter IV item 4.

The Stalexport Capital Group covers subsidiary and affiliated entities whose dominant entity is Stalexport SA, as well as, entities of a lower consolidation level, ie. entities for which the dominant entity are entities directly dependant upon Stalexport SA. Notes No. 5E and 5F of the consolidated financial report contain a detailed list of economic entities of the Stalexport Capital Group.

14 companies were covered by consolidation both, at the level of the dominant entity, as well as, in subsidiary entities which are dominant entities for entities of a lower level, out of which:

- the dominant entity and 9 subsidiaries were consolidated via the full method,
- 2 affiliated company were consolidated via the method of ownership rights.

Entities over which the dominant companies lost control, as a result of liquidation or declaring bankruptcy, and also these entities whose shares were sold in the course of the financial year were not covered by the consolidated financial report.

The area of economic activity of the Stalexport Capital Group covers four main spheres:

- the distribution of metallurgical products,
- motorway activity,

The following subsidiary entities were covered **by the full consolidation in the dominant entity** Stalexport SA:

1. distribution companies

- Stalexport Serwis Centrum S.A. – Katowice
- Stalexport Centrostal Warszawa S.A. Capital Group Warsaw (including: 6 subsidiary companies and 1 affiliated company)
- 1 P.O.W.H. Centrostal S.A. Lublin

2. motorway companies

- Stalexport Autostrada Małopolska S.A. Mysłowice
- Stalexport Transroute Autostrada S.A. Mysłowice
- Stalexport Autostrada Dolnośląska S.A. Katowice
(including: 1 subsidiary company)

2. scrap processing company

- PPIOZ Złomhut Spółka z o.o. Przyborów

One affiliated company was covered by the consolidation via the method of ownership rights in the dominant entity Stalexport SA:

- Biuro Centrum Sp. z o.o. Katowice

2. Economic and financial situation of subsidiary companies

STALEXPORT S.A. together with accepting the arrangement with creditors started deep restructuring of its group. Main points of the strategic plan comprise:

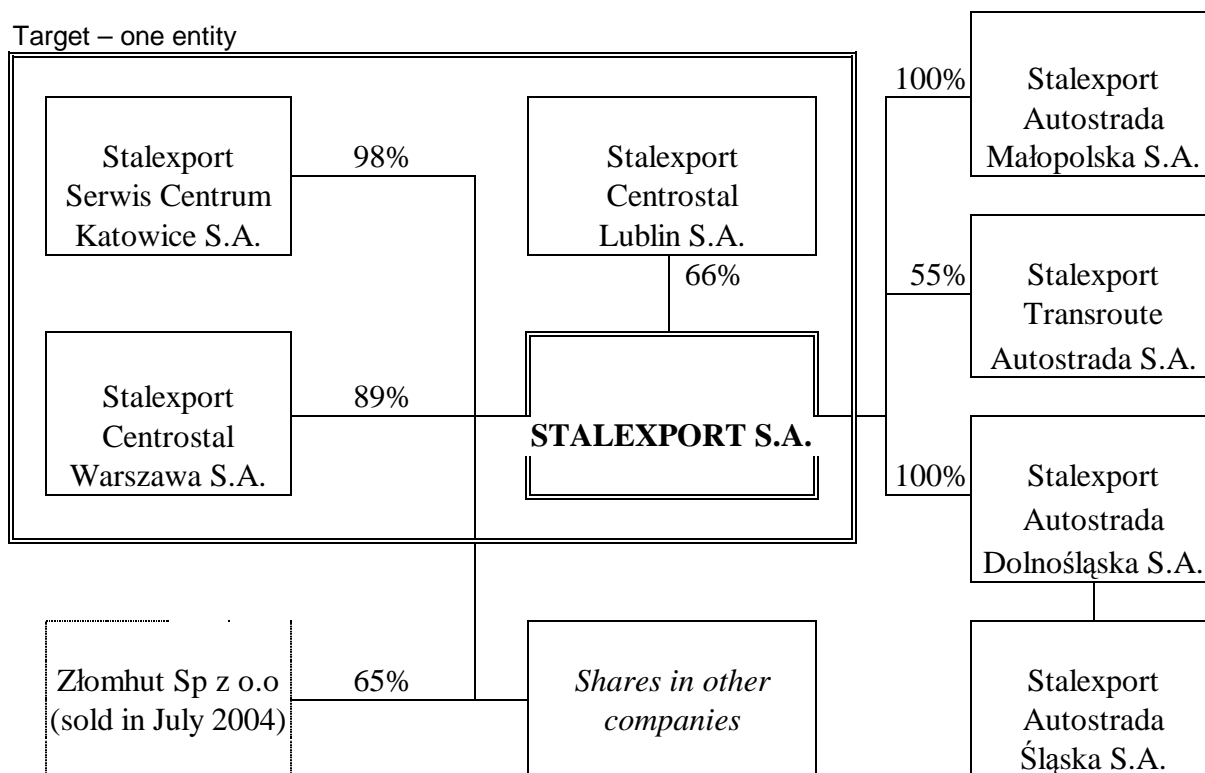
- concentration on trading activities in metallurgical products and maintaining the market position in selected assortments in foreign trade,
- radical reduction of costs of functioning of the Capital Group,
- withdrawal from production activities,
- consolidation of distribution companies in order to take advantage of synergy,
- maintaining and development of motorway activities.

Until recently manufacturing of metallurgical products was an important section of the Group. Production was concentrated mainly in Ferrostal company, which was sold to Złomrex at the end of the year 2003.

In the first half of the year 2004 STALEXPORT SA continued the strategy consisting in withdrawing from production activities. After the sale of Złomhut company, which took place in July this year, the set aim of organization of the Capital Group has practically been achieved. Production assets were sold and presently business activities under the logo of STALEXPORT S.A. are based on two pillars:

- distribution of steel products and supplying steelworks with raw materials, and
- motorway activities.

A diagram of the Stalexport SA Capital Group – state as on 30.06.2004)



The distribution of steel products is concentrated in three subsidiary companies: Stalexport Serwis Centrum Katowice, Stalexport Centrostal Warszawa and Centrostal Lublin, and it is also conducted by a developed network of wholesale establishments within the organisational structure of STALEXPORT S.A. Sale results of distribution companies improved considerably. They are much better than forecast values, both in respect of sale income and the level of earned profit. The good economic situation certainly contributed to this, but the improvement was caused first of all by the effects of restructuring actions.

Within the framework of reorganisation of the Capital Group STALEXPORT S.A. a number of important changes were introduced to its organisational structure, making it more flat and simple. As a result of this, communication within the Group considerably improved. The process of consolidation of distribution companies has been started and it should finish not later than in the year 2005, when in place of the present structure of STALEXPORT S.A. with three component companies one company will be formed with regional branches, operating in steel wholesale and retail sale sector.

Consolidation of all trading companies will result in further savings and better use of their resources. The Company is one of the biggest steel distributors in Poland and its sales network covers the whole country.

The concession for maintenance and operation of A4 motorway section Katowice – Kraków is a valuable asset. It has been in the possession of the dominant company so far, but in the course of reorganisation of the whole Group and for the purpose of making it easier to obtain financing necessary for financial closing of the project, it was transferred in July 2004 to a subsidiary company Stalexport Autostrada Małopolska S.A., in which STALEXPORT S.A. holds 100% shares.

The adopted strategy brought first good effects already in the year 2003. After several years of incurring severe losses, Stalexport Capital Group again generates profits. At the end of the first half of the year 2004 the consolidated net result is positive and amounts to 26,572 thousand zloty.

2.A Distribution Companies of the Capital Group STALEXPORT S.A.

Table no 1 Financial data of distribution companies in a synthetic aspect

ITEM	SSC KATOWICE		S.C. WARSZAWA		S.C. LUBLIN	
	1 st half.2004	1st half 2003	1 st half 2004	1st half 2003	1st half 2004	1st half 2003
Fixed assets	9 045	10 323	50 386	51 718	1 994	2 094
Current assets	23 088	27 497	93 852	60 275	4 471	4 848
Equity capital	21 411	20 212	21 691	18 499	1 936	1 032
Liabilities and reserves	10 722	17 608	122 335	81 311	4 529	5 911
Incomes from sales	43 500	35 535	118 798	76 795	12 596	13 401
Costs of general management	995	834	2 294	2 035	396	374
Profit (loss) on sale	2 792	497	3 912	(115)	906	183
Net profit (loss)	2 342	387	2 989	479	992	254
Margin of profit consumption ratio *	56,1%	94,1%	67,7%	101,3%	59,5%	87,5%
Profitability of sales**	14,6%	23,6%	10,2%	11,5%	17,8%	11%
Current liquidity ratio ***	2,2	1,6	1,8	0,7	1,2	1
Cycle of current assets in days ****	48	41	56	(71)	6	(11)
Profitability of equity capital ROE*****	10,9%	1,9%	13,8%	2,6%	51,2%	24,6%
State of employment *****	82	109	123	128	35	39

Explanations to tables No. 1 and 2 – if not indicated otherwise all data are in thousand zloty

- * **Margin of profit consumption ratio** calculated as
SALES COSTS + GENERAL MANAGEMENT COSTS/ GROSS PROFIT ON SALES
- ** **Profitability of sales** calculated as GROSS PROFIT ON SALES/INCOMES FROM SALES
- *** **Current liquidity ratio** calculated as
CURRENT ASSETS/SHORT-TERM LIABILITIES
- **** **Cycle of current assets in days** calculated as the ROTATION OF COMMERCIAL RECEIVABLES + ROTATION OF INVENTORIES – ROTATION OF COMMERCIAL LIABILITIES according to the state as on 30.06.2004
- ***** **Profitability of equity capital ROE** calculated as NET PROFIT/EQUITY CAPITAL
- *****State of employment understood as the number of employed people in the company

STALEXPORT SERWIS CENTRUM S.A. – KATOWICE (SSC KATOWICE)

Among the most important restructuring actions carried out in the company in the 1st half of 2004 are:

- holding up the drop trend in trade,
- improvement in the liquidity and profitability of the functioning of the company.

Incomes from sale in the 1st half of 2004 amounted to the value of 43 500 thousand zloty, what constitutes 122.4% of the value of incomes achieved in similar period of 2003. The main source of incomes was the sale of goods and materials, which constituted 94% (ie. 40,988 thousand zloty) of incomes in total. The other 6 % constituted incomes from selling products (2,512 thousand zloty).

Attracting more customers, and following from this increase of income as compared to the previous year, took place in favourable conditions of growing market demands, especially in the first quarter of this year. Thanks to this, considerable increase in turnover was not a result of applying lower margins; on the contrary – profit from sales amounted to 2,792 thousand PLN, while in the first half of the year 2003 the profit amounted to 497 thousand PLN, so it was more than 5.5-times higher.

The comparison of sales income in the first half of the years 2003 and 2004 reveals a steady tendency of changes in their structure. The share in sale volume and income of reinforcement bars gradually decreased, while the sale of other products - mainly steel and sections - increased. Generally speaking, there is no dominant assortment group at the moment. The Company closed the first half of the year 2004 with net profit of 2,342 thousand zloty. This is a very good result taking into consideration the fact that in the analogical period of the previous year this profit amounted to 387 thousand zloty.

In the first half of the year 2004 the assets of the company decreased considerably - by more than 14% as compared to the end of the first half of the year 2003. It was related with positive tendency to reduce the amount of receivables, both short-term by 5,507 thousand zloty and long-term by 495 thousand zloty. The level of tangible fixed assets also decreased by 700 thousand zloty, while the level of stocks increased by 1,200 thousand zloty, which resulted mostly from significant increase of turnover. Better collection of receivables and reduction of their amount made it possible to release financial means for payment of liabilities, mostly overdue ones. Short-term liabilities, which constitute the biggest item in the liabilities of the company (33%) decreased by 6,840 thousand zloty and amounted at the end of June 2004 to 10,552 thousand zloty.

STALEXPORT CENTROSTAL WARSZAWA S.A. (S.C. WARSZAWA)

Within the framework of its business activities Stalexport Centrostal Warszawa S.A. deals with trading and prefabrication of steel products, which enables the company to increase the stability of income from sales. Diversification of activities, characteristic for the company, makes it possible to reduce operating risk and, at the same time, to keep future income at the level ensuring the profitability of its basic operations. It is also the element that makes it more competitive than its competitors, who in most cases concentrate on one activity.

Stalexport Centrostal Warszawa S.A. has got about 15 % share in steel product trade market in the Mazowieckie Voivodeship, which gives the Company the dominant position among companies operating in this region.

The Company recorded a considerable increase of income from sale in comparison to analogical period of the previous year: sales grew by 55% at the end of the first half of the year 2004 and amounted to 118,797 thousand zloty. In spite of this increase, selling costs are 1,022 thousand zloty lower and amount to 5,914 thousand zloty. The general management costs, however, grew slightly (by 259 thousand zloty).

The process of restructuring carried out continuously in many areas of activities proves that the Company is well prepared for making an effective effort to compete with other companies for its market share. The objective of the Company is to increase its share on the local market and to expand to other areas of Poland.

Simultaneously with increase of sales, the company was able to ensure satisfactory profit margin and to generate the profit for the first half of the year 2004 at the level of 3,912 thousand zloty, thus achieving the profitability of net sales of 3.3%. This result on share was negative in the first half of the year 2003 and amounted to -115 thousand zloty. After taking into account other income and operating costs and result of its financial activities, the Company closed the first half of the year 2004 with net profit amounting to 2,989 thousand zloty, which was more than 6 times as big as in the analogical period of the previous year.

According to the data for the first half of the year 2004, there was an increase in assets of the Company by 28% in comparison to the first half of the year 2003. The share of operating assets in the structure of assets increased from 54 % to 65 %, mainly due to increase of stocks by 8,619 thousand zloty and short-term liabilities by 23,150 thousand zloty. As for the liabilities of the Company, changes took place in the structure of debts in connection with restructuring of liabilities towards STALEXPORT S.A. - they were reclassified from short-term liabilities to long-term liabilities, which at the end of June 2004 amounted to 69,435 thousand zloty. Short-term liabilities decreased by nearly 40 million zloty and amount to 51,913 thousand zloty.

CENTROSTAL SA – LUBLIN (S.C. LUBLIN)

The scope of activities of the Company comprises trading in metallurgical products and ferroalloys, processing and sale of scrap and services consisting in dimension cutting for customers. Apart from a central store in Lublin the Company has got a still developing network of store houses in Chełm, Puławy, Opole Lubelskie and Garwolin.

In the first half of the year 2004 the Company sold goods for the amount of 12,596 thousand zloty, while the level of sale in the first half of the year 2003 was 6% lower, mainly because of perturbations on scrap market and deficit of operating capital. In spite of smaller turnover the company noticeably increased its margin, which was 5 times higher; thus the profit from sale amounted to 906 thousand zloty. The first half of the year 2004 the Company closed with a positive net result amounting to 992 thousand zloty.

As for the balance sheet of the Company, noticeable changes occurred in operating assets, where stock increased by 66% and amounted to 2,385 thousand zloty, and short-term liabilities decreased by 36% to the amount of 2,015 thousand zloty. As for liabilities, short-term liabilities decreased by 27% and at the end of June 2004 they amounted to 3,710 thousand zloty.

2.B Motorway companies of the Capital group of STALEXPORT S.A.

Table no 2 Financial data of the motorway companies in a synthetic aspect

POZYCJA	Item		STA	
	1st half 2004	1st half 2003	1st half 2004	1st half 2003
Fixed assets	94 791	46 984	5 365	7 352
Current assets	25 220	10 965	8 005	7 829
Equity capital	109 679	48 172	1 870	2 252
Liabilities and reserves	10 331	9 777	11 500	12 930
Incomes from sales	37 349	35 866	11 148	10 762
General management costs	7 510	7 345	1 494	1 452
Profit (loss) on sales	18 908	17 977	2 205	3 163
Net profit (loss)	15 721	13 611	1 524	1 957
Profitability of sales	50,6%	50,1%	19,8%	29,4%
Current liquidity ratio	2,8	1,3	2,0	2,1
Profitability of equity capital ROE	14,3%	28,3%	81,5%	86,9%
State of employment	14	13	162	169

Net sales profitability calculated as PROFIT ON SALES/INCOMES FROM SALES
Other explanations - vide table no 1

STALEXPORT AUTOSTRADA MAŁOPOLSKA S.A. (SAM)

The company was founded to manage the A-4 motorway on the Kraków-Katowice section on behalf of the concessionaire – Stalexport SA. The Management Board executed the entire set of actions resulting from the Concession Agreement in a version binding since 20th September 2001 and the Agreement on Enterprise Management concluded with Stalexport SA on 30th June 2001. The task of the company is, first of all, adapting the motorway section to full conditions of a toll motorway (presently the second phase of this process is in progress) and securing financing.

The Company, together with STALEXPORT S.A. worked on the transfer of motorway concession to it, which should make it easier to obtain a consortium credit for further investment works. As a result, on 27 July 2004 the deed of transfer of the concession for operating the A4 motorway section Katowice-Kraków to Stalexport Autostrada Małopolska took place. This should allow for a complete financial closing of the project, as well as refunding of investment outlays made by STALEXPORT S.A. In the meantime the company carries out the most urgent investment tasks from its own resources.

Financial results achieved by the Company in the first half of the year 2004 are satisfactory. Income from sales amounted to 37,349 thousand zloty, while in the analogical period of the previous year it was 35,866 thousand zloty. This increase results mainly from growing traffic and, as a consequence of this, growing receipts from motorway toll collection.

Return on net sale ratio reached a high level of 50.6%. Net profit at the end of the first half of the year 2004 amounted to 15,721 thousand zloty. The Company finances current investment needs from earned profit.

The Company carries out active marketing actions through introduction of discount tickets and discounts for going by the motorway, advertisements and promotion actions aimed at improving the image and increase of the number of rides.

STALEXPORT TRANSROUTE AUTOSTRADA S.A. (STA)

The Company deals with current operation and toll collection on behalf of the licensee at Katowice-Kraków section of A4 motorway. Shareholders of the company are Stalexport S.A. (55%) and a French company Transroute International S.A. belonging to the Egis Project Group.

Income from sales in the first half of the year 2004 amounted to 11,148 thousand zloty, and net profit to 1,524 thousand zloty, which in relation to the equity capital amounting to 1,870 thousand zloty gives a very high profitability – return on equity ratio ROE is 81.5%. The Company has got stable financial situation and pays its liabilities systematically.

STALEXPORT AUTOSTRADA DOLNOŚLĄSKA S.A. (SAD)
STALEXPORT AUTOSTRADA ŚLĄSKA S.A. (SAŚ)

STALEXPORT S.A. has also engaged in the project of toll motorway A-4 on the Katowice – Wrocław section, which is to constitute a continuation of the Katowice-Kraków section, establishing the company Stalexport Autostrada Dolnośląska for that purpose.

The Company Stalexport Autostrada Dolnośląska through its subsidiary company Stalexport Autostrada Śląska (remaining shareholders of the company are STRABAG and Egis Project) makes efforts to gain the contract for management and operation of A-4 motorway on Katowice-Wrocław section. The Company SAŚ S.A. after examination of its tender was granted exclusiveness for negotiations on fixing the contract conditions.

III. GENERAL PART

1. Financial results

1.1 The following table presents the financial results of the Stalexport SA Capital Group for the 1st half of 2004 are shown in the below table:

in thousand zloty	1 st half 2004	1st half 2003	change
I. Net incomes from selling products, goods and materials, including:	605 501	576 718	5%
1. Net incomes from selling products	117 933	134 611	-12%
2. Net incomes from selling goods and materials	487 568	442 107	10%
II. Costs of sold goods, products and materials, including:	529 901	503 570	5%
1. Production cost of sold products	91 787	147 833	-38%
2. Value of sold goods and materials	438 114	355 737	23%
III. Gross profit (loss) on sales (I - II)	75 600	73 148	3%
IV. Sales costs	17 013	30 014	-43%
V. General management costs	21 024	22 566	-7%
VI. Profit (loss) on sales (III - IV - V)	37 563	20 568	83%
VII. Other operating incomes	87 588	79 159	11%
VIII. Other operating costs	9 071	39 420	-77%
IX. Profit (loss) from operating activity (VI + VII - VIII)	116 080	60 307	92%
X. Financial incomes	176 743	33 106	434%
XI. Financial costs	111 422	22 133	403%
XII. Profit (loss) on selling all or a part of the shares in the subordinated entities	(34 585)	(11 891)	
XIII. Profit (loss) on economic activity (IX + X - XI +/- XII)	146 816	59 389	147%
XIV. Result of extraordinary events	(113 300)	5 153	
XV. Goodwill deduction of subordinated entities	5	6	
XVI. Negative goodwill deduction of subordinated entities	7	113	-94%
XVII. Gross profit (loss) (XIII +/- XIV - XV + XVI)	33 518	64 649	
XVIII. Income tax	4 264	5 387	-21%
XIX. Other obligatory profit decrease (loss increase)	-	-	
XX. Share in the net profits (losses) of subordinated entities evaluated via the method of ownership rights	4	(52)	
XXI. Minority profits (losses)	(2 686)	366	

XXII. Net profit (loss) (XVII - XVIII -XIX +/- XX +/- XXI)	26 572	59 576	-55%
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1.2 Income and costs of basic operating activities (sales, costs of purchase and sale, costs of general management).

In the first half of the year 2004 **income from sales of goods and products** in the Capital Group STALEXPORT amounted to 605,501 thousand zloty and were 5% higher as compared to the first half of the previous year. Increase of turnover was achieved in spite of sales volume lower by about 40 million zloty in the companies: Ferrostal Łabędy (sale of shares) and Stalexport Wielkopolska (loss of control due to bankruptcy).

From territorial point of view the structure of sales income is as follows:

- domestic turnover	479,650 thousand zloty
- export sales	125,851 thousand zloty

Domestic turnover in the first half of the year 2004 were 5% higher as compared with the sale of the Capital Group on the same market in the middle of 2003. Export sale increased by 7 %.

According to categories, the structure of sales income is as follows:

- income from sales of goods and materials	487,568 thousand zloty
- income from sales of products	117,933 thousand zloty

Costs of sold goods and products for the first half of the year 2004 amounted to 529,901 thousand zloty and included:

- value of sold goods at purchase price	438,114 thousand zloty
- manufacture costs of sold products	91,787 thousand zloty

The achieved **gross profit on sale** amounted to 75,600 thousand zloty and was by 3% higher as compared with the analogical period of the previous year.

In 2004 the presentation of costs of motorway services was changed. It consisted in excluding them from costs of sale and treating them as manufacture costs of sold products. Making the half year of the year 2003 comparable by transfer of the amount of 10,639 thousand zloty from costs of sale to manufacture costs of sold products, gross profit on sale for the first half of the year 2003 would amount to 62,509 thousand zloty. Thus, in comparable conditions in the period under consideration 21% increase of gross profit from sale took place.

1.3. Costs of sale, general management costs and profit on sale

Taking into consideration the costs of sale in the amount of 17,013 thousand zloty and general management costs in the amount of 21,024 thousand zloty, the Capital Group STALEXPORT achieved **profit on sales** in the amount of 37,563 thousand zloty, which was by 16,995 thousand zloty higher as compared with the half year of 2003 (increase by 83%). It should be noted that general management costs decreased in the next

reporting period by the amount of 1,542 thousand zloty i.e. by 7% and costs of sale decreased (in comparable conditions) by the amount of 2,362 thousand zloty i.e. by 12% as compared with the first half of the year 2003.

1.4. Other operating income and costs

Other operating income amounted to 87,588 thousand zloty, while **other operating costs** amounted to 9,071 thousand zloty, which gives a positive result on other operating activities in the amount of 78,517 thousand zloty.

Main items of **other operating income** consist of business operations in the dominant company:

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| - reversed provisions for conditional liabilities
in this: Huta Ostrowiec 37,500 thousand zloty | 38,100 thousand zloty |
| - reversed provisions for bad debts
in this: Huta Kościuszko 9,222 thousand zloty Ferrostal Łabędy
7,865 thousand zloty Stalexport Zaptor 2,267 thousand zloty | 20,992 thousand zloty |
| - reversed provisions for granted loans
in this: Ferrostal Łabędy 21,530 thousand zloty | 22,041 thousand zloty |
| - settlement of deferred income due to payments of consecutive
arrangement instalments | 3,284 thousand zloty |

Main items of **other operating costs** comprise:

- | | |
|-------------------------------------------------------------------|----------------------|
| - loss on sale of Huta Gliwice real property | 1,886 thousand zloty |
| - provisions for bad debts
in this: Mimex 2,007 thousand zloty | 2,688 thousand zloty |
| - other (court fees, provisions for holidays) | 4,497 thousand zloty |

1.5. Profit on operating activities

In the first half of the year 2004 profit on operating activities amounted to 116,080 thousand zloty and was by 93% higher as compared with the analogical period of the previous year.

1.6. Financial income and costs

Financial income amounted to 176,746 thousand zloty, while **financial costs** to 111,422 thousand zloty.

Financial income was obtained from:

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| - received interests
in this: Ferrostal Łabędy 1,673 thousand zloty Huta Ostrowiec
1,227 thousand zloty | 4,233 thousand zloty |
| - reversed provisions for long-term financial assets
in this: sold shares in Ferrostal 152,659 thousand zloty
shares in Walcownia Metali Dziedzice 4,486 thousand zloty | 157,146 thousand zloty |
| - redeemed interests | 12,208 thousand zloty |

- in this: Ferrostal Łabędy 11,959 thousand zloty
- gains on differences on exchange 1,657 thousand zloty
- other 1,502 thousand zloty

Main items of incurred **financial costs** comprise:

- interests to be paid 15,697 thousand zloty
- in this: - on credits 8,143 thousand zloty
- loss on disposal of the investment 16,528 thousand zloty
- in this: Ferrostal Łabędy -13,735 thousand zloty Walcownia
Metali Dziedzice -3,472 thousand zloty profit from sale of
securities 679 thousand zloty
- costs of guarantee for Huta Ostrowiec 72,592 thousand zloty
- allowance for receivable interests 2,135 thousand zloty
- repayment of credit for Stalexport Wlkp 1,492 thousand zloty
- other 2,978 thousand zloty

1.7. Loss on sale of all or a part of shares in subordinated companies

Loss on sale of subordinated companies in the amount of 34,585 thousand zloty concerns sale of shares in „Ferrostal Łabędy” Sp. z o.o. in Gliwice. The amount of consolidated loss constituting the difference between income from sale (18,069 thousand zloty) and a part of net assets as at the date of sale (53,110 thousand zloty) and not settled negative goodwill (456 thousand zloty), comprises negative result of the transaction in the amount of 138,925 thousand zloty and correction of loss for the previous years in the amount of 104,340 thousand zloty.

1.8. Net financial result

Profit on business activity of the Capital Group STALEXPORT in the first half of the year 2004 amounts to 146,816 thousand zloty and is by 87,427 thousand zloty bigger than in the first half of the year 2003, what makes 2.5-times increase.

Result of extraordinary events is negative and amounts to 113,300 thousand zloty. It was mostly affected by consolidated loss of previous years and reversed in previous reporting periods (years) allowances for bad debts in the dominant company concerning Ferrostal Łabędy, recorded as extraordinary losses of the current period in the amount of 114,003 thousand zloty. After taking into consideration the allowance for goodwill of subsidiary companies (-5 thousand zloty) and deduction of negative goodwill of subsidiary companies (7 thousand zloty) **gross profit** amounts to 33,518 thousand zloty.

Corrections of gross profit comprise:

- corporate income tax -4,264 thousand zloty
- share in profit in companies covered by consolidation with ownership method 4 thousand zloty
- minority shareholders' profits -2,686 thousand zloty.

Net profit of the Capital Group STALEXPORT for the first half of the year 2004 amounts to 26,572 thousand zloty.

1.9. Summary of financial results

The following factors affected the net profit for the first half of the year 2004 achieved by the Capital Group STALEXPORT SA in the amount of almost 27 million zloty:

- positive financial results of companies covered by consolidation in the amount of 46 million zloty in this: of dominant company 11 million zloty, of motorway companies 18 million zloty, trading companies 6 million zloty, Złomohut 1 million zloty, Ferrostal Łabędy 11 million zloty and losses of Stalexport Wielkopolska 1 million zloty
- consolidation adjustments per saldo –19 million zloty.

All the activities and events described above have got direct effect on results of the Company obtained in the first half of the year 2004.

Profit on sales amounted to 37,563 thousand zloty and was higher by 83% than profit on sales in the analogical period of the previous year.

The balance of other operating income and costs amounts to 78,517 thousand zloty, what means that profit on operating activities amounted to 116,080 thousand zloty and was by 92% bigger than operating profit for the first half of the year 2003. It was mostly affected by reversed provisions for bad debts.

The balance of financial income and costs closed with profit in the amount of 65,321 thousand zloty, while the Capital Group incurred consolidated loss on sale of shares in a subsidiary company Ferrostal Łabędy in the amount of 34,585 thousand zloty. Thus, the profit on business activity amounted to 146,816 thousand zloty and was by 147% bigger than the profit in the first half of the year 2003.

Negative result of extraordinary events in the amount of 113,300 thousand zloty was caused by consolidated loss from previous years of Ferrostal Łabędy charged to extraordinary losses of the current reporting period in the amount of 114,003 thousand zloty.

Gross profit of the Capital Group STALEXPORT S.A. for the first half of the year 2004 amounted to 33,518 thousand zloty, while consolidated net profit to 26,572 thousand zloty.

2. ASSETS AND FINANCIAL SITUATION

2.1. Assets of the Capital Group

Total assets of the Capital Group as at 30 June 2004 as compared to the end of the year 2003 decreased by 102,229 thousand zloty. As for its structure, the decrease concerns fixed assets by 190,239 thousand zloty (by 36%), while current assets increased by 88,010 thousand zloty (by 29%).

The structure of assets of the consolidated balance sheet is presented in the table below:

ASSETS (in thousand zloty)	As at 30.06. 2004	As at 31.12. 2003	Value variance	Dyna- mics 1st half 2004/ 2003	Struc- ture 30.06. 2004	Struc- ture 31.12. 2003
I. Fixed assets	344 406	534 645	-190 239	-36%	47%	64%
1. Intangible fixed assets	1 429	4 356	-2 927	-67%	0%	1%
2. Goodwill of subsidiary companies	41	46	-5	0%	0%	0%
3. Tangible fixed assets	267 299	450 251	-182 952	-41%	35%	54%
4. Long-term receivables	10 081	2 087	7 994	383%	1%	0%
5. Long-term investments	59 077	71 043	-11 966	-17%	8%	9%
6. Long-term deferred expenditures	6 479	6 862	-383	-6%	1%	1%
II. Current assets	392 525	304 515	88 010	29%	53%	36%
1. Inventories	87 943	68 300	19 643	29%	11%	8%
2. Short-term receivables	249 732	166 923	82 809	50%	33%	20%
3. Short-term investments	53 144	62 016	-8 872	-14%	7%	7%
4. Short-term deferred expenditures	1 706	7 256	-5 570	-77%	0%	1%
Total assets	736 931	839 160	-102 229	-12%	100%	100%

Significant changes in fixed assets concerned:

- decrease of tangible fixed assets by 182,952 thousand zloty connected with the sale of Ferrostal Łabędy (by 174,548 thousand zloty), the sale by the dominant company of the real property of Huta Gliwice (by 3,689 thousand zloty) and half-year depreciation in the remaining part,
- increase in long-term receivables by 7,994 thousand zloty connected with a part of receivables for sale of Ferrostal Łabędy,
- decrease of long-term investments by 11,966 thousand zloty caused by sale of shares in Walcownia Metali Dziedzice S.A.

Increase of current assets concerned:

- inventories by 19,643 thousand zloty
- short-term receivables by 82,809 thousand zloty caused mainly by big dynamics of sale in first months of 2004, as well as the sale of components of fixed assets: Ferrostal Łabędy, real property of Huta Gliwice and shares in Walcownia Metali Dziedzice S.A.

Short-term investments totally decreased by 8,872 thousand zloty, mainly because of decrease in cash.

The percentage structure of fixed assets and current assets in total assets changed significantly. The share of fixed assets in total assets decreased from 64% at the end of 2003 to 47% at the end of the first half of the year 2004, while percentage share of current assets increased in the considered period from 36% to 53%.

2.2. Liabilities of the Capital Group

Considerable changes occurred in the structure of liabilities at the end of the first half of the year 2004 in comparison with the end of the previous year, which were mostly caused by the sale of shares in Ferrostal Łabędy and loss of control over Stalexport Wielkopolska

The below table presents the structure of liabilities of the consolidated balance sheet:

LIABILITIES (in thousand zlotys)	30.06. 2004	31.12. 2003	Value deviation	Dynamics 2004/2003	Structure 30.06. 2004	Structure 30.06. 2003
I. Equity capital	56 160	124 207	68 047	-55	8%	15%
1. Stock (share) capital	215 524	215 524	-	-	29%	26%
2. Due payments for stock capital (negative value)	-	-	-			
3. Own shares (stocks) (negative value)	-44	-3 449	3 405	-99%	0%	0%
4. Inventory capital	113 121	18 200	94 921	522%	15%	2%
5. Capital from updating the evaluation	12 411	13 323	-912	-7%	2%	2%
6. Other reserve capitals	88 709	82 560	6 149	7%	12%	10%
7. Foreign exchange rate differences from calculation of foreign branches	-	-	-			
8. Profit (loss) from previous years	-400 133	-285 229	-114 904	40%	-54%	-34%
9. Net profit (loss)	26 572	83 278	-56 706	-68%	4%	10%
II. Minority capitals	8 594	25 987	-17 393	-67%	1%	3%
III. Negative goodwill of subordinated entities	35	498	-463	-93%	0%	0%
IV. Liabilities	672 142	688 468	-16 326	-2%	91%	82%
1. Reserves for liabilities	32 037	74 396	-42 359	-57%	4%	9%
2. Long-term liabilities	210 275	278 624	-68 349	-25%	29%	33%
3. Short-term liabilities	317 341	213 574	103 767	49%	43%	25%
4. Interperiod settlements	112 489	121 874	-9 385	-8%	15%	15%
Liabilities in total	736 931	839 160	-102 229	-12%	100%	100%

Equity capital of the Capital Group Stalexport S.A. in the first half of the year 2004 decreased as compared with the end of 2003 by 68,047 thousand zloty. It is the result of both increase and decrease of its individual elements.

Own shares showed in the equity capital (negative value of 44 thousand zloty) decreased by 3,405 thousand zloty and contributed to the increase of equity capital. The decrease results from the sale in 2004 of shares held by Stalexport Autostrada Dolnośląska S.A. (subsidiary company in 100%) in Stalexport S.A.

The increase in reserve capital concerns mainly appropriation of profit of the year 2003 for this capital.

Increase of other reserve capitals by the amount of 6,149 thousand zloty is connected with the settlement in the dominant company of a part of 40% redemption of liabilities under the arrangement agreement.

The increase of loss for the previous years by 114,904 thousand zloty was caused by:

a) withdrawal from the financial statement for the year 2003 of provisions created in the dominant company related to Ferrostal Łabędy in the amount of 241,891 thousand zloty. In the year 2004 - because of the sale of the company – the provisions were not corrected. This amount increased the loss from previous years in 2004.

b) charging the extraordinary losses of 2004 with consolidated losses for previous years of Ferrostal in the amount of 114,003 thousand zloty. This correction lowered the loss from previous years in 2004.

c) other consolidation adjustments decreasing loss from previous years in the remaining companies by 12,984 thousand zloty.

An important factor that positively affected the amount of the equity capital is consolidated net profit achieved in the first half of the year 2004 amounting to 26,572 thousand zloty.

Decrease of minority capitals by 17,393 thousand zloty results from changes in the Capital Group –Ferrostal Łabędy and Stalexport Wielkopolska were not covered by consolidation.

Decrease in the amount of provisions by 42,359 thousand zloty is connected with reversal of provisions for conditional liabilities in the dominant company 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 68,349 thousand zloty. 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 considerably by 103,767 thousand zloty, which resulted from disclosed claim of the State Treasury claim against the Company for payment of 72,592 thousand zloty under guarantees granted by STALEXPORT S.A. to Huta Ostrowiec S.A., as well as increased commercial liabilities in other parts. 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 zloty from short-term liabilities to long-term liabilities in the next reporting period.

The decrease of accrued liabilities concerns mostly settlement of deferred income due to 40% redemption of the arrangement liabilities in the dominant company.

2.3. 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 provisions for liabilities to balance sheet total) reached the level of 91 % , while at the end of 2003 it was 82 %.

As for Liquidity Ratio calculated as ratio of current assets decreased by short-term accruals to short-term liabilities, it reached the level of 1.40 (at the end of 2003 it was 1.39), while Quick Ratio, being the ratio of current assets decreased by value of inventories to short-term liabilities, was 0.91 (at the end of 2003 it was 1.07).

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 zloty. The agreement signed with the State Treasury about repayment of debt makes it possible to record the amount of 72,592 thousand zloty in long-term liabilities in the next reporting period

Different financial situation of individual companies should also be taken into consideration. Actions undertaken by the dominant company in order to regain full financial liquidity by all the companies in the Capital Group are described in the part devoted to perspectives of development.

IV. DETAILED PART

1. Information on Principal Goods, Merchandise and Services

Sales revenues rose by 5% on the year 2003. The growth of sales in the STALEXPORT S.A. Capital Group is mainly attributable to the significant rise in market prices of metallurgic goods and raw materials (even by 50%). The impact of the growth on the increase of the Group revenues was greatly diminished by divesting Ferrostal from the Group (a mini steelmill sold to an external investor in February 2004). Further changes in the breakdown of sales of the Capital Group were faced.

Principal goods and services in the turnover of **GK STALEXPORT SA** in the 1st Half of 2004.

Goods/Service	Quantity in thousands of tons	Value in PLN m	Percentage of sales
Profiles	75.9	124.7	20.6
Steel sheet and strip	46.2	108.0	17.8
Steel bar and wire rod	30.0	58.1	9.6
Iron ores	305.1	53.6	8.9
Reinforcement prefabricates	23.7	47.3	7.8
Motorway-related services		41.5	6.9
Scrapped steel	33.5	23.6	4.7
Tubes		21.8	3.6
Semi-finished steel	12.0	19.1	3.2

Profiles are in the lead: their sales nearly doubled on the comparable period of 2003. A significant increase of revenues was also noted in other groups of steel products (bar by 60%, sheet by 30%), iron ores (by 54%) and scrap (by 66%), mainly due to the rise in prices of the mentioned goods. Leading items also include reinforcement prefabricates manufactured in the production facility in Warsaw (Stalexport-Centrostal Warszawa) and Katowice (Stalbud - the production division of Stalexport S.A.).

The Group recorded a drop in sales of semi-finished products (an effect of excluding their producer, Ferrostal, from the Group) and a significant drop of sales of refractories due to the change in procurement policy of the so far major customer, IPS S.A. (former PHS), after it has been taken over by the LNM corporation.

Growth of revenues from collecting tolls for the use of A4 motorway was limited by the rise in the V.A.T. rate for that service since 1 May 2004, which Stalexport S.A. decided not to include in the price.

2. Information on Consumer Markets and Suppliers

Consumer Markets

The whole export and import of the STALEXPORT S.A. Capital Group was performed by the holding company STALEXPORT S.A.

In the sales structure of STALEXPORT S.A. for the first half of 2004 export share fell from 25 to 21% and import share fell from 14 to 12% of the total sales on the comparable period of 2003.

Share of domestic sales (excluding the revenues from motorways) increased by 6% on the comparable period of 2003 and was 67%.

The product breakdown of exports only slightly changed. Traditionally, steel profiles, mainly those produced by the Huta Katowice had a dominant position and their sales rose by 70%. Their export share rose up to 75%. Major export markets for the profiles were Argentina, Canada, Brasil, the UK and Egypt.

Exports of semi-finished products dropped significantly. They are still responsible for less than 9% of total export revenues.

However, the sales of non-ferrous metal goods increased by about 10%. The EU countries and the USA are the major customers. The share of those products in total exports slightly decreased.

Exports of other products recorded a growth of sales of steel pipes (mainly produced by Huta Batory) and a drop of sales of railway products (rails from Huta Katowice).

Major products exported by the STALEXPORT S.A. Capital Group in 2004

Product	Quantity in thousands of tons	Value in zloty	% of total
Steel profiles	62.2	94.5	75.1
Unalloyed steel semi-finished products	6.2	11.1	8.8
Non-ferrous metals products	0.8	8.1	6.5
Steel pipes	2.5	6.9	5.5

The major products listed in the table cover 96% of exports.

Sales in the domestic market rose by 11% on the comparable 1st half of 2003. Sales of metallurgical products rose significantly (about 60%) in all product ranges except pipes. Sales of iron ores rose by 54% and of steel scrap by 66%. Major buyers of the ores are the companies belonging to IPS S.A. (former PHS) - Huta Sendzimir and Huta Katowice; major customer for scrap is Celsa- Huta Ostrowiec. A substantial drop, however, was

recorded in the revenues from sales of other products procured by steel mills. On the other hand, systematic growth of revenues from motorway-related services is observed.

Major products and services provided for the domestic market by STALEXPORT SA Capital Group in 2003

Towar	Quantity in thousands of tons	Value in zloty	% of total
Steel sheet and strip	46.2	108.0	22.5
Iron rod and bar	29.2	56.4	11.8
Iron ores	305.1	53.6	11.2
Reinforcement prefabricates	23.7	47.3	9.9
Motorway		41.5	8.7
Profiles	13.9	30.2	6.3
Steel scrap	33.5	23.6	4.9
Tubes		14.9	3.1
Semi-finished products	5.8	8.1	1.7

Main Suppliers

In the first half of 2004 the main suppliers to STALEXPORT SA were: Ispat Polska Stal S.A. (former PHS), CMC Zawiercie SA and Ferrostal Łabędy sp. z o.o. Other suppliers did not exceed 3% of total supplies each. Percentage of supplies from IPS fell from 39% to 31%. In 2003 the supplies from IPS, CMC-Zawiercie and Ferrostal covered over 2/5 of the Capital Group demand.

Suppliers with over 5% share of total procurement of STALEXPORT SA in 2003

Supplier	% share
Ispat Polska Stal S.A.	30.7
CMC Zawiercie S.A.	6.0

The breakdown of major suppliers for the Stalexport S.A. Group reflects the structure of the greatest Polish steel producers (PHS is responsible for over 70% of steel produced in Poland, CMC-Zawiercie about 15%)

Main Customers

Stalexport S.A. Capital Group has a fully diversified base of customers for its metallurgical finished products (the biggest customer - the Trade Company Baustal from Krakowa is responsible for less than 8% of total sales of finished metallurgical goods and

less than 4% of total sales). Among foreign buyers of metallurgical products the biggest were steel distributors from Argentina, Canada, Brasil and, in a smaller extent, the UK.

IPS SA was the biggest buyer of metallurgical raw materials (mainly iron ores). German Ferrostaal and Corus Special became significant foreign buyers of semi-finished products.

Customers with over 10% share in STALEXPORT SA purchases in 2004

Supplier	% share
Ispat Polska Stal S.A.	12.4

3. Information on contracts significant for the issuers operations, including contracts between shareholders, of which the issuer knows

Contracts significant for the economic activity of Stalexport S.A. Capital Group were concluded by the holding company. Subsidiaries and associated companies did not enter into significant contracts which could impact the sales of the Capital Group Stalexport S.A.

Information on the major contracts specified below has been released in earlier stock exchange reports.

- 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 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 zloty 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 prolong the payment for further periods. The above agreements completed the restructuring of loans, which were not covered by composition 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 cooperation in future motorway-related projects. The cooperation 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 cooperation 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 zloty. The parties to the agreement mutually agreed that the receivables will be paid in 72 monthly instalments, beginning with August 2008, as follows:
 - 71 equal monthly instalments of 1,008,219.86 zloty each,
 - 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 Chairmam 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 entrapreneurs, or an opinion of the European Commission that the repayment of recevables 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 taht date or it can be capitalised to increase the principal debt. Since that day the interest will be paid monthly. The agreement, which 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 68m zloty,
 - supply contracts for Ukrainian iron ores for Steel Mills associated in the IPS Concern (ISPAT Polska Stal) for total value of about 45 m zloty.
 - contracts for the supply of iron ore pellets from Russia for Steel Mills associated in the Concern IPS (ISPAT Polska Stal) for total value of about 9m zloty
 - exports contracts for the value of about PLN 30m5m for the supply of shaped sections, 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 with 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 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 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. Description of transactions with associated companies

Description of transactions with associated companies is included in the explanatory note no. 7.2. to the consolidated financial statements..

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

Total liabilities of the Capital Group Stalexport on bank credits, as at 30 June 2004, amount to 138,417 thousand zloty are by 53,273 thousand zloty lower than as at the end of 2003 (by 39%).

Long-term liabilities on bank credits amount to 98,757 thousand zloty and are by 51,579 thousand zloty higher than at the end of 2003.

Short-term liabilities on bank credits amount to 39,660 thousand zloty and are by 1,694 thousand zloty lower than at the end of 2003.

The group has no liabilities on loans.

Details of obtained credits, according to their maturity are included in notes 22 D and 23 C to the consolidated financial statements.

Contingent liabilities of the capital group Stalexport S.A. as at the balance sheet date amount to 331,133 thousand zloty,

including:

from granted guarantees	306,302 thousand zloty
form other libabilities	24,813 thousand zloty

Details of contingent liabilities of the Stalexport S.A. Capital Group are provided in the additional explanatory note no. 2.

7. Loans granted, with their due dates of repayment; granted guarantees and bonds, with due regard to loans, guarantees and bonds 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 security 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 thousand zloty)

Due date	Debtor	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.

The companies forming the capital group do not have any liabilities from loans.

The related companies gave loans to the holding company Stalexport S.A. in the amount of 13,000 thousand zloty.

Related companies	Loan capital in thousand zloty	Due date	Remarks
Stalexport Transroute Autostrada S.A. Mysłowice	1 000	15.09.2004	Due date extension till 31.01.2005 was agreed
Stalexport Autostrada Dolnośląska S.A. Katowice	8 200	31.07.2004	Due date extension till 31.10.2004 was agreed in the annex of 29.07.04
Stalexport Autostrada Śląska S.A. Katowice	3 800	24.12.2004	
Total	13 000		

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 and forecasts released earlier

The difference between the financial result shown in the present report (SA-PS 2004) and the financial result shown in the consolidated financial statements for the second quarter of 2004 is 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

Current and quick ratios were worse for the holding company in the first half of 2004 compared with the same period of 2003 (this issue has been presented in detail in the statements for the company). This can be explained by a single increase in current liabilities due to including the contingent liabilities to the State Treasury resulting from the 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 is not covered by the arrangement for composition with creditors (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 72.6m zloty 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 are effected.

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.

The financial situation of subsidiaries, both trading companies and those relating to motorway services, can be considered stable, and their liquidity ratios are sound.

Owing to the above actions and continued disciplined reduction and control of overhead expenses, both in the Company and in the 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. No investment projects are planned for trading companies, either, except purchase of computer hardware. In the motorway servicing companies cost of continued investment in the second half of 2004 will amount to 33m zloty.

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.

The capital group suffered a consolidated loss on the sale of shares in its subsidiary, Ferrostal Łabędy to the amount of 34,585 thousand PLN. Furthermore a sum of 114,003 thousand zloty was debited in the extraordinary loss for the current reporting period, which represents a consolidated prior years' loss of Ferrostal Łabędy.

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. has paid 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 30.5m zloty (Q1- PLN 5.5m, Q2 - 25.0m zloty). Other payments due from Ferrostal-Łabędy Sp. z o.o., in the amount of 37.9m zloty are covered by allowances of 12.2m zloty, 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.

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%, and 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 open consumption of steel products was 27 million of tons, 27% higher on the same period of 2003.

Breakdown of open consumption in the reported period shows the increase in the open 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 PKD sections (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 V.

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 with creditors, 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 receivables.

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 the issuer's managing and supervisory bodies

Changes in the Management Board and the Supervisory Board of the holding company Stalexport S.A.

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:

- | | | |
|--------------------------|---|---------------------------------------------------------------------------|
| - Emil Wąsacz | | President, General Manager |
| - Mieczysław Skołożyński | - | Member of the Board, Finance Director, and from 29.06.2004 Vice President |

In the period **between 01.01.2004 and 15.01.2004** composition of the Supervisory Board was as follows:

1. Józef Okolski - Chairman
2. Przemysław Majka - Vice Chairman
3. Stanisław Bębenek - Secretary
4. Philippe Belot
5. Lindsay M. Forbes
6. Antoni Magdoń

On 15.01.2004 The Extraordinary General Meeting of Shareholders introduced changes to the composition of the Supervisory Board. After those changes, **between 15.01.2004 r. and 29.06.2004** the Supervisory Board had the following members:

1. Zbigniew Szalajda - Chairman
2. Przemysław Majka - Vice Chairman
3. Krystyna Strzelecka - Secretary
4. Philippe Belot
5. Robert Bender
6. Stanisław Berkiet

Further changes to the composition of the Supervisory Board were introduced on the Annual General Meeting of Shareholders on 29.06.2004 when the Supervisory Board was appointed for another three-year term.. **Since 29.06.2004** the Supervisory Board consists of:

1. Zbigniew Szalajda - Chairman
2. Przemysław Majka - Vice Chairman
3. Krystyna Strzelecka - Secretary
4. Robert Bender
5. Stanisław Berkiet
6. Tadeusz Włudyka

Proxy

- **until 30.01.2004**

- 1) Urszula Dzierżoń,
- 2) Małgorzata Michalunio-Kępyś,
- 3) Jan Waszczak

- **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.

Changes in the composition of the Management Boards and the Supervisory Boards of the subsidiaries refer to:

1. STALEXPORT AUTOSTRADA ŚLĄSKA S.A.

Changes in the composition of the Management Board:

- On 28 May 2004 Werner Kunz replaced Tom Forssander on the position of the Vice President;
- Since 28 May 2004 the Board consists of:

Stanisław Bębenek – President
Andrzej Szerszeń – Vice President
Werner Kunz - Vice President

Changes in the composition of the Supervisory Board:

- On 28 May 2004 . Wolfgang Zechmeister replaced Jan Svensson.
- Since 28 May 2004 the Supervisory Board consists of:

Andrzej Bartosiak
Wolfgang Zechmeister
Alain Poliakoff
Małgorzata Michalunio-Kępyś
Anna Górska-Ucinyk

2. STALEXPORT WIELKOPOLSKA Sp. z o.o.

Changes in the composition of the Management Board:

- On 02.06.2004 Mrs Halina Trzcńska was recalled from the position of President,

Changes in the composition of the Supervisory Board:

- On 02.06.2004 r. The Supervisory Board delegated Mr Zbigniew Grabara to act as a Board Member.

3. STALEXPORT CENTROSTAL WARSZAWA S.A.

Changes in the composition of the Supervisory Board:

- On 20.05.2004 Mr Zbigniew Szalajda resigned from the position of the Supervisory Board Chairman,
- On 04.06.2004 the AGM of the Company appointed Mr Marek Bury Member of the Supervisory Board,
- On 22.06.2004 the Supervisory Board formed in the following composition:
 - Urszula Dzierżoń - Chairman
 - Marek Bury – Secretary,
 - Marek Cywiński – Member of the Supervisory Board.

4. STALEXPORT CENTROSTAL S.A. Lublin

Changes in the composition of the Management Board:

- On 24.06.2004 Ryszard Niedziela, M.Sc. Eng. was appointed as a Board Member.

5. STALEXPORT TRANSROUTE AUTOSTRADA S. A. Mysłowice

Changes in the composition of the Supervisory Board:

- On 31 May 2004 Mr Andrzej Szerszeń, who represented Transroute International, was recalled from the Supervisory Board,
On 1 June 2004, by appointment of Transroute International he was replaced by Mr Henri Skiba.

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 any guarantees were 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 shares of Stalexport S.A. owned by the members of managing and supervisory executives of STALEXPORT S.A. and of members of management and supervisory boards of the subsidiaries are specified below:

Name and surname	Number of shares	Nominal value
1. Emil Wąsacz	59 000	118 000
2. Urszula Dzierżoń	23 430	46 860
3. Krystyna Strzelecka	4 075	8 150
4. Stanisław Bębenek	5	10
5. Katarzyna Bijak	2000	4000
6. Zbigniew Czapla-Nowicki	5 472	10 944
7. Jan Czaja	1	2
8. Zbigniew Grabara	928	1856
9. Bronisław Groborz	400	800
10. Anna Górską-Ucinyk	100	200
11. Jerzy Ozana	250	500
12. Ryszard Pałka	600	1200
13. Stanisław Kajzer	10	20
14. Tomasz Niemczyński	85	170

Number of shares in other companies in the Capital Group, which are owned by managing or supervisory persons:

- Mr Krzysztof Faryna owns 20 shares of Stalexport Centrostal S.A. Lublin of nominal value 2000 zloty,
- Mr Ignacy Niedziela owns 510 shares of Stalexport Centrostal S.A. Lublin of nominal value 51,000 zloty,

- Mr Ryszard Niedziela owns 90 shares of Stalexport Centrostal S.A. of nominal value 9,000 zloty,
- Mr Józef Sobina owns 150 shares of Stalexport Centrostal S.A. Lublin of nominal value 15,000 zloty.

19. Shareholders who have at least 5% of total voting rights

Shareholders who have at least 5% of total voting rights (107,762,023) on the Annual General Meeting, as of 29 October 2004:

- The National Environmental Protection and Water Management Fund	18,022,835 shares	- 16.72 %
- Powszechna Kasa Oszczędności BP S.A.	7,654,779 shares	- 7.10 %
- Bank Zachodni WBK S.A.	5,900,325 shares	- 5.47 %

20. Information on changes in the shareholder structure of the issuer and contracts, of which the issuer knows, which can impact the proportions of shares owned by the present shareholders and bond holders

As at 31 December 2003 BPH PBK S.A. was a holder of the 9.12 % stake in the Company and was considered a bigger shareholder. After disposal of part of the shares the stake of BPH PBK S.A. fell below the 5% threshold above which the bank was obliged to inform the Company of the number of shares held.

The Company is not in the possession of information on concluded contracts that could change the future proportions in stakes held by its present shareholders or bondholders.

V. STALEXPORT CAPITAL GROUP'S DEVELOPMENT PROSPECTS

A. Strategy for the Capital Group'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 commercial store in Rzeszów was included in the system. 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 (Pi'a, Gostyń, 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, Białyсток, 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 general management costs of the Capital Group in the first half of 2004 underwent further reduction: by 6,8%. 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 about 15%. 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 Małopolska 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 zloty 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) signing a contract for the management and operation of the A4 motorway in the Katowice-Wrocław section by the Stalexport Autostrada Śląska 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 of essential importance as it is going to facilitate the realization of investment tasks stipulated in the motorway concession and 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 Małopolska 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 Małopolska 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 Małopolska 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) Signing a contract for the management and operation of the A4 motorway in the Katowice-Wroc³aw section by the Stalexport Autostrada Śląska 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 a contract for the management and operation of the A4 motorway in the Wrocław-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 Śląska S.A., whose shareholders are: Stalexport Autostrada Dolnocel'ska 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 the construction by adaptation to toll-motorway requirements and for the operating of the Katowice-Wroc³aw 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 and Capital Group'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 Częstochowa 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 conducted negotiations with all the new owners of steel industry plants in order to define the conditions and principles of mutual trade cooperation. These negotiations were successful and ended in the conclusion of mutually profitable commercial contracts, which clearly regulate the parties' rights and obligations. The obtained financial conditions and limits allow of a statement that Stalexport S.A. is one of the principal partners of the steelworks which have undergone change of ownership. In this connection the above risk has been effectively reduced. 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 Jedność Sp. z o.o. (Jedność Tube Mill Ltd.).**

Limited access to current assets

In view of the large scale and initial period of the fulfilment of composition and non-composition obligations, STALEXPORT S.A. has limited capability for increasing the value of its 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 the now-scarce 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. There are a few potential buyers showing interest, who are carrying out proper procedures in order to define the conditions of purchase of WRJ. The amount expected may considerably reduce the risk of STALEXPORT S.A.'s fulfilling the security or even eliminate such a risk completely.

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 worst '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 173 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 guarantee claims on guarantors (including, first of all, the State Treasury). Talks carried on with WRJ interest holders and potential investors will soon make it possible to determine the scope of

STALEXPORT S.A.'s risk connected with the security granted by this Company and, in the event of materialization of the risk, the manner of its fulfilment.

C. Summary

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

Tasks to be carried out in the near future include:

- **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, 29th October 2004

**Chairman of the Board
General Manager**

Emil Wąsacz

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

Mieczysław Skołożyński