

**SECURITIES AND STOCK EXCHANGE COMMITTEE**

**Annual report SA-R 2005**

according to the Decree of the Finance Minister, dated 19th October 2005, - Journal on Laws no 209, item 1744

(for issuers of securities of manufacturing, construction, commercial or service activity)

for the financial year covering the period from 01.01.2005 to 31.12.2005

and for the previous financial year covering the period from 01.01.2004 to 31.12.2004

13.06.2006  
(date of publishing)

<b>STALEXPORT Joint Stock Company</b>		
(full name of the issuer)		
<b>STALEXPORT SA</b>		<b>metal sector 17</b>
(abridged name of issuer)		(sector acc. to Securities Stock Exchange classification in Warsaw)
<b>40-085</b>		<b>Katowice</b>
(postal code)		(city)
<b>Mickiewicza</b>		<b>29</b>
(street)		(number)
<b>032/25-30-795</b>	<b>032/25-30-795</b>	<b>stalex@stalexport.com.pl</b>
(phone)	(fax)	(e-mail)
<b>634-01-34-211</b>	<b>271936361</b>	<b>www.stalexport.com.pl</b>
(NIP- Tax Identification No.)	REGON- statistical No.)	(WWW)

**BDO Polska Sp. z o.o.**

(entity entitled to carry out the examination)

The annual report contains :

x Opinion and report of the entity entitled to examine the financial reports from examining the annual financial report

(§ 63 passage 2 and § 62 point 2 of the a/m decree)

x The annual financial report

x Explanatory information

x List of changes in equity capital

x Balance sheet

x Cash flow account

x Profit and loss account

x Commentary

x Management Board report report

SELECTED FINANCIAL DATA	thousand zloty		thousand EURO	
	2005	2004	2005	2004
<b>I. Net incomes from sale of products, goods and materials</b>	441 964	693 332	109 851	172 320
<b>II. Profit (loss) on operating activity</b>	-108 355	103 884	-26 932	25 821
<b>III. Gross profit (loss)</b>	-141 572	12 851	-35 188	3 194
<b>IV. Net profit (loss) per shareholders of the Company</b>	-145 089	12 876	-36 062	3 200
<b>V. Net cash flows from operating activity</b>	-53 943	-9 760	-13 408	-2 426
<b>VI. Net cash flows from investment activity</b>	99 780	48 395	24 801	12 029
<b>VII. Net cash flows from financial activity</b>	-47 857	-44 033	-11 895	-10 944
<b>VIII. Net cash flows in total</b>	-2 020	-5 398	-502	-1 342
<b>IX. Assets in total</b>	518 579	517 517	134 354	134 079
<b>X. Long-term liabilities</b>	423 271	368 059	109 661	95 357
<b>XI. Short-term liabilities</b>	93 909	178 421	24 330	46 225
<b>XII. Equity capital</b>	1 399	-28 963	362	-7 504
<b>XIII. Stock capital</b>	215 524	215 524	55 838	66 838
<b>XIV. Number of shares</b>	107 762 023	107 762 023	107 762 023	107 762 023
<b>XV. Profit (loss) per one ordinary share (in zlotys/EUR)</b>	-1,35	0,12	-0,33	0,03
<b>XVI. Diluted profit (loss) per one ordinary share (in zlotys/EUR)</b>	0,00	0,00	0,00	0,00
<b>XVII. Book value per one share (in zlotys/EUR)</b>	0,01	-0,27	0,00	-0,07
<b>XVIII. Diluted book value per one share (in zlotys/EUR)</b>	0,00	0,00	0,00	0,00
<b>XIX. Declared or paid dividend per one share (in zlotys/EUR)</b>				

**Audit Opinion  
for the Shareholders of  
STALEXPORT S.A.**

We have audited the accompanying financial statements of **STALEXPORT S.A.** with its registered office in Katowice, prepared in accordance with International Accounting Standards, consisting of:

- an introduction;
- the balance sheet prepared as at 31 December 2005, showing total assets and liabilities of **518.579.807,78 zł**;
- the profit and loss account for the period from 1 January 2005 to 31 December 2005, showing a net loss of **145.089.325,97 zł**;
- statement of changes in shareholders' equity, showing an increase in shareholders' equity of **30.362.377,52 zł**;
- the cash flow statement for the period from 1 January 2005 to 31 December 2005, showing a net cash decrease of **2.019.774,88 zł**;
- notes to the financial statements.

The Company's Management is responsible for the preparation of these financial statements. Our responsibility was to audit the financial statements and to express an opinion whether they are free of material misstatements.

We conducted our audit in accordance with:

- 1) Chapter 7 of the Accounting Act dated 29 September 1994 (2002 Journal of Laws No. 76, item 694),
- 2) professional auditing standards issued by the Polish National Chamber of Certified Auditors,
- 3) International Financial Reporting Standards.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provided a reasonable basis for our opinion.

We draw your attention to the fact that the continuation of the Company's operations is still mainly dependent on the realization of the provisions of the settlement concluded with the creditors, and the timely repayment of credit installments and interest, which can only be possible if sufficient funds are generated. The activities aimed at generating and obtaining a financial surplus are presented in the Directors' Report on the Company's activities.

We would like to inform you that in the audited period the Company changed its accounting policy with regard to accounting for settlement installments. In previous years, written off settlement installments were booked in proportion to paid settlement installments, whereas as at the balance sheet date, as a result of the repayment of 50% of the value of the liabilities arising out of the settlement concluded in 2002, as well as the conclusion of transactions enabling the realization of the remainder of the settlement, the Management has decided to settle the written off value of the liabilities constituting deferred income on a one-off basis. As a result of this decision, the Company's reserve capital grew by 37.900 thousand zł, whilst its financial result rose by 22.033 thousand zł.

Subject to the above, in our opinion the audited financial statements consisting of financial data and explanations:

- give a true and fair view of the financial position of "Stalexport" S.A. as at 31 December 2005, as well as its financial result for the period from 1 January 2005 to 31 December 2005,
- have been prepared in all material respects in accordance with the accounting regulations arising out of International Accounting Standards, International Financial Reporting Standards, as well as the related interpretations announced in the form of decrees by the European Commission, and in issues not regulated by these Standards – in accordance with the Accounting Act and related regulatory provisions issued on the basis of this Act, as well as on the basis of properly maintained books of account,
- are consistent with the laws and regulations binding in Poland and with the Company's Statute, to the extent to which such regulations affect the content of the financial statements.

The Directors Report on the Group's activities includes all information required by article 49 point 2 of the Accounting Act, and the financial data contained therein is consistent with the audited consolidated financial statements.

Katowice, 6 June 2006

**BDO Polska Spółka z o.o.**  
**ul. Postępu 12**  
**02-676 Warszawa**  
**Registration No. 523**  
**Katowice Branch**  
**al. Korfantego 2**  
**40-004 Katowice**

Halina Żur-Zuber  
Polish Certified Auditor  
Reg. No. 8450/497

Dr Andrè Helin  
Polish Certified Auditor  
Reg. No. 90004/502  
Senior Partner  
BDO Polska Sp. z o.o.

**STALEXPORT SA**  
**40-085 Katowice, 29 Mickiewicza Street**

**Report supplementing the opinion  
on the examining of the financial report drawn up according to  
International Accounting Standards  
for the period from 1<sup>st</sup> January until 31<sup>st</sup> December 2005**

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## **I. GENERAL PART OF THE REPORT**

### **1. Data identifying the Company**

#### **1.1 Name and legal form**

Stalexport Joint Stock Company.

#### **1.2 Seat of the Company**

Katowice, 29 Mickiewicza Street.

#### **1.3 Subject of activity**

The subject of the Company's activity is especially wholesale of metals and metal ores.

#### **1.4 Basis of activity**

Stalexport SA acts on the basis of:

- the articles of the company drawn up in the form of the notarial deed (Transformation Act Rep. "A" No. 10526/93 and Rep. „A" No. 10772/93) with later amendments,
- the Code of Commercial Companies

#### **1.5 Registration in the District Court – Economic department**

On 3rd August 2001 the Company was entered into the National Court Registry at the District Court in Katowice under the number KRS 16854.

Earlier the Company was registered in the commercial register under the number RHB – 10130

#### **1.6 Registration in the Inland Revenue and the Provincial Statistical Office**

NIP (Tax Identification No.): 634-01-34-211

REGON (Statistical Number): 271936361

#### **1.7 The value of stock capital and its changes in the course of the reporting period**

The Company's share capital as on 31st December 2005 amounts to 215,524 thousand zloty and is divided into 107,762,023 shares of a nominal value of 2 zloty each.

The value of the share capital in the examined turnover year did not change.

The ownership structure as on 31st December 2005 is as follows:

- |   |        |
|---|--------|
| – National Environment Protection and Water Conservation Fund | 16,72% |
| – Powszechna Kasa Oszczędności Bank Polski S.A.               | 7,10%  |
| – Other   | 70,71% |

## **1.8 Management Board of the Company**

The following persons managed the company as on 31<sup>st</sup> December 2005:

- Emil Wąsacz - President of the Management Board – General Director
- Mieczysław Skołożyński - Vicepresident of the Management Board – Financial Director
- Urszula Dzierżoń - Member of the Management Board – Commercial Director

## **1.9 Employment**

297 people were employed as on 31st December 2005.

## **1.10 Information on related entities**

The entities constituting the "Stalexport" SA Capital Group are regarded as entities related with the Company, according to the list of subsidiary and associated entities determined by the dominant entity and presented by the Management Board in the course of the examination.

## **2. Data identifying the examined financial report**

The subject of the examination was the financial report drawn up according to the International Accounting Standards for the period from 1<sup>st</sup> January 2005 until 31<sup>st</sup> December 2005 which includes:

- the introduction to the financial report;
- the balance sheet drawn up as on 31st December 2005, which on the side of assets and liabilities indicates the sum of 518,580 thousand zloty;
- the profit and loss account for the period from 1st January 2005 until 31<sup>st</sup> December 2005 indicating a net loss in the amount of 145,089 thousand zloty;
- a list of changes in the equity capital indicating the equity capital increase by the value of 30,362 thousand zloty;
- the cash flow statement indicating a decrease in the state of net cash means in the period from 1<sup>st</sup> December 2005 until 31<sup>st</sup> December 2005 by the value of 2,020 thousand zloty;
- additional information and explanations.

According to the resolution no 4 passed by the Extraordinary General Meeting of Shareholders on 20th January 2005 the Company beginning from 1st January 2005 has been applying the International Financial Reporting Standards in its accounting policy.

The examined report is the first full financial report drawn up according to standards of International Financial Reporting Standards (IRFS). For the needs of this financial report, the date 1st January 2004 is the date of transition to applying IRFS.

According to International Financial Reporting Standards 1 the Company transformed the comparable data for the period from 1st January 2004 to 31st December 2004 according to the same principles of accounting which was applied for drawing up the examined financial report.

### **3. Data identifying the entitled entity and the chartered auditor carrying out the examination**

BDO Polska Sp. z o.o. with the seat in Warsaw, 12 Postępu Street is an entity entitled to examine the financial reports, entered on the list under number 523.

The examination was carried out on the basis of the agreement signed on 11<sup>th</sup> August 2005 by BDO Polska Sp. z o.o. represented by the Chartered Auditor Halina Żur-Zuber Record No. 8450/497.

BDO Polska Sp. z o.o. was chosen for the auditor by the Supervisory Board on the basis of the resolution no1 of 20<sup>th</sup> January 2005.

We declare that the entitled entity BDO Polska Sp. z o.o. and the chartered auditor examining the described report meet the terms to express an objective and independent opinion on the examined report – according to art. 66 passage 1 and 2.

The Company, in the course of the examination, rendered the required data accessible to the Chartered Auditor and provided information and explanations indispensable to carry out the examination and informed about the essential events, which occurred after the balance sheet day until the day of submitting the statement.

The chartered auditor was not restricted in selecting the proper examination methods.

### **4. Information on the financial report for the previous year**

The basis for opening the accounting books was the financial report drawn up for the period from 1<sup>st</sup> January 2004 until 31<sup>st</sup> December 2004, which was examined by BDO Polska Sp. z o.o. with the seat in Warsaw and obtained the opinion from the examination with an explanation.

The financial report of the Company for the period from 1st January 2004 until 31<sup>st</sup> December 2004 was approved by Resolution No.3 of the Ordinary General Meeting of Shareholders of 23<sup>rd</sup> June 2005. The Meeting of Shareholders in the Resolution no 19 decided to appropriate the net profit for the financial year 2004 in the amount of 12,875 thousand zloty entirely for covering the priors' years loss. In the resolution no 20 it was decided to cover the prior years' loss by the inventory capital in the amount of 42,343 thousand zloty and by the reserve capital in the amount of 95,979 thousand zloty.

The financial report for the year 2004 was handed over to the Inland Revenue, submitted to the National Court Registry and was published in the Polish Official Journal (Monitor Polski) "B" No. 1681 of 27<sup>th</sup> October 2005.

In connection with accepting from 1st January 2005 as binding accounting principles resulting from International Accounting Standards, International Financial Reporting Standards on 1st January 2005 the adjustment of the opening balance sheet was introduced to books according to International Financial Reporting Standard 1.



## **5. Other essential information occurring in the reporting period**

### **5.1. The Companies merger**

On 1st March 2005 the merger of the Companies: Stalexport S.A.( as the taking over company) with the Company Stalexport-Centrostal Warszawa S.A.(as the company being taken over) was registered by the decision of the District Court in Katowice.

### **5.2. An agreement on reimbursement of outlays**

In connection with transferring by Stalexport S.A. to Stalexport Autostrada Małopolska S.A. all rights and duties resulting from the concession for constructing via adapting and operating the A4 motorway on section Katowice-Kraków, on 22nd December 2005 the companies signed an agreement in regard to the reimbursement of outlays of the I Phase, borne by Stalexport S.A. in the amount of 127,000 thousand zloty in real values on 28<sup>th</sup> July 2004.

### **5.3. Setting up of the subsidiary company**

Till 30th December 2005 the company "Stalexport Autoroute S.a.r.l." Societe a responsabilite limitee with seat in Luxembourg was registered. On the date of the registration the equity capital of the Company amounted to 15 thousand EUR and it was divided into 600 shares with nominal value of 25 EUR each. The Company's equity was fully paid up in cash and subscribed in 100% by Stalexport S.A.

## **6. Events after the balance sheet date**

### **6.1. Liquidation of the subsidiary company**

On 6th February 2006 the liquidation proceedings of Petrostal S.A., subsidiary company in 100% of od Stalexport S.A. began.

The shares owned by the Company will be covered fully by the write-off.

### **6.2. A capital increase in the subsidiary company**

The Company received, on 24<sup>th</sup> February 2006, from its proxy in Luxembourg, the documents concerning the registration of the increase in equity of the company „Stalexport Autoroute S.a.r.l.” from the amount of 15,000 EUR to the amount of 42,765 thousand EUR, by a contribution in kind made by Stalexport S.A. in a form of 100 % shares of the company Stalexport Autostrada Małopolska S.A. with value of 42,973 thousand EUR, out of which the amount of 42,750 thousand EUR was allocated for the equity capital and the amount of 223 thousand zloty for reserve capital.

On 22nd March 2006 the Company was notified by its proxy in Luxembourg about registration of the increase in equity of the company „Stalexport Autoroute S.a.r.l.” to the amount of 47,565 thousand EUR by an in-kind contribution, made by Stalexport S.A. in a form of 55 % shares of the company Stalexport TRANSROUTE Autostrada S.A. with value of 5,068 thousand EUR, out of which the amount of 4,800 thousand EUR was allocated for the equity capital, while the amount of 268 thousand EUR was allocated for reserve capital.

### 6.3. Agreement with banks regarding Walcownia Rur Jedność

On 4th May 2006 the dominant Company signed an agreement with the bank syndicate represented by ING Bank Śląski, regarding the liabilities towards banks by virtue of guarantees of Stalexport securing the repayment of credits granted Walcownia Rur Jedność.

Receivables of the bank syndicate as covered by arrangement proceedings will be subject to the reduction of 40%. The total amount of the liabilities of Stalexport S.A., was finally fixed by the Court of Arbitration in the amount of 33,447 thousand zloty.

In connection with terminating the credit agreements to WRJ Sp. z o.o. by banks, the existing contingent liability became due and was included in books of the Company Stalexport S.A. in the amount of 119,208 thousand zloty. .

## II. THE FINANCIAL ANALYSIS OF THE COMPANY

Below the selected amounts from the profit and loss account, balance sheet and basic financial ratios. presented

The inflation ratios were not consider while preparing the analysis.

The financial report for the period from 1<sup>st</sup> January to 31<sup>st</sup> December 2005 is the first financial report drawn up by the Company according to International Financial Reporting Standards. According to International Financial Reporting Standards 1 the Company transformed the comparable data for the period from 1st January to 31st December 2004 according to the same accounting principles which were applied to draw up the examined financial report. In connection with that the financial analysis covers data for two turnover years, with reservation that the financial data are not fully comparable owing to the taking over of the subsidiary company Stalexport Centrostal Warszawa S.A. as from 1<sup>st</sup> March 2005.

### 1. Balance sheet

#### ASSETS

	31.12.05	% of balance sheet sum	31.12.04	% of balance sheet sum
<b>Fixed assets</b>	<b>338,653</b>	<b>65,3</b>	<b>335,916</b>	<b>64,9</b>
Tangible fixed assets	49,069	9,5	26,240	5,1
Intangible assets	212	-	210	-
Long-term receivables	509	0,1	50,800	9,8
Long-term investments	286.664	55,3	128,455	24,8
Assets for sale	2,199	0,4	130,211	25,2
<b>Current assets</b>	<b>179,927</b>	<b>34,7</b>	<b>181,601</b>	<b>35,1</b>
Inventories	43,810	8,4	59,864	11,6
Short-term receivables	130,814	25,2	113,981	22,0
Short-term investments	235	0,1	18	-
Cash and its equivalents	4,658	0,9	6,678	1,3
Short-term interperiod settlements	410	0,1	1,060	0,2
<b>SUM OF ASSETS</b>	<b>518,580</b>	<b>100,0</b>	<b>517,517</b>	<b>100,0</b>

#### LIABILITIES

<b>Equity capital</b>	<b>1,399</b>	<b>0,3</b>	<b>(28,963)</b>	<b>(5,6)</b>
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Stock capital	215,524	41,6	215,524	41,65
Own shares	(23)	-	-	-
Inventory capital	35	-	42,343	8,18
Capital from revaluation	132,879	25,6	8,457	1,64
Reserve capital	51,017	9,9	95,979	18,55
Result from previous years	(252,943)	(48,8)	(404,141)	-78,09
Net result of the current year	(145,089)	(28,0)	12,875	2,49
<b>Long-term liabilities</b>	<b>423,271</b>	<b>81,6</b>	<b>368,059</b>	<b>71,1</b>
Credits and loans	78,040	15,0	110,110	21,3
Liabilities by virtue of financial leasing	995	0,2	-	-
Other liabilities	291,508	56,2	197,190	38,1
Reserve by virtue of deferred income tax	38,687	7,5	725	0,1
Reserves for liabilities	13,283	2,6	11,557	2,3
Long-term interperiod settlements	758	0,1	58,477	11,3
<b>Short-term liabilities</b>	<b>93,909</b>	<b>18,1</b>	<b>178,421</b>	<b>34,5</b>
Credits and loans	12,747	2,5	12,541	2,4
Liabilities by virtue of financial leasing	-	-	-	-
Trade accounts receivable	65,571	12,6	125,005	24,2
Other liabilities	4,360	0,8	8,118	1,6
Reserves for liabilities	5,459	1,1	11,008	2,1
Short-term interperiod settlements	5,772	1,1	21,749	4,2
<b>SUM OF LIABILITIES</b>	<b>518,580</b>	<b>100,0</b>	<b>517,517</b>	<b>100,0</b>

## 2. Profit and loss account

	31.12.05	31.12.04	Dynamics 2005/2004
<b>Incomes from sales, including:</b>	<b>441,964</b>	<b>693,331</b>	<b>63,7</b>
Incomes from sales of products	46,933	76,525	61,3
Incomes from sales of goods and merchandise	395,031	616,806	64,0
<b>Costs of sold goods, products and merchandise</b>	<b>408,692</b>	<b>648,691</b>	<b>63,0</b>
Cost of manufacturing sold products	43,892	71,978	61,0
Value of sold goods and materials	364,800	576,713	63,3
<b>Gross profit/loss from sale</b>	<b>33272</b>	<b>44,640</b>	<b>74,5</b>
Other incomes	54,798	110,524	49,6
Sale costs	12,760	12,767	99,9
General management costs	31,369	21,029	149,2
Other costs	152,296	17,485	871,0
<b>Profit/loss from operating activity</b>	<b>(108,355)</b>	<b>103,883</b>	<b>-</b>
<b>Financial incomes</b>	<b>133,249</b>	<b>187,135</b>	<b>71,2</b>
Interests	7,328	6,357	115,3
Other	125,921	180,778	69,7
<b>Financial costs</b>	<b>166,466</b>	<b>278,168</b>	<b>59,8</b>
Interests	24,570	27,305	90,0
Revaluation of investment value	7,928	15	52.853,3
Other	133,968	250,848	53,4
<b>Gross profit/loss</b>	<b>141,572</b>	<b>12,850</b>	<b>1.101,7</b>
Income tax from legal persons	3,517	(25)	-
<b>Net profit/loss</b>	<b>(145,089)</b>	<b>12,875</b>	<b>-</b>

### 3. Basic financial ratios

	<u>1.01. – 31.12.05</u>	<u>1.01. – 31.12.04</u>
<b>Profitability of assets</b>		
<u>net financial result</u> sum of assets	(28,0%)	2,5%
<b>Profitability of equity capital</b>		
<u>net financial result</u> equity capital (without profit)	(99,0%)	(30,8%)
<b>Net profitability of sales</b>		
<u>net financial result</u> incomes from selling products	(32,8%)	1,9%
<b>Liquidity ratio I</b>		
<u>current assets in total</u> short-term liabilities	1,9	1,0
<b>Liquidity ratio II</b>		
<u>current assets in total – inventories</u> short-term liabilities	1,4	0,7
<b>Rate of repaying receivables in days</b>		
<u>average state of receivables from supplies &amp; services x 365 days</u> incomes from selling products	68	48
<b>Rate of repaying liabilities in days</b>		
<u>average state of liabilities from supplies &amp; services x 365 days</u> own costs of sold products	85	57
<b>Rate of turnover of inventories</b>		
<u>average state of inventories x 365 days</u> own costs of sold products	46	26
<b>Book value per one share in zloty</b>		
<u>equity capital</u> number of shares	0,01	(0,27)
<b>Financial result per one share in zloty</b>		
<u>net financial result for the last 12 months</u> number of shares	(1,35)	0,12

#### **4. Interpretation of ratios**

In the examined period the Company obtained negative net financial result in the amount of 145,089 thousand zloty, which was reflected in levels of profitability ratios.

In comparison with the previous year there was a substantial drop in incomes from sale (by 36%), however the more favourable structure of operating activity costs allowed to work out the gross profit from sale in the amount of 33,272 thousand zloty in comparison with the amount of 44,640 thousand zloty obtained in 2004, what means decline by 25%.

The achieved gross result on sale was corrected by negative balance of other incomes and operating costs, which considerably were affected by reasonably established updating write-offs for receivables in the amount of 133,810 thousand zloty (including 119,208 thousand zloty for the receivables of Walcownia Rur Jedność), as a result of which the loss from operating activity amounted to 108,355 thousand zloty.

Negative result on financial activity in the amount of 33,217 thousand zloty is first of all the result of costs of external financing borne by the Company in the form of interests on credits, arrangement liabilities and other liabilities.

Despite unfavourable financial result for the examined period there was a substantial improvement in the liabilities structure. The execution of arrangement provisions and changes of existing principles of settling arrangement liabilities, and also the results of the evaluation of subsidiary companies resulted in achieving the positive value of own capital.

The levels of liquidity ratios improved considerably in comparison with previous period. It was caused by decline in short-term liabilities with simultaneous increase in commercial receivables.

Decline in liabilities results from obtaining financial close by the subsidiary company Stalexport Autostrada Małopolska S.A. which resulted in including liabilities towards the a/m company, shown in report for 2004, among the receivables resulting from transfer of concession rights and duties regarding A4 toll motorway on section Katowice-Kraków (according to the concluded agreement on reimbursement of borne outlays).

The decline in incomes from sale and own cost of products sold with a little fluctuations of average balances of commercial settlements and inventories affected the increase in levels of rotation ratios. The value of rate of repaying liabilities is still higher than the rate of repaying receivables which without taking into consideration borne financing costs is more favourable for the Company.

The continuation of activity in the following years still depends on carrying out the provisions of the arrangement concluded with creditors and the restructuring agreements with creditors. In the examined period the Company met the aforementioned obligations repaying instalments in the agreed amounts.

The restructuring process brings measurable effects, however, the Company still remains in a difficult financial situation. Despite concluding an agreement on reimbursement of investment outlays regarding A4 motorway and other agreements which guarantee obtaining the additional financial funds, there is still uncertainty of achieving suitable financial liquidity by the Company, which enables to repay the consecutive arrangement instalments, what is the basic condition for the further functioning of the Company.

The external and internal conditions, the sources of the financial surplus, as well as, the trends of future operating actions and strategy regarding prospects of the development of the Company were presented in the Report of the Management Board from the activity.

### **III. DETAILED PART OF THE REPORT**

#### **1. Evaluation of the accounting system and the internal control**

##### **1.1. The accounting system**

The Company has a current documentation describing the accounting principles adopted by it. The adopted principles of costs account, assets and liabilities evaluation as well as determining of the financial result are consistent with regulations of International Accounting Standards.

The state of assets and liabilities as on the day of opening the account books were introduced in the same values which took place on the day of their closing in the previous period.

The account books are computer-operated with the application of AS 400 programme.

The basis for including economic events in the account books is the correctly described and drawn up source evidence. Entries are made in the books in a permanent way. The mode of making entries into the books enables to identify the date of effecting economic operations, the source document and the person entering the source document, the value and the marking of book accounts on which the given operation was recorded.

The book accounts are conducted reliably, flawlessly, they are currently checked.

Access to data and to the system of computer processing is limited to chosen persons.

Book evidence, account books and financial reports are kept at the company's seat.

##### **1.2. Stocktaking of the assets components**

The stocktaking of assets and liabilities was conducted according to the requirements of the Act on Accounting.

Stocktaking differences were settled and recorded in books correctly.

##### **1.3. Internal control**

The Management Board of the Company is responsible for working out and the functioning of the company's internal control system and for preventing and detecting irregularities.

In the course of planning and conducting the examination of the Company's financial report for the period completed on 31<sup>st</sup> December 2005, procedures of the control system were taken into consideration in such a range which was necessary in order to determine our procedures indispensable for issuing a reliable opinion about the examined financial report. That is why our review of the internal control system could not have disclosed all weaknesses in the structure of this system.

## **2. Information about chosen items of the balance sheet and the profit and loss account**

### **2.1. Long-term investments**

Long-term investments	286,664 thousand zloty
Per cent share in the balance sum	55,3

The balance of long-term investments covers shares and stocks in the companies of the Stalexport SA Capital Group and real estates. In the examined period the value of this balance sheet item increased by 158,210 thousand zloty in comparison with the previous year.

Considerable increases in the examined period in the amount of 202,302 thousand zloty result first of all from the taking over of real estate of Stalexport Centrostal Warszawa S.A., in connection with the merger of the companies, in the amount of 46,945 thousand zloty and revaluation of the value of subsidiary companies Stalexport Autostrada Małopolska S.A. and Stalexport Transroute Autostrada S.A. as at 31<sup>st</sup> December 2005 in total amount of 153,652 thousand zloty. The decreases amounted to 44,092 thousand zloty and concern mainly sale of real estate in the amount of 20,643 thousand zloty as well as the results of taking over of the company Stalexport Centrostal Warszawa S.A. in the amount of 17,418 thousand zloty.

The long-term investments presented in the balance sheet belong to the Company and they were correctly evaluated and presented in the financial report.

### **2.2. Short-term receivables**

Short-term receivables	130,814 thousand
zloty	
Per cent share in the balance sum	25,2

The short-term receivables shown in the balance sheet cover mainly net commercial receivables in the amount of 103,134 thousand zloty (79% of balance). The receivables were diminished by the updating write-offs in the total amount of 333,006 thousand zloty. The amount of created updating write-offs substantially secures the bad debts risk.

In the amount of trade accounts receivables there are disputed receivables and receivables resulting from the restructuring agreements concluded in previous years.

The estimation of reality of balance of short-term receivables was made on the basis of the analysis of the confirmation of balances, payments after the balance sheet date as well as the period and sources of origin of the analytical item.

The evaluation of the currency items according to the average rate of National Bank of Poland NBP on the date closing the turnover year was carried out correctly.

The balance of short-term receivables is recognized as real, evaluated according to the principle of careful evaluation.

### 2.3. Equity capital

Equity capital	1,399 thousand zloty
Per cent share in the balance sum	0,3

The amount of the share capital shown on the date of balance sheet is consistent with the Company's Charter and entry in National Judicial Register (KRS).

In the examined period the basic capital did not change, as on 31st December 2005 amounts to 215,524 thousand zloty and comprises 107,762,023 shares with nominal value of 2 zloty each share.

The list of entities possessing over 5% votes on the General Meeting of Shareholders was presented in the general part of the report.

The financial report of the Company for the period from 1st January 2004 to 31st December 2004 was approved by the resolution no 3 of the Ordinary General Meeting of Shareholders dated 23rd June 2005 and in the Resolution no 19 it was decided to assign the whole, worked out net profit in the amount of 12,875 thousand zloty for 2004 for coverage of prior years' loss. In resolution no 20 it was decided to cover the prior years' loss by the inventory capital in the amount of 42,343 thousand zloty and by reserve capital in the amount of 95,979 thousand zloty.

In the examined period the Company changed the principles of settling the arrangement instalments. The existing value of depreciated liabilities was assigned to reserve capital and the financial result proportionally to repaid instalments. On the date of drawing up the balance sheet as a result of executing 50% of arrangement liabilities as well as with concluding the transactions giving the possibility to execute the remaining part of the arrangement, the Management Board decided to settle one-off the arrangement liabilities remaining to be depreciated. It was reflected in an increase in the reserve capital additionally by the amount 37,900 thousand zloty and in an increase in result of the examined period by 22,033 thousand zloty. With keeping hitherto applied principles of settling the arrangement instalments the increase in inventory capital would amount to 13,117 thousand zloty, while the financial result by 6,103 thousand zloty. Together, as a result of the above described decision, the increase in reserve capital amounted to 51,017 thousand zloty, and in financial result to 28,136 thousand zloty.

Equity capital in the examined period increased by assigning one-off the total value of arrangement liabilities in the amount of 51,017 thousand zloty to reserve capital, and showing the results of revaluation of long-term financial assets in the amount of 124,458 thousand zloty in the revaluation capital (with consideration of established reserve for income tax in the amount of 29,124 thousand zloty), which resulted in obtaining the positive value of equity capital in the amount of 1,399 thousand zloty by the Company.

In connection with taking over Stalexport Centrostal Warszawa S.A. the Company acquired under art. 515 of Commercial companies code the own shares in the amount of 2,347 thousand zloty in order to transfer them to the minority shareholders of the taken over company. As on 31st December 2005 the value of not transferred own shares amounts to 23 thousand zloty.



The net loss of the examined turnover year amounts to 145,089 thousand zloty and results from correctly drawn up profit and loss account.

#### **2.4. Long-term liabilities**

Long-term liabilities	423,271 thousand zloty
Per cent share in the balance sum	81,6

The long-term liabilities presented in the financial report comprise mainly arrangement liabilities (94,345 thousand zloty), loans and bank credits remaining to be paid (78,040 thousand zloty), liabilities towards the State Treasury and Bank syndicate by virtue of granted guarantees (197,163 thousand zloty), a reserve by virtue deferred income tax (38,687 thousand zloty), out of which 29,194 thousand zloty concerns the evaluation of shares contributed to the company "Stalexport Autoroute S.a.r.l.") and other reserves in the amount of 13,282 thousand zloty (including 10,258 thousand zloty for interests on credits in restructuring and 2,339 thousand zloty for employees' benefits).

In examined period the Company fulfilled the provisions of the concluded agreement and the restructuring agreements. The arrangement instalments in 2005 were repaid in the fixed amounts.

Long-term liabilities were correctly presented in the financial report.

#### **2.5. Short-term liabilities**

Short-term liabilities	93,909 thousand zloty
Percentage share in the balance sheet sum	18,1

In item short-term liabilities the trade liabilities in the amount of 65,571 thousand zloty and credits and loans in the payable period up to one year in the amount of 12,747 thousand zloty were presented first of all. The other part of balance of short-term liabilities comprises reserves in the amount of 5,459 thousand zloty, other liabilities in the amount of 4,360 thousand zloty, and short-term interperiod settlements in the amount of 5,772 thousand zloty, among which first of all the received advance payments are included.

The Company confirmed the balances of liabilities according to the balance as at 30<sup>th</sup> November 2005. On the basis of received consistent confirmations the balance of liabilities is approved as real ones.

#### **2.6. Incomes from sale and operating activity costs**

Incomes from sale and equated with them	441,964 thousand zloty
Operating activity costs	550,319 thousand zloty

Incomes and costs were shown in complete way and included among proper periods. The borne costs are documented properly and settled in suitable amount. The incomes and operating activity costs were properly presented in profit and loss account.

### **3. Introduction to the financial report and additional information and explanations**

The Company drew up the additional information containing introduction to the balance sheet and additional information and explanations fulfilling the requirements of the Act and the

requirements of International Accounting Standards, International Financial Reporting Standards and requirements regarding made disclosures.

The data in this information result from account books and they are consistent with the examined financial report.

#### **4. A list of changes in equity capital**

The list of changes in equity capital shows correctly an increase in equity capital equity in the amount of 30,362 thousand zloty in the period from 1<sup>st</sup> January 2005 until 31<sup>st</sup> December 2005; it was correctly drawn up and it is correctly related to the balance sheet and profit and loss account.

#### **5. Profit and loss account**

The data indicated in the report on cash flows for the financial year from 1<sup>st</sup> January 2005 until 31<sup>st</sup> December 2005 were correctly related to the balance sheet, the profit and loss account and the account books and illustrate the financing sources of the Company's activity in a reliable and correct way.

#### **6. Report of the Management Board on the activity of the Company**

According the requirements of art. 49 of the Act and the Commercial companies code, the Management Board drew up the report on the activity of the Company in 2005. Information indicated in the report of the Management Board on the activity of the Company is compatible with the information contained in the examined financial report of the Company for 2005.

#### **7. Statement of the management of the entity**

The management of the Company submitted a written statement on including complete data in the account books, disclosing all contingent liabilities and essential events which occurred after the balance sheet day.

Katowice, 6th June 2006

**BDO Polska Spółka z o.o.**  
**12, Postępu Street**  
**02-676 Warsaw**  
**Record No. 523**  
**Katowice Branch**  
**15, Drzymały Street**  
**40-059 Katowice**

Halina Żur-Zuber  
Chartered Accountant  
Identification No.8450/497

dr Andrè Helin  
State Authorized  
Public Accountant  
Chartered Accountant 90004/502  
President of BDO Polska Sp. z o.o.

*Dear Shareholders,*

With great satisfaction I would like to inform that STALEXPORT S.A. constantly and with success stabilizes its financial and legal situation. From point of view of restructuring history its successive phase has just been closed.

Passing half-way mark of the execution of „The Arrangement Agreement” the Company for the first time in a few years, i.e. since commencing its recovery, achieved in 2005 positive equity capital

Moreover during the whole year 2005 and passing months of the current year, the Management Board of STALEXPORT S.A. was undertaking the actions aimed at solving the problem of the guarantees of credits contracted by Walcownia Rur Jedność Sp. z o.o. in 90-ties, in particular, at determining the amount of liabilities burdening the Company by this virtue, as well as at their non-cash settlement. The negotiates which lasted many months, ended successfully. On 4<sup>th</sup> May 2006 the Company signed an agreement with the Bank Syndicate. These banks receivables, ipso jure, are covered by the arrangement proceedings of STALEXPORT S.A., as the receivables of main creditors and their amount is subject to 40% reduction. Settlement by the Company of all receivables of the Bank Syndicate, along with interests, will take place by conversion into shares in the equity of STALEXPORT S.A., by contributing the a/m receivables as the in-kind contribution in exchange for shares. The matter of so called bill of exchange security regarding Walcownia Rur Jedność Sp. z o.o. which was granted by the State Treasury, still requires final explanation. The Management Board has been making efforts so as to solve this matter on the conditions not worse than those the Company managed to negotiate, in case of guarantees of credits contracted by Ostrowiec Mill S.A. (the agreement with the State Treasury dated 1<sup>st</sup> September 2004)

It was possible to achieve the above mentioned, extremely difficult purposes of financial restructuring, first of all owing to friendly attitude of the creditors. However, I also have to mention here the unusual engagement of the employees in the process of recovering the Company.

I would like to stress that STALEXPORT S.A. systematically repays the arrangement instalments, and other liabilities resulting from the agreements concluded with the creditors. Till today 11 out of 20 main instalments along with interests have already been repaid.

*Dear Ladies and Gentlemen,*

We have been, with great effort, restoring the confidence to STALEXPORT’ mark, known in Poland and abroad since over 43 years. We have been executing, in due financial measures, our intentions connected with trade – the core business of the Company and the Capital Group, so considerably limited in the past years.

We have to remember that we are functioning without the access to the credits, within very limited working capital. That's why our task is to improve the effectiveness of our trade activity. Within the framework of these actions we modernized the machinery park in steel processing plants, this way we enriched the commercial offer of the Company. We prepared logistically a central store in Częstochowa which will be fully used after obtaining the access to the increased working capital. We purchased a few real estates so as to further develop the sale through trade depots. We flexibly react to the demand changes, also in the geographic aspect.

Within the framework of the above actions the consolidation with the Company STALEXPORT –CENTROSTAL Warszawa S.A. was concluded, which allowed to use more effectively the possessed materials means.

The scale of turnover is still far from the potential possibilities, which the experience of several score years in the business and professional staff give the Company. Thus the Management Board has intensified lately the talks with the potential investors in order to gain capital for the trade development. The way to increase the capital was open due to settling the matter connected with the historic liabilities of the Company, which I mentioned earlier.

*Dear Ladies and Gentlemen,*

Summing up, the positive events affecting considerably the functioning of STALEXPORT S.A. in 2005 and in the current year, I include first of all:

- § concluding the agreement with the Banks constituting the Syndicate which finances the construction of Walcownia Rur Jedność, and which settled the conditions of repayment of liabilities resulting from guarantees granted by STALEXPORT S.A.
- § incorporating the Company STALEXPORT CENTROSTAL Warszawa S.A. into the organisational structure of STALEXPORT S.A. and its deep asset-organisational restructuring,
- § signing with the company STALEXPORT AUTOSTRADA MAŁOPOLSKA S.A. the agreement on reimbursement of investment outlays borne in previous years by STALEXPORT S.A. for modernisation and adapting to the standards of motorway of the section A4 (Kraków-Katowice),
- § stabilising the structure and the range of the distribution network activity,
- § modernization and development of processing and enriching of steel executed by the production and reinforcement prefabricating companies in Warsaw and in Katowice,

The matters, mentioned above, constitute an introduction to the situation of the Company, the detailed description of which can be found in the financial report of the Company and in report on activity of the Company STALEXPORT S.A. for 2005 available also on our website [www.stalexport.com.pl](http://www.stalexport.com.pl) .

I also invite You to participate in regular meetings with shareholders and analysts organised by the Company. The schedule of these meetings and other corporate events is published on our website.

I hope that you will find reasons to share our optimism as far as the favourable future of the Company is concerned.

Chairman  
of the Management Board  
General Director  
/-/ Emil Wąsacz

Katowice, May 2006

## **Preliminary information and description of applied accounting principles in the financial report as at 31.12.2005**

1. Submitted financial report covers data for the period from 1.01.2005 to 31.12.2005.  
All financial data are shown in thousand zloty, unless it was stated otherwise.  
The Company keeps the books according to International Accounting Standards and International and International Financial Reporting Standards, and the matters not regulated in the above mentioned standards according to the Act on accounting dated 29<sup>th</sup> September 1994 (Journals of Law (Dz. U.) of 2002 no 76, item 694 with later amendments).
2. Stalexport S.A. is the dominant company and draws up the consolidated financial report.
3. In the period which covers the financial report, Stalexport S.A. merged with its subsidiary company Stalexport Centrostal S.A. in Warsaw. The merger method and the results of the merger were presented in the additional information.
4. The presented financial report was drawn up under the assumption of continuation of the business activity by the Company in future possible to be anticipated. There are no circumstances known to the Management Board which would indicate the existence of serious threats for continuation the activity by the Company.
5. The financial report and comparable financial data were prepared in the way securing their comparability with application of uniform accounting principles. Specification and explanation of the differences resulting from adjustments of applying International Accounting Standards and International Financial Reporting Standards for the first time were presented in the table of changes – in additional information.
6. In the opinion of the expert auditors from examining the financial report there was no reservations, which would result in necessity of making adjustments in relation to data presented in the financial report or comparable financial data.

### **The principles of accounting policy accepted by the Company:**

The entity applies precedent principles of evaluation based on historic purchase price, acquiring and manufacturing, except for the evaluation of financial assets as well as the investment real estates which according to the principles of International Financial Reporting Standards, were evaluated according to the fair value.

## **Long-term assets**

### Tangible fixed assets – note no 1

Intangible assets are the fixed assets:

- which are kept by the Company so as to use them in the production process, in goods supplies, rendering of services, in order to giving them away to be used by others or in administrative purposes as well as according to the expectations will be used for longer time than one turnover year.

The initial showing of the asset is evaluated according to the purchase price or manufacturing cost.

The Company applies the cost method to evaluate the tangible fixed assets, after the initial showing of the fixed asset, i.e. purchase price or manufacturing cost reduced by accumulated amortisation (depreciation) and updating write-offs by virtue of loss of value.

The fixed assets are depreciated according to straight line method, according to anticipated use period for particular assortment group. The fixed assets are depreciated the moment they are accepted for operating.

The costs of overhaul do not increase the initial use value of given item of fixed assets, while burden the costs of the period in which there were borne.

Fixed assets which are the subject of financial lease are shown in the balance sheet on a par with other items of fixed assets and they are subject to depreciation according to the same principles.

The anticipated use period or period of concluded agreement, if this period is shorter, is accepted as the use period.

The initial value of the fixed assets being the subject of the financial lease and liabilities corresponding with them (note 19A) is determined in the amount equal to discounted value of future leasing charges.

Leasing charges borne in the reporting period refer to the liabilities by virtue of financial leasing in the amount equal capital instalments, the surplus being the financial costs charges wholly the financial costs.

In note 1B the changes in balances of fixed assets according to the assortment groups were presented. The taking over of fixed assets in the amount of 23,934 thousand zloty as a result of the merger with the company Stalexport Centrostal Warszawa S.A. is among the substantial items which affected the amount of these assets in the item „increases – other”.

### Intangible assets – notes 2A, 2B, 2C

Intangible assets purchased from the economic entity within separate transaction are activated according to the purchase price. Intangible assets purchased within a taking over transaction of the economic entity are shown in assets separately from the goodwill, if at the initial presenting one can reliably determine their fair value.

Intangible assets with determined use period are subject to amortisation via straight line method in the period of their economic use.

Note no 2C presents detailed changes in intangible assets in the reporting period. The Company includes the value of depreciating allowances of intangible assets in the general costs.

#### Long-term receivables – nota nr 3A

Long-term receivables are evaluated at the purchase prices, considering the principles of a careful evaluation, thus decreased by the updating write offs.

In relation to previous year there was a considerable decline in long-term receivables, mainly due to the merger of the company Stalexport S.A. and i Stalexport Centrostal Warszawa S.A.

#### Long-term investments

The Company Stalexport S.A. in this group distinguishes::

- real estate - note 4A
- long-term financial assets - note 4C

The initial presenting of long-term financial assets are evaluated according to the purchase price and updated by write-offs by virtue of permanent loss of value. The shares of the companies listed on Warsaw Stock Exchange are evaluated on the date of balance sheet according to the market rate. The majority of the long-term investments constitute the register lien for the benefit of banks and concerns the shares of Stalexport Serwis Centrum Katowice S.A., Stalexport Centrostal Lublin S.A., Beskidzki Domu Maklerski and shares of Stalexport Wielkopolska.

#### Assets available for sale – note no 5

Items of assets (or group for sale) are qualified as for sale, if their balance sheet value will be regained in sale transaction, but not by their further use.

Such assets or groups for sale are not amortised.

#### **Short-term assets**

##### Inventories – note no 8

Merchandise and goods stocks are evaluated as on the date of balance sheet according to the purchase price. Finished products and production in progress are evaluated according to the technical manufacturing cost (determined as the direct costs and surcharge of indirect costs fixed while assuming normal use of production capacity). The technical manufacturing cost does not comprise activated costs of external financing.

As the method of disposal of inventories the entity accepted the method *FIFO* „*first in – first out*”.

If the purchase price or technical manufacturing cost of inventories is higher than anticipated purchase price, the Company establishes the updating write-offs which correct the own cost of sale.

The updating write-offs are also made for the inventories which do not show rotation over 360 days. .

##### Short-term receivables – note no 9A

Trade accounts receivables which maturity date amounts from 30 to 90 days are shown according to the sums originally invoiced, considering the write-offs for bad debts.

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

- for trade accounts receivables, if the delay in payment exceeds 180 days from the date of maturity payment,
- for receivables by virtue of interests, if the delay in payment exceeds 360 days from the date of maturity payment.



#### Short-term investments - note no 10A

Securities are shown according to purchase prices „first in – first out” and they are subject to updating as on the date of balance sheet according to the market rate binding as on the balance sheet date.

The loans granted along with due interests are shown in net value, i.e. after reduction by updating write-offs.

#### Cash and its equivalent - note no 11A

Cash and its equivalents cover cash in bank and on hand as well as short-term investments about primary maturity not exceeding three months.

The balance of cash shown in profit and loss account consists of cash and its equivalents.

#### Loss of value of assets

In case of occurring conditions indicating the possibility of loss of value of possessed items of fixed assets and intangible assets the test for the value loss is carried out, and the fixed amounts of updating write-offs reduce the balance sheet value of assets, which concern and are referred in loss-and profit account.

The updating write-offs of the assets, which are subject to prior evaluation of the above purchase price, correct the revaluation capital to the amount of sums shown in capital, and below the purchase prices, are referred to the profit and loss account.

The sums of shown updating write-offs are subject to diversion in case of withdrawal of causes justifying their establishing. The results of diversion of updating write-offs are referred to profit and loss account except for sums previously reducing the revaluation capital, which correct this capital to the amount of its charges.

#### Reserves for termination pays and jubilee bonuses

These liabilities result from rights acquired by the employees of the Company in the current year as well as in previous years according to the accepted principles in the company's remuneration system.

The employees' benefits are evaluated with updating methods, not subject to changes in longer periods of time.

#### Income tax – note no 34

The income tax shown in profit and loss account covers current and deferred part. Income tax is shown in profit and loss account except for sums connected with items settled directly with own capital. The current tax constitutes the expected liability by virtue of taxed income for given year subject to tax, calculated by applying tax rates binding on given balance sheet date and according to tax law.

The value of deferred income tax is determined via balance sheet method, on basis of interim differences between the value of assets and liabilities shown in books, and their value for tax purposes. The value of shown deferred income tax includes planned mode of execution or settling of balance sheet value of items of assets and liabilities with applying rate of income tax binding on the balance sheet date.

Assets by virtue of deferred income tax are determined in the amount of the sum anticipated in future to be deducted from income tax in connection with negative interim differences which in future result in reducing the basis of deduction of income tax.

The Company because of maintaining tax loss does not establish deferred income tax asset in the balance sheet. At the end of 1<sup>st</sup> half of 2005, the asset by virtue of deferred income tax occurred and it concerned the taken over company - Stalexport Centrostal Warszawa S.A. The asset by virtue of deferred income tax at the end of 2005 was dissolved according to the principles binding in Stalexport S.A.

**Balance sheet**

	note	2005	2004
<b>ASSETS</b>			
<b>I. Long-term assets</b>		<b>338 653</b>	<b>335 916</b>
1. Fixed assets	1	49 069	26 240
2. Intangible assets including:	2	212	210
- goodwill		-	-
3. Long-term receivables	3	509	50 800
4. Long-term investments	4	286 664	128 455
4.1 Real estates		56 945	36 658
4.2 Intangible assets		-	-
4.3 Long-term financial assets		229 519	91 597
a) in related entities, including:		227 712	89 789
- stocks or shares in subsidiary entities evaluated via the method of ownership rights		32	32
b) in other entities		1 807	1 808
4.4 Other long-term investments		200	200
5. Assets available for sale	5	2 199	130 211
6. Assets by virtue of the deferred income tax	6	-	-
7. Long-term interperiod settlements	7	-	-
<b>II. Short-term assets</b>		<b>179 926</b>	<b>181 601</b>
1. Inventories	8	43 810	59 864
2. Short-term receivables	9	130 814	113 981
3. Short-term investments	10	235	19
4. Cash and its equivalent	11	4 658	6 678
5. Short-term interperiod settlements	12	409	1 059
<b>Assets in total</b>		<b>518 579</b>	<b>517 517</b>

	note	2005	2004
<b>LIABILITIES</b>			
<b>I. Equity capital</b>		<b>1 399</b>	<b>(28 963)</b>
1. Stock capital	<b>13</b>	<b>215 524</b>	<b>215 524</b>
2. Due payments for the stock capital (negative value)		-	-
3. Own shares (negative value)	<b>14</b>	<b>(23)</b>	-
4. Inventory capital	<b>15</b>	<b>35</b>	<b>42 343</b>
5. Capital from updating evaluation	<b>16</b>	<b>132 879</b>	<b>8 457</b>
6. Other reserve capitals	<b>17</b>	<b>51 016</b>	<b>95 979</b>
7. Profit (loss) from previous years		<b>(252 943)</b>	<b>(404 142)</b>
8. Net profit (loss) per the shareholders of the Company		<b>(145 089)</b>	<b>12 876</b>
9. Deductions from net profit within the financial year (negative value)	<b>18</b>	-	-
<b>II. Long-term liabilities</b>	<b>19</b>	<b>423 271</b>	<b>368 059</b>
1. Credits and loans		<b>78 040</b>	<b>100 110</b>
2. Liabilities by virtue of financial leasing		-	-
3. Trade creditors		-	-
4. Other liabilities		<b>292 503</b>	<b>197 190</b>
5. Reserve by virtue of the deferred income tax	<b>20</b>	<b>38 687</b>	<b>725</b>
6. Reserves for other liabilities	<b>21</b>	<b>13 283</b>	<b>11 557</b>
7. Long-term interperiod settlements	<b>22</b>	<b>758</b>	<b>58 477</b>
<b>III. Short-term liabilities</b>	<b>23</b>	<b>93 909</b>	<b>178 421</b>
1. Credits and loans		<b>12 747</b>	<b>12 542</b>
2. Liabilities by virtue of financial leasing		-	-
3. Trade creditors		<b>65 571</b>	<b>125 005</b>
4. Other liabilities		<b>4 360</b>	<b>8 118</b>
5. Reserves for liabilities	<b>24</b>	<b>5 459</b>	<b>11 007</b>
6. Short-term interperiod settlements	<b>25</b>	<b>5 772</b>	<b>21 749</b>
<b>Liabilities in total</b>		<b>518 579</b>	<b>517 517</b>

<b>Book value</b>		<b>1 399</b>	<b>(28 963)</b>
<b>Number of shares</b>		<b>107 762 023</b>	<b>107 762 023</b>
<b>Book value per one share (in zlotys)</b>	<b>29</b>	<b>,01</b>	<b>(,27)</b>
<b>Diluted number of shares</b>			
<b>Diluted book value per one share (in zlotys)</b>	<b>29</b>		

## Profit and loss account

	nota	2005	2004
<b>I. Net incomes from the sale of products, goods and materials, including:</b>		<b>441 964</b>	<b>693 332</b>
1. Net incomes from the sale of products	27	46 933	76 525
2. Net incomes from the sale of goods and materials	28	395 031	616 807
<b>II. Costs of sold goods, products and materials, including:</b>		<b>408 692</b>	<b>648 691</b>
1. Cost of manufacturing sold products	29	43 892	71 978
2. Value of sold goods and materials		364 800	576 713
<b>III. Gross profit (loss) on sales (I - II)</b>		<b>33 272</b>	<b>44 641</b>
<b>IV. Other incomes</b>	<b>30</b>	<b>54 798</b>	<b>110 524</b>
<b>V. Sales costs</b>		<b>12 760</b>	<b>12 767</b>
<b>VI. Costs of general management</b>		<b>31 369</b>	<b>21 029</b>
<b>VII. Other costs</b>	<b>31</b>	<b>152 296</b>	<b>17 485</b>
<b>VIII. Profit (loss) from operating activity (III + IV - V - VI - VII)</b>		<b>(108 355)</b>	<b>103 884</b>
<b>IX. Financial incomes</b>	<b>32</b>	<b>133 249</b>	<b>187 135</b>
<b>X. Financial costs</b>	<b>33</b>	<b>166 466</b>	<b>278 168</b>
<b>XI. Gross profit (loss) (VIII + IX - X)</b>		<b>(141 572)</b>	<b>12 851</b>
<b>XII. Income tax</b>	<b>34</b>	<b>3 517</b>	<b>(25)</b>
a) current part		-	-
b) deferred part		3 517	(25)
<b>XIII. Net profit (loss) (XI - XII)</b>		<b>(145 089)</b>	<b>12 876</b>

Net profit (loss)		(145 089)	12 876
Average weighted number of ordinary shares	35	107 762 023	107 762 023
Profit (loss) per one ordinary share (in zloty)		(1,35)	,12
Average weighted diluted number of ordinary shares	35		
Diluted profit (loss) per one ordinary share (in zloty)			

## Changes in equity capital

	2 005	2004
I. Equity capital at the beginning of the period (Opening Balance - OB)	(28 963)	(56 725)
a) changes of adopted principles of the accounting (policy)	-	-
b) corrections of basic errors	-	-
<b>I.a. Equity capital at the beginning of the period (OB), after squaring with comparabe data</b>	<b>(28 963)</b>	<b>(56 725)</b>
<b>1. Stock capital at the beginning of the period</b>	<b>215 524</b>	<b>215 524</b>
1.1. Changes of stock capital	-	-
a) increases (by virtue of)	-	-
- share issuance (issuing shares)	-	-
increase in basic capital	-	-
b) decreases (by virtue of)	-	-
- amortization (of shares)	-	-
decrease in basic capital	-	-
1.2. Stock capital at the end of the period	215 524	215 524
<b>2. Due payments for stock capital at the beginning of the period</b>	-	-
2.1. Changes of due payments for stock capital	-	-
a) increases (by virtue of)	-	-
b) decreases (by virtue of)	-	-
-settlement of due payments	-	-
2.2. Due payments for stock capital at the end of the period	-	-
<b>3. Own shares at the beginning of the period</b>	-	-
3.1. Changes of own shares	(23)	-
a) increases (by virtue of)	(570)	-
- issuing for minority shareholders	(570)	-
b) decreases (by virtue of)	(547)	-
- issuing for minority shareholders	(547)	-
3.2. Own shares at the end of the period	(23)	-
4. Stock capital at the beginning of the period	42 343	2 634
4.1. Changes of inventory capital	(42 308)	39 709
a) increases (by virtue of)	35	39 709
- share issuing above the nominal value	-	-
- from the profit distribution (statutory)	-	39 678
- from the profit distribution (above the minimum value statutory required)	-	-
- other	-	-
- sale, liquidation of fixed assets	35	31
b) decreases (by virtue of)	42 343	-
- loss coverage	42 343	-
- exclusion of surcharges to capital	-	-
4.2. Inventory capital at the end of the period	35	42 343
<b>5. Capital from updating the evaluation at the beginning of the period</b>	<b>8 457</b>	<b>8 488</b>
5.1. Capital changes from updating the evaluation	124 422	(31)
a) increases (by virtue of)	153 651	-
- revaluation of the financial assets	153 651	-
b) decreases (by virtue of)	29 229	31
- disposal of fixed assets	35	31
- reserve for the deferred income by virtue of revaluation of financial assets	29 194	-
5.2. Capital from updating the evaluation at the end of the period	132 879	8 457

	2005	2004
<b>6. Other reserve capitals at the beginning of the period</b>	<b>95 979</b>	<b>81 093</b>
<b>6.1. Changes of other reserve capitals</b>	<b>(44 963)</b>	<b>14 886</b>
a) increases (by virtue of)	<b>51 016</b>	<b>14 886</b>
- profit distribution	-	-
- executing arrangement commitments instalment re-payments	<b>51 016</b>	<b>14 886</b>
b) decreases (by virtue of)	<b>95 979</b>	-
- re-booking for inventory capital	<b>95 979</b>	-
- loss coverage	-	-
- other	-	-
<b>6.2. Other reserve capitals at the end of the period</b>	<b>51 016</b>	<b>95 979</b>
<b>7. Profit (loss) from previous years at the beginning of the period</b>	<b>(391 266)</b>	<b>(364 464)</b>
<b>7.1. Profit from previous years at the beginning of the period</b>	<b>12 876</b>	<b>39 678</b>
a) changes of the adopted principles of the accounting (policy)	-	-
b) corrections of basic errors	-	-
<b>7.2. Profit from previous years at the beginning of the period, after squaring with comparable data</b>	<b>12 876</b>	<b>39 678</b>
a) increases (by virtue of)	-	-
- profit distribution from previous years	-	-
- other	-	-
b) decreases (by virtue of)	<b>12 876</b>	<b>39 678</b>
- transferred for inventory capital	-	<b>39 678</b>
- loss coverage	<b>12 876</b>	-
- payment of dividends	-	-
- other	-	-
7.3. Profit from previous years at the end of the period	-	-
8.4. Loss from the previous years at the beginning of the period	<b>404 142</b>	<b>404 142</b>
a) changes of the adopted principles of the accounting (policy)	-	-
b) corrections of basic errors	-	-
<b>7.5. Loss from the previous years at the beginning of the period, after squaring with comparable data</b>	<b>404 142</b>	<b>404 142</b>
a) increases (by virtue of)	-	-
- loss transfer from previous years for coverage	-	-
- other	-	-
b) decreases (by virtue of)	<b>151 199</b>	-
- loss coverage from profit, reserve capital	<b>151 199</b>	-
<b>7.6. Loss from previous years at the end of the period</b>	<b>252 943</b>	<b>404 142</b>
<b>7.7. Profit (loss) from previous years at the end of the period</b>	<b>(252 943)</b>	<b>(404 142)</b>
<b>8. Net result per shareholders of the Company</b>	<b>(145 089)</b>	<b>12 876</b>
a) net profit per Company's shareholders	-	<b>12 876</b>
b) net loss per Company's shareholders	<b>145 089</b>	-
b) deductions from profit	-	-
<b>II. Equity capital at the end of the period (Closing balance)</b>	<b>1 399</b>	<b>(28 963)</b>
<b>III. Equity capital after taking into consideration the proposed profit distribution (loss coverage)</b>	-	-

**Consolidated cash flow ( indirect method)**

	2 005	2 004
A. Net cash flows from operating activity - indirect method		
I. Net profit (loss) per shareholders of the Company	(145 089)	12 876
<b>II. Corrections in total:</b>	<b>91 146</b>	<b>(22 636)</b>
1. Share in net profits (losses) of subordinated entities evaluated via the method of ownership rights	-	-
2. Depreciation	2 376	6 252
3. Profits (losses) by virtue of foreign exchange rate differences		12 023
4. Interests and shares in profits (dividends)	2 436	164 895
5. Profit (loss) from investment activity	5 615	(25)
6. Change of the state of reserves	(584)	(28 700)
7. Change of the state of inventories	16 058	22 774
8. State of the state of receivables.	33 458	76 149
9. Change of the state of short-term liabilities, with the exception of loans and credits	31 125	(243 899)
10. Change of the state of interperiod settlements	(76 868)	(32 105)
11. Other corrections	77 530	-
III. Net cash flows from operating activity (I + II)	(53 943)	(9 760)



	2 005	2 004
<b>B. Net cash flows from investment activity.</b>		
<b>I. Proceeds</b>	<b>101 747</b>	<b>48 945</b>
1. Sale of intangible and tangible fixed assets	3 729	2 517
2. Sale of investment in the real estate and intangible assets	13 200	-
3. Sale of financial assets, including:	7 456	46 428
a) in related entities	2 204	11 193
- sale of financial assets	-	9 050
- dividends and shares in profits	2 204	1 632
- repayment of granted long-term loans	-	511
- interests	-	-
- other proceeds from financial assets	-	-
b) in other entities	5 252	35 235
- sale of financial assets	511	5 500
- dividends and shares in profits	1	5
- repayment of granted long-term loans	158	28 530
- interests	4 334	-
- other proceeds from financial assets	248	1 200
4. Other investment proceeds	77 362	-
<b>II. Expenses</b>	<b>1 967</b>	<b>550</b>
1. Purchase of intangible assets and tangible fixed assets	1 777	383
2. Investments in the real estates and intangible assets	-	-
3. For financial assets, including:	190	167
a) in related entities	190	152
- acquisition of financial assets	-	152
- granted long-term loans	-	-
b) in other entities	-	15
- acquisition of financial assets	-	15
- granted long-term loans	-	-
4. Other investing expenses	-	-
<b>III. Net cash flows from investment activity (I - II)</b>	<b>99 780</b>	<b>48 395</b>

	2005	2004
<b>C. Cash flows from financial activity</b>		
<b>I. Proceeds</b>	-	-
1. Net proceeds from the shares issuing (issuing of shares) and other capital instruments and capital surcharges	-	-
2. Credits and loans	-	-
3. Issuance of indebted securities	-	-
4. Other financial proceeds	-	-
<b>II. Expenses</b>	<b>47 857</b>	<b>44 033</b>
1. Acquisition of own shares	23	-
2. Dividends and other payments in favour of owners	-	-
3. Expenses by virtue of profit distribution other than	-	-
4. Repayments of credits and loans	38 638	30 373
5. Redemption of debted securities	-	-
6. By virtue of other financial assets	-	-
7. Payments of liabilities by virtue of financial leasing	221	-
8. Interests	8 975	13 660
9. Other financial expenses	-	-
<b>III. Net cash flows from financial activity (I - II)</b>	<b>(47 857)</b>	<b>(44 033)</b>
<b>D. Net cash flows (A.III+B.III+C.III)</b>	<b>(2 020)</b>	<b>(5 398)</b>
<b>E. Balance sheet change of the state of cash, including:</b>	<b>(2 020)</b>	<b>(5 398)</b>
- change of the state of cash by virtue of foreign exchange rate differences	124	34
<b>F. Cash at the beginning of the period</b>	<b>6 678</b>	<b>12 076</b>
<b>G. Cash at the end of the period (D+F), including</b>	<b>4 658</b>	<b>6 678</b>
- with a limited disposing capacity	-	-

## Explanatory notes to consolidated balance sheet

## Note 1A

<b>TANGIBLE FIXED ASSETS</b>	<b>2005</b>	<b>2004</b>
a) tangible assets, of which:	<b>48 225</b>	<b>26 147</b>
- land (including the right of perpetual usufruct of land)	<b>6 028</b>	<b>4 640</b>
- buildings, premises and land and water engineering structures	<b>37 189</b>	<b>19 173</b>
- machinery and technical equipment	<b>3 767</b>	<b>1 947</b>
- means of transport	<b>1 023</b>	<b>144</b>
- other tangible assets	<b>218</b>	<b>243</b>
b) tangible assets in progress	<b>844</b>	<b>93</b>
c) prepaid tangible assets in progress	-	-
<b>Total tangible fixed assets</b>	<b>49 069</b>	<b>26 240</b>

## Note 1B

<b>CHANGES IN TANGIBLE FIXED ASSETS (by category)</b>
<i>see page</i>

## Note 1C

<b>BALANCE SHEET TANGIBLE FIXED ASSETS (BY OWNERSHIP)</b>	<b>2005</b>	<b>2004</b>
a) owned	<b>48 050</b>	<b>24 613</b>
b) used under leasing, rent, tenancy or similar contract, including lease contract, of which:	<b>175</b>	<b>1 534</b>
- passenger's car leasing	<b>175</b>	-
<b>Total balance sheet tangible fixed assets</b>	<b>48 225</b>	<b>26 147</b>

## Note 1D

<b>TANGIBLE FIXED ASSETS SHOWN OFF-BALANCE SHEET</b>	<b>2 005</b>	<b>2004</b>
used under leasing, rent, tenancy or similar contract, including lease contract, of which:	<b>773</b>	-
- value of land in perpetual usufruct	-	-
- by virtue of operating lease	<b>773</b>	-
<b>Total off-balance sheet tangible fixed assets</b>	<b>773</b>	-

## Note 1B

<b>CHANGES IN TANGIBLE FIXED ASSETS - by category</b>						
<b>SPECIFICATION</b>	<b>-land (inclusive of right perpetual usufruct of land)</b>	<b>- buildings, premises and land and water engineering structure</b>	<b>-machinery and technical equipment</b>	<b>- means of transport</b>	<b>- other tangible assets</b>	<b>Total tangible fixed assets</b>
a) gross value of tangible fixed assets at the beginning of period	4 784	27 453	19 647	1 096	1 489	54 469
b) additions of which)	1 504	19 240	2 948	1 090	58	24 840
- purchase	26	446	324	100	9	905
- accepted from investment	-	-	-	-	-	-
- donations	-	-	-	-	-	-
- widening of the Capital Group	-	-	-	-	-	-
- other	1 478	18 794	2 624	990	49	23 935
c. Reductions, of which :	-	4	1 730	197	1	1 932
- sale	-	4	1 154	-	-	1 158
- liquidation	-	-	41	197	1	239
- donation	-	-	15	-	-	15
- changes due to transferring to i.a.s./i.f.r.s.	-	-	-	-	-	-
- other	-	-	520	-	-	520
d. Gross value of tangible fixed assets at the end of period	6 288	46 689	20 865	1 989	1 546	77 377
e. Accumulated depreciation (amortisation) at the beginning of period	144	8 280	17 700	952	1 246	28 322
f. Depreciation for the period (of which)	116	1 220	(602)	14	82	830
- current amortisation	116	1 222	664	167	82	2 251
- other	-	-	(65)	-	-	(65)
- disposal, liquidation and donations of tangible fixed assets and other deductions	-	(2)	(1 201)	(153)	-	(1 356)
g. Accumulated depreciation (amortisation) at the end of period	260	9 500	17 098	966	1 328	29 152
h. Write-downs due to permanent loss of value at the beginning of period	-	-	-	-	-	-
- additions	-	-	-	-	-	-
- reductions	-	-	-	-	-	-
i. Write-downs due to permanent loss of value at the end of period	-	-	-	-	-	-
j. Net value of tangible fixed assets at the end of period	6 028	37 189	3 767	1 023	218	48 225

**Note 2A**

<b>INTANGIBLE FIXED ASSETS</b>	<b>2005</b>	<b>2004</b>
a. Costs of finished research and development work	-	-
b) goodwill	-	-
c) concessions, patents, licenses and similar assets, of which:	<b>209</b>	<b>206</b>
- computer software	<b>192</b>	<b>190</b>
d) other intangible assets	<b>3</b>	<b>4</b>
e) prepaid intangible assets	-	-
<b>Total intangible assets</b>	<b>212</b>	<b>210</b>

**Note 2B**

<b>CHANGES IN INTANGIBLE ASSETS - by category</b>		
<i>see page</i>		

**Note 2C**

<b>INTANGIBLE ASSETS - by ownership</b>	<b>2005</b>	<b>2004</b>
a) owned	<b>212</b>	<b>210</b>
b) used under leasing, rent, tenancy or similar contract, including lease contract, of which:	-	-
	-	-
<b>Total intangible assets</b>	<b>212</b>	<b>210</b>

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CHANGES IN INTANGIBLE ASSETS - by category							
	a	b	c		d	e	
	costs of finished research and development work	goodwill	concessions, patents, licences and similar assets purchased, of which:		other intangible assets	prepaid intangible assets	Total intangible assets
				computer software			
a). Gross value of intangible assets at the beginning of period	-	-	1 681	998	970	-	2 651
b) additions, of which:	-	-	127	114	-	-	127
- purchase	-	-	122	109	-	-	122
- accepted from investment	-	-	-	-	-	-	-
- Capital Group widening	-	-	-	-	-	-	-
- other	-	-	5	5	-	-	5
c) reductions, of which:	-	-	-	-	-	-	-
- sale	-	-	-	-	-	-	-
- liquidation	-	-	-	-	-	-	-
- Capital Group diminishing	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-
d) gross value of intangible assets at the end of period	-	-	1 808	1 112	970	-	2 778
e) accumulated amortisation at the beginning of period	-	-	1 475	808	966	-	2 441
f. Amortisation for the period, of which:	-	-	124	112	1	-	125
- current amortisation	-	-	124	112	1	-	125
- other	-	-	-	-	-	-	-
- sale of intangible fixed assets	-	-	-	-	-	-	-
g) accumulated amortisation at the end of period	-	-	1 599	920	967	-	2 566
h) write-downs due to permanent loss of value at the beginning of period	-	-	-	-	-	-	-
- additions	-	-	-	-	-	-	-
- reductions	-	-	-	-	-	-	-
i) write-downs due to permanent loss of value at the end of period	-	-	-	-	-	-	-
j) net value of intangible assets at the end of period	-	-	209	192	3	-	212

**Note 3A**

<b>LONG-TERM RECEIVABLES</b>	<b>2005</b>	<b>2004</b>
a) from related entities, of which:	-	<b>50 736</b>
- from dubsidiary entities (by virtue of)	-	<b>50 736</b>
- restructuring agreement	-	<b>49 858</b>
- other	-	<b>878</b>
- from associated entites ( by virtue of)	-	-
- supplies and services	-	-
- other	-	-
- from dominat entity (by virtu of)	-	-
- supplies and services	-	-
- other	-	-
b) from other entities (by virtue of)	<b>509</b>	<b>64</b>
- deposits	-	<b>64</b>
- other	<b>509</b>	-
<b>Net long-term receivables</b>	<b>509</b>	<b>50 800</b>
c) allowances updating receivables	-	<b>9 638</b>
<b>Gross long-term receivables</b>	<b>509</b>	<b>60 438</b>

**Note 3B**

<b>CHANGES IN LONG-TERM RECEIVABLES (by genre)</b>	<b>2005</b>	<b>2004</b>
a. Balance at the beginning of period	50 800	55 144
b. Additions (in virtue of)	-	950
- unpaid shares	-	950
- other	-	-
c. Reductions (in virtue of)	50 291	5 294
- interests on loans	-	425
- cession of liabilities	-	2 006
- setting up of write-off	-	950
- restructuring agreement	49 858	1 896
- deposits	433	17
<b>Long-term receivables at the end of period</b>	<b>509</b>	<b>50 800</b>

**Note 3C**

<b>CHANGES IN ALLOWANCES FOR LONG-TERM RECEIVABLES</b>	<b>2005</b>	<b>2004</b>
a. Balance at the beginning of period	9 638	13 193
b. Additions (in virtue of)	-	950
- not paid-up shares	-	950
- rate differences	-	-
- other	-	-
c. Exercised (in virtue of)	9 638	4 505
- cession of liabilities	1 354	1 146
- interests on loans	-	3 359
- restructuring agreement	7 334	-
- other	950	-
d. Dissolution (in virtue of)	-	-
- trade accounts receivables	-	-
- other	-	-
<b>Allowances for long-term receivables at the end of period</b>	<b>-</b>	<b>9 638</b>

**Note 3D**

<b>LONG-TERM RECEIVABLES - by currency</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency (zloty)	-	50 736
b) in foreign currencies (in currencies and as restated in zloty)	509	64
b1. Unit/currency in thousand USD	156	22
in zloty	509	64
b2. Unit/currency in thousand EUR	-	-
in zloty	-	-
b3. Unit/currency in thousand GBP	-	-
in zloty	-	-
b4. Other currencies in zloty	-	-
<b>Total long-term receivables</b>	<b>509</b>	<b>50 800</b>



**Note 4A**

<b>CHANGES IN REAL ESTATE (BY CATEGORY)</b>	<b>2005</b>	<b>2004</b>
a. balance at the beginning of period including:	<b>36 658</b>	<b>36 658</b>
b. Addition ( in virtue of )	<b>46 945</b>	-
- reclassification	-	-
- purchase	-	-
- taking over from Stalexport Centrostal W-wa merger	<b>46 945</b>	-
c. Reduction (in virtue of )	<b>26 658</b>	-
- sale	<b>20 643</b>	-
- updating write -off for real estate of Kościuszko	<b>6 015</b>	-
- other	-	-
<b>Balance at the end of period</b>	<b>56 945</b>	<b>36 658</b>

**Note 4B**

<b>CHANGES IN INTANGIBLE ASSETS (BY CATEGORY)</b>	<b>2005</b>	<b>2004</b>
a. balance at the beginning of period	-	-
b. Addition ( in virtue of )	-	-
- reclassification	-	-
- other	-	-
c. Reduction (in virtue of )	-	-
- reclassification	-	-
- other	-	-
<b>Balance at the end of period</b>	-	-

**Note 4C**

<b>LONG-TERM FINANCIAL ASSETS</b>	<b>2005</b>	<b>2004</b>
a. in subsidiary and interrelated entities which are not subject to consolidation	<b>227 680</b>	<b>89 757</b>
- shares	<b>227 680</b>	<b>89 757</b>
- debt securities	-	-
- other securities (by type)	-	-
- loans granted	-	-
- other long-term financial assets ( by type)	-	-
b. in subsidiary, interrelated and affiliated entities evaluated via the method of ownership rights	<b>32</b>	<b>32</b>
- shares	<b>32</b>	<b>32</b>
- debt securities	-	-
- other securities (by type)	-	-
- loans granted	-	-
- other long-term financial assets ( by type)	-	-
c. in other entities	<b>1 807</b>	<b>1 808</b>
- shares	<b>1 807</b>	<b>1 808</b>
- debt securities	-	-
- other securities (by type)	-	-
- loans granted	-	-
- other long-term financial assets ( by type)	-	-
<b>Long-term financial assets in total</b>	<b>229 519</b>	<b>91 597</b>

**Note 4D**

<b>CHANGE IN BALANCE OF LONG-TERM FINANCIAL ASSETS (ACC. TO GENRE GROUPS)</b>	<b>2005</b>	<b>2004</b>
a. state at the beginning of the period	<b>91 597</b>	<b>117 047</b>
b. increase (by virtue of)	<b>155 356</b>	<b>15 938</b>
- shares and stocks	<b>1 704</b>	<b>15 938</b>
- revaluation of shares of SAM and Stalexport Transroute	<b>153 652</b>	
- other		
c. decrease (by virtue of)	<b>17 434</b>	<b>41 388</b>
- shares and stocks	<b>17 419</b>	<b>41 388</b>
- other long-term financial assets	-	-
-updating write-offs	-	-
- reclassification	<b>15</b>	
- other	-	-
<b>State at the end of the period</b>	<b>229 519</b>	<b>91 597</b>

## Note 4E

SHARES IN SUBORDINATED COMPANIES												
No	a	b	c	d	e	f	g	h	i	j	k	l
	Name of the company and its legal status	location	profile of company	Nature or affiliation (subsidiary, mutually controlled, associated company incl. disclosure of direct and indirect relationships)	applied method of consolidation /equity valuation or indication that the company is not subject to consolidation	date of taking-over control /mutual control / substantial influence	value of shares at purchase price	Total revaluation write-downs	balance sheet value of shares owned	% of the ownership in share capital	share in total number of votes at the GM	other basis of control/ mutual control / substantial influence other than specified in items j) or k)
1.	Stalexport Autostarda Małopolska S. A.	Mysłowice	Construction and operating on A4 motorway section Kraków-Katowice	subsidiary	full	1998	29 553	134 197	163 750	100,00%	100,00%	
2.	Stalexport Autostrada Dolnośląska S. A.	Katowice	Construction and operating on motorway section Katowice-Wrocław	subsidiary	full	1997	28 075	(7 547)	20 528	100,00%	100,00%	
3.	Petrostal S. A.	Warszawa	Steel products trading	subsidiary	full	2005	1 727	(1 727)		100,00%	100,00%	
4.	Stalexport Metalzbyt Białystok Sp. z o.o.	Białystok	Steel products trading	subsidiary	full	2005	1 287	(1 287)		98,76%	98,76%	
5.	Stalexport Serwis Centrum S. A.	Bełchatów	Steel products trading	subsidiary	full	2005	4 723	(3 223)	1 500	95,14%	95,14%	
6.	Stalexport Zaptor S. A.	Olsztyn	Steel products trading	subsidiary	not consolidated	2002	173	(173)		98,69%	98,69%	
7.	Stalexport Wielkopolska Sp. z o.o.o	Komorniki	Steel products trading	subsidiary	full	1990	12 073	(12 073)		97,96%	97,96%	
8.	Stalexport Serwis Centrum S. A.	Katowice	Steel products trading	subsidiary	full	1992	22 214	(600)	21 614	97,78%	97,78%	
9.	Stalexport Centrostal S. A.	Lublin	Steel products trading	subsidiary	full	1992	501		501	66,00%	66,00%	
10.	Stalexport Transroute Autostrada S. A.	Mysłowice	Activity connected with operating A4 motorway section Kraków-Katowice	subsidiary	full	1998	275	19 455	19 730	55,00%	55,00%	

Contd. Note 4E												
SHARES IN SUBORDINATED COMPANIES												
No	a	b	c	d	e	f	g	h	i	j	k	l
	Name of the company and its legal status	location	profile of company	Nature of affiliation (subsidiary, mutually controlled, associated company incl. disclosure of direct and indirect relationships)	applied method of consolidation /equity valuation or indication that the company is not subject to consolidation	date of taking-over control /mutual control / substantial influence	value of shares at purchase price	Total revaluation write-downs	balance sheet value of shares owned	% of the ownership in share capital	share in total number of votes at the GM	other basis of control/ mutual control / substantial influence other than specified in items j) or k)
11.	Biuro Centrum Sp. z o.o.	Katowice	Administration of the building at 29 Mickiewicza Street	associated	method of ownership right	1 994,00	32		32	40,63%	40,63%	
12.	Centrostal Profil Sp. z o.o.	Kraków	Production, processing, sale of steel products	associated	not-consolidated	2005	14 548	(14 548)		49,15%	49,15%	
13.	Invest Centrostal Sp. z o.o.	Warszawa	General construction	associated	not-consolidated	2005	297	(297)		42,00%	42,00%	
14.	Stalexport Autoroute S.A. r.l.	Luksemburg	Servicing motorway projects	zależna	not-consolidated	2005	57		57	100,00%	100,00%	
	TOTAL:						115 535	112 177	227 712			

## Note 4F

SHARES IN OTHER ENTITIES										
No	a	b	c	d	e		f	g	h	i
	Name of the company and its legal status	location	profile of company	balance sheet value of shares owned	equity capital of the entity, including:		percentage of owned share capital	share in general number of votes at the general meeting	shares not paid-up by the company	dividends received or receivable for the last year
					share capital					
1.	Atlantico Trans EX Sp. z o.o.	Katowice	Transport nad spedition				12,12%	12,12%		
2.	Walcownia Rur Jedność Sp. z o.o.	Siemianowice	Production of steel pipes				7,26%	7,26%		
3.	Beskidzki Dom Maklerski S. A.	Bielsko-Biała	Turnover of securities	1 171			5,10%	5,10%		
4.	Other			636						
	<b>Total</b>			<b>1 807</b>			-	-		

**Note 4G**

<b>SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS (CURRENCY STRUCTURE)</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency	228 825	90 961
b) in foreign currencies (acc. to currencies and after calculating into zloty)	694	636
b1. unit/currency in thousand USD	117	128
in zloty	383	383
b2. unit/currency in thousand EUR	81	62
in zloty	311	253
b3. unit/currency/ thousand GBP	-	-
in zloty	-	-
b4. other currencies in zloty	-	-
<b>Securities, shares and other long-term financial assets in total</b>	<b>229 519</b>	<b>91 597</b>

**Note 4H**

<b>GRANTED LONG-TERM LOANS ( BY CURRENCY STRUCTURE)</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency	-	-
b) in foreign currencies (acc. to currencies and after calculating into zloty)	-	-
b1. unit/currency in thousand USD	-	-
in zloty	-	-
b2. unit/currency in thousand EUR	-	-
in zloty	-	-
b3. unit/currency/ thousand /GBP	-	-
in zloty	-	-
b4. other currencies in zloty	-	-
<b>Total granted long-term loans</b>	<b>-</b>	<b>-</b>

**Note 4I**

<b>OTHER LONG-TERM INVESTMENTS (ACCORDING TO GENRE)</b>	<b>2005</b>	<b>2004</b>
- surcharges to capital	<b>200</b>	<b>200</b>
<b>Other long-term investments</b>	<b>200</b>	<b>200</b>

**Note 4J**

<b>CHANGE IN THE STATE OF OTHER LONG-TERM INVESTMENTS (ACCORDING TO GENRE GROUPS)</b>	<b>2005</b>	<b>2004</b>
a. state at the beginning of the period	<b>200</b>	<b>200</b>
b. increase (by virtue of)	-	-
- other		
c. Decrease (by virtue of)	-	-
- other		
<b>d. state at the end of the period</b>	<b>200</b>	<b>200</b>

**Note 4K**

<b>OTHER LONG-TERM INVESTMENTS (CURRENCY STRUCTURE)</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency	<b>200</b>	<b>200</b>
b) in foreign currencies (acc.to currencies and after calculating into zloty)	-	-
b1. unit/currency in thousand USD		
in zloty		
b2. unit/currency in thousand EUR		
in zloty		
b3. unit/currency: thousand GBP		
in zloty		
b4. Other currencies in zloty		
<b>Other long-term investments in total</b>	<b>200</b>	<b>200</b>



**Note 5**

<b>CHANGE IN ASSETS AVAILABLE FOR SALE</b>	<b>2005</b>	<b>2004</b>
a. state at the beginning of the period	<b>130 211</b>	<b>2 199</b>
b. increase (by virtue of)	<b>15</b>	<b>128 012</b>
- fixed assets of A4 motorway	-	<b>128 012</b>
- revaluation of assets for sale	-	-
- other	<b>15</b>	-
c. Decrease (by virtue of)	<b>128 027</b>	-
- sale	<b>128 027</b>	-
- other	-	-
<b>d. state at the end of the period</b>	<b>2 199</b>	<b>130 211</b>

## Note 6

CHANGES IN BALANCE OF ASSETS BY VIRTUE OF DEFERRED INCOME TAX	2005	2004
1. Balance of assets by virtue of deferred income tax at the beginning of period, of which:	-	-
a) assigned to financial results	-	-
b) assigned to equity	-	-
c) assigned to goodwill	-	-
2. Additions	4 101	-
a) assigned to financial results for the period due to negative timing differences:	-	-
- remuneration by virtue of task work contract not paid on the balance sheet date	-	-
- penal interests not paid on balance sheet date	-	-
-other	-	-
b) assigned to financial results for the period due to taxation loss:	-	-
-other	-	-
c) assigned to equity for the period due to negative timing differences:	-	-
- liabilities by virtue of capital (financial leasing)	-	-
- by virtue of transferring to i.a.s./i.r.f.s.	-	-
d) assigned to equity for the period due to taxation loss:	-	-
e) assigned to goodwill due to negative timing differences:	4 101	-
- tax taken over due to the merger	4 101	-
- other	-	-
3. Reductions	4 101	-
a) assigned to financial results for the period due to negative timing differences:	-	-
- interests payment	-	-
- other	-	-
b) assigned to financial results for the period due to taxation loss:	4 101	-
- dissolving accepted allowance	4 101	-
c) assigned to equity for the period due to negative timing differences:	-	-
d) assigned to equity for the period due to taxation loss:	-	-
e) assigned to goodwill due to negative timing differences:	-	-
4. Total deferred income tax at the end of period, of which:	-	-
a) assigned to financial results	(4 101)	-
b) assigned to equity	-	-
c) assigned to goodwill	4 101	-

**Note 7**

<b>LONG-TERM DEFERRED EXPENSES</b>	<b>2005</b>	<b>2004</b>
a. deferred expenses of which:	-	-
	-	
b) other deferred expenses, of which:	-	-
- other		
<b>Total other deferred expenses</b>	-	-

**Note 8**

<b>INVENTORIES</b>	<b>2005</b>	<b>2004</b>
a. Materials	3 327	1 971
b. Semi-finished products and products in progress	-	-
c. Finished products	1 139	-
d. Merchandise	38 117	55 578
e) prepaid supplies	1 227	2 315
<b>Total inventories</b>	<b>43 810</b>	<b>59 864</b>

**Note 9A**

<b>CURRENT RECEIVABLES</b>	<b>2005</b>	<b>2004</b>
a) from affiliated companies	51 318	12 930
- trade accounts receivable, with maturity of:	51 318	12 875
- less than 12 months	51 318	11 875
- over 12 months	-	1 000
- other	-	55
- receivables in litigation	-	-
b) from other companies	79 496	101 051
- trade accounts receivable, with maturity of:	51 816	48 761
- less than 12 months	47 762	44 184
- over 12 months	4 054	4 577
- by virtue of taxes, subsidies, tariffs, social and health security, or other benefits receivable	18 869	22 794
- other	8 811	29 496
- receivables in litigation	-	-
Total net current receivables	130 814	113 981
c. Receivables updating allowances	333 006	186 912
<b>Total gross current receivables</b>	<b>463 820</b>	<b>300 893</b>

**Note 9B**

<b>CHANGES IN BALANCE OF ALLOWANCE FOR CURRENT RECEIVABLES</b>	<b>2005</b>	<b>2004</b>
a. Balance at the beginning of period of which:	<b>186 912</b>	<b>252 882</b>
b. Additions of which:	<b>167 469</b>	<b>9 565</b>
- by virtue of trade account receivable	<b>33 420</b>	<b>4 685</b>
- guarantees and interests	<b>2 088</b>	<b>2 411</b>
- other	<b>131 961</b>	<b>2 469</b>
c. Reduction of which:	<b>21 375</b>	<b>75 535</b>
- by virtue of trade account receivable	<b>20 216</b>	<b>49 228</b>
- guarantees and interests	<b>524</b>	<b>26 297</b>
- other	<b>635</b>	<b>10</b>
<b>d. Balance of allowances for current receivables at the end of period (of which)</b>	<b>333 006</b>	<b>186 912</b>

**Note 9C**

<b>GROSS CURRENT RECEIVABLES - by currency</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency	<b>450 200</b>	<b>285 954</b>
b) in foreign currencies (acc to currencies and as restated in zlotys)	<b>13 620</b>	<b>14 939</b>
b1. Unit / currency in thousand USD	<b>2 570</b>	<b>2 424</b>
in zlotys	<b>8 334</b>	<b>7 397</b>
b2. Unit / currency in thousand EUR	<b>1 370</b>	<b>1 849</b>
in zlotys	<b>5 286</b>	<b>7 542</b>
b3. Unit /currency in GBP		
in zlotys		
b4. Other currencies in zlotys	-	
<b>Total current receivables</b>	<b>463 820</b>	<b>300 893</b>

**Note 9D**

<b>LONG-TERM AND SHORT-TERM CONTESTED AND OVERDUE DEBTS</b>	<b>2005</b>	<b>2004</b>
a. Contested and overdue debts by virtue of:	<b>121 483</b>	<b>67 198</b>
- trade account receivables in arrears	<b>94 275</b>	<b>67 198</b>
- other	<b>27 208</b>	-
<b>Long-term and short-term contested and overdue debts in total, including:</b>	<b>121 483</b>	<b>67 198</b>
- from which updated write offs were not established	<b>16 005</b>	<b>19 732</b>
- not indicated as " receivables claimed by means of an action of law "	<b>58 338</b>	-

**Note 10A**

<b>SHORT-TERM FINANCIAL ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>a. In subsidiaries</b>	-	-
- shares	-	-
- receivables in virtue of dividends and shares in profits	-	-
- debt securities	-	-
- other securities ( by type)	-	-
- loans granted	-	-
- other short-term financial assets (by type)	-	-
- interests on loans	-	-
<b>c. In associated companies</b>	-	-
- shares	-	-
- receivables in virtue of dividends and shares in profits	-	-
- debt securities	-	-
- other securities ( by type)	-	-
- loans granted	-	-
- other short-term financial assets (by type)	-	-
- interests on loans	-	-
<b>d. In dominant entity</b>	-	-
- shares	-	-
- receivables in virtue of dividends and shares in profits	-	-
- debt securities	-	-
- other securities ( by type)	-	-
- loans granted	-	-
- other short-term financial assets (by type)	-	-
- interests on loans	-	-
<b>d. In other entities</b>	<b>235</b>	<b>19</b>
- shares	-	<b>19</b>
- receivables in virtue of dividends and shares in profits	-	-
- debt securities	-	-
- other securities ( by type)	-	-
- other	-	-
- loans granted	<b>235</b>	-
- other short-term financial assets (by type)	-	-
- interests on loans	-	-
<b>Total short-term investments</b>	<b>235</b>	<b>19</b>

**Note 10B**

<b>SECURITIES, SHARES AND OTHER SHORT-TERM FINANCIAL ASSETS (BY CURRENCY)</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency (zlotys)	-	19
b) in foreign currencies (and as restated in zlotys)	-	-
b1. Unit / currency in thousand USD in zlotys		
b2. Unit / currency in thousand EUR in zlotys		
b3. Unit /currency in thousand GBP in zlotys		
b4. Other currencies in zlotys		
<b>Total securities, shares and other short-term financial assets</b>	-	19

**Note 10C**

<b>GRANTED SHORT-TERM LOANS (BY CURRENCY)</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency (zlotys)	235	-
b) in foreign currencies (and as restated in zlotys)	-	-
b1. Unit / currency in thousand USD in zlotys		
b2. Unit / currency in thousand EUR in zlotys		
b3. Unit /currency in thousand GBP in zlotys		
b4. Other currencies in zlotys		
<b>Total granted short-term loans</b>	235	-

**Note 10D**

<b>OTHER SHORT-TERM INVESTMENTS (BY CATEGORY)</b>	<b>2005</b>	<b>2004</b>
<b>Total other short-term investments</b>	-	-

**Note 10E**

<b>OTHER SHORT-TERM INVESTMENTS (BY CURRENCY)</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency (zlotys)	-	-
b) in foreign currencies (and as restated in zlotys)	-	-
b1. Unit / currency in thousand USD in zlotys		
b2. Unit / currency in thousand EUR in zlotys		
b3. Unit /currency in GBP in zlotys		
b4. Other currencies in zlotys		
<b>Total other short-term investments</b>	-	-

**Note 11A**

<b>CASH AND CASH EQUIVALENTS</b>	<b>2005</b>	<b>2004</b>
- cash at bank and on hand	<b>4 568</b>	<b>6 673</b>
- cash equivalents	<b>90</b>	<b>5</b>
<b>Total cash and cash equivalents</b>	<b>4 658</b>	<b>6 678</b>

**Note 11B**

<b>CASH AND CASH EQUIVALENTS (BY CURRENCY)</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency (zlotys)	<b>3 543</b>	<b>5 863</b>
b) in foreign currencies (and as restated in zlotys)	<b>1 115</b>	<b>815</b>
b1. Unit / currency in thousand USD	<b>196</b>	<b>143</b>
in zlotys	<b>641</b>	<b>427</b>
b2. Unit / currency in thousand EUR	<b>123</b>	<b>95</b>
in zlotys	<b>474</b>	<b>388</b>
b3. Unit /currency in thousand GBP		
in zlotys		
b4. Other currencies in zlotys		
<b>Total cash and cash equivalents</b>	<b>4 658</b>	<b>6 678</b>

**Note 12**

<b>SHORT-TERM DEFERRED EXPENSES</b>	<b>2005</b>	<b>2004</b>
a) deferred expenses, of which:	<b>388</b>	<b>1 041</b>
- car insurance and subscription	<b>57</b>	<b>244</b>
- costs of shares issue	<b>207</b>	<b>761</b>
- costs of 2005		<b>33</b>
- other	<b>124</b>	<b>3</b>
b) other deferred expenses, of which:	<b>21</b>	<b>18</b>
- real estate evaluation	<b>21</b>	<b>18</b>
- general overhauls		
- costs of the organisation of the company		
- other		
<b>Total short-term deferred expenses</b>	<b>409</b>	<b>1 059</b>



**Note 13**

<b>EQUITY CAPITAL (STRUCTURE)</b>								
Series/issue	Type of shares	Type of shares preference	Type of shares restriction	Number of shares	Value of series/issue according to the nominal value	Terms of acquisition	Date of registration	Right to the dividend (since)
				8 341 030	16 682		05.11.93	05.11.93
				492 796	986		29.08.94	29.08.94
				4 000 000	8 000		10.04.98	01.01.97
				94 928 197	189 856		12.08.03	01.01.03
<b>Total number of shares</b>				<b>107 762 023</b>				
<b>Total equity capital</b>					<b>215 524</b>			
<b>Nominal value of one share =.2,00 zloty</b>								

**Note 14A**

<b>OWN SHARES IN TREASURY</b>				
Number	Value at purchase price	Balance sheet value	Purchase purpose	Destination
11 286		23		transferred to minority shareholders of Stalexport Centrostal Warszawa S. A.
<b>11 286</b>		<b>23</b>		-

**Note 14B**

<b>ISSUER'S SHARES OWNED BY THE SUBORDINATED ENTITIES</b>			
Name of a company, location	Number	Value at purchase price	Balance sheet value
<b>Total</b>	<b>0</b>	<b>0,00</b>	<b>0,00</b>

**Note 15**

<b>RESERVE CAPITAL</b>	<b>2005</b>	<b>2004</b>
a. sale of shares above the nominal value		
b) capital established by law		<b>39 678</b>
c) capital established due to statutory/contractual provisions, in excess of the (minimum) value required by law		
d. From surcharges of the shareholders		
e. Other	<b>35</b>	<b>2 665</b>
<b>Total reserve capital</b>	<b>35</b>	<b>42 343</b>

**Note 16**

<b>REVALUATION CAPITAL</b>	<b>2005</b>	<b>2004</b>
a. Revaluation of tangible assets	<b>8 421</b>	<b>8 457</b>
b) gains / losses on valuation of financial instruments, of which:		
- on valuation of hedging instruments		
c) deferred income tax		
d) foreign exchange differences on foreign divisions		
e. Other (by type )	<b>124 458</b>	-
- revaluation of financial assets	<b>124 458</b>	
- other		
<b>Total revaluation capital</b>	<b>132 879</b>	<b>8 457</b>

**Note 17**

<b>OTHER RESERVE CAPITAL (BY APPROPRIATION)</b>	<b>2005</b>	<b>2004</b>
a. Investments		
b. Loss coverage		
c. Re-assessment of fixed assets		
d. partial execution of the arrangement commitments conversion		<b>74 100</b>
e. Partial execution of the arrangement commitments - instalments	<b>51 016</b>	<b>21 879</b>
f. Other		
<b>Total other reserve capital</b>	<b>51 016</b>	<b>95 979</b>

**Note 18**

<b>NET PROFIT WRITE OFFS DURING THE FINANCIAL YEAR - specifically</b>	<b>2005</b>	<b>2004</b>
-		
-		
-		
<b>Total net profit write-offs during the financial year</b>	-	-

**Note 19A**

<b>LONG-TERM LIABILITIES</b>	<b>2005</b>	<b>2004</b>
<b>a. Towards subsidiaries</b>	<b>5 664</b>	<b>6 697</b>
- credits and loans		
- issue of debt securities		
- other financial liabilities, of which:	-	
- financial lease agreements		
- other (by type)	<b>5 664</b>	<b>6 697</b>
- arrangement liabilities	<b>5 664</b>	<b>6 697</b>
- other		
<b>b. Towards associated entities</b>	-	-
- credits and loans		
- issue of debt securities		
- other financial liabilities, of which:	-	-
- financial lease agreements		
- other (by type)	-	-
- other		
<b>c. Towards dominant entity</b>	-	-
- credits and loans		
- issue of debt securities		
- other financial liabilities, of which:	-	-
- financial lease agreements		
- other (by type)	-	-
- by virtue of trade account receivable		
- other		
<b>d. Towards other entities</b>	<b>364 879</b>	<b>290 603</b>
- credits and loans	<b>78 040</b>	<b>100 110</b>
- issue of debt securities		
- other financial liabilities, of which:	-	-
- interests		
- other		
- financial lease agreements	<b>995</b>	
- other (by type)	<b>285 844</b>	<b>190 493</b>
- arrangement liabilities	<b>88 681</b>	<b>117 901</b>
- other	<b>197 163</b>	<b>72 592</b>
<b>Total long-term liabilities</b>	<b>370 543</b>	<b>297 300</b>

**Note 19B**

<b>LONG-TERM LIABILITIES (BY CURRENCY )</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency (zlotys)	<b>370 543</b>	<b>297 300</b>
b) in foreign currencies (acc to currencies and as restated in zlotys)	-	-
b1. Unit / currency in thousand USD		
in zlotys		
b2. Unit / currency in thousand EUR		
in zlotys		
b3. Unit /currency in thousand GBP		
in zlotys		
b4. Other currencies in zlotys		
<b>Total long-term liabilities</b>	<b>370 543</b>	<b>297 300</b>

## Note 19C

LONG-TERM LIABILITIES BY VIRTUE OF CREDITS AND LOANS									
Name (company) of the entity, legal status	Seat	Amount of credit/loan acc to the agreement		Amount of credit /loan to be repaid		Interest conditions	Date of redemption	Security	Other
		zloty	currency	zloty	currency				
Bank Handlowy S. A.	Katowice	7 489		7 489		WIBOR+margin	according to the restructuring agreement	cash inflows on to account, credit on current account, mortgage	
Bank Handlowy S. A.	Katowice	14 850		14 850		WIBOR+margin	according to the restructuring agreement	credit on foreign currency account, mortgage	
Bank Handlowy S. A.	Katowice	14 740		14 740		WIBOR+margin	according to the restructuring agreement	mortgage	
BRE Bank S. A.	Katowice	5 314		5 314		WIBOR+margin	according to the restructuring agreement	cash inflows on to accounts, credit on current account, mortgage	
ING Bank Śląski	Katowice	600		600		WIBOR+margin	according to the restructuring agreement	cash inflows on credit accounts, sole bills in blanco, pledge on shares credit on current account	
PKO BP S. A.	Katowice	22 317		22 317		WIBOR+margin	according to the restructuring agreement	mortgage revolving credit, pledge on shares, sole bills in blanco	
BPH PBK S. A.	Sosnowiec	4 938		4 938		WIBOR+margin	according to the restructuring agreement	sole bill in blanco, operating credit in crediting line,pledge on shares, mortgage	
Getin Bank S. A.	Warszawa	7 792		7 792		WIBOR+margin	04.04.2007	sole bill in blanco,proxy to current account, mortgages, cession of policy rights	
<b>TOTAL:</b>		<b>78 040</b>		<b>78 040</b>					

## Note 19D

LONG-TERM LIABILITIES IN VIRTUE OF ISSUED HEDGING INSTRUMENTS							
Debt securities by category	Nominal value	Intersts conditions	Redemption date	Guarantees/ securities	Additional rights	Quotations	Other
<b>TOTAL:</b>							

**Note 20**

<b>CHANGES IN RESERVE FOR DEFERRED INCOME TAX</b>	<b>2005</b>	<b>2004</b>
1. Reserve for deferred income tax at the beginning of period, of which:	<b>725</b>	<b>749</b>
a) assigned to financial result	<b>725</b>	<b>749</b>
b) assigned to equity		
c) assigned to goodwill		
2. Additions	<b>38 674</b>	<b>220</b>
a) assigned to financial results for the period due to positive timing differences:	<b>127</b>	<b>220</b>
- interests included in income	<b>127</b>	<b>220</b>
- interests on loans included in income		
- other		
b) assigned to equity due to positive timing differences (by virtue of)	<b>29 194</b>	-
- fixed assets (financial leasing)		
- revaluation of financial assets	<b>29 194</b>	
c) assigned to goodwill due to positive timing differences ( by virtue of)	<b>9 353</b>	-
- the companies merger		
	<b>9 353</b>	
<b>3. Reductions:</b>	<b>712</b>	<b>244</b>
a) assigned to financial result for the period due to positive timing differences (of which )	<b>712</b>	<b>244</b>
- interests counted into the income ( paid, cancelled)	<b>316</b>	<b>244</b>
- change in tax rate		
- other	<b>396</b>	
b) assigned to equity due to positive timing differences (of which )	-	-
c) assigned to goodwill due to positive timing differences (of which)	-	-
<b>4. Reserve for deferred income tax at the end of period, of which:</b>	<b>38 687</b>	<b>725</b>
a) assigned to financial result	<b>140</b>	<b>725</b>
b) assigned to equity	<b>29 194</b>	-
c) assigned to goodwill	<b>9 353</b>	-

**Note 21**

<b>CHANGES IN OTHER LONG-TERM PROVISIONS - specifically</b>	<b>2005</b>	<b>2004</b>
a. Balance at the beginning of period of which:	<b>11 557</b>	<b>58 597</b>
b. Additions (in virtue of )	<b>6 887</b>	<b>2 863</b>
- holiday leaves		
- termination pays, jubilee bonuses	<b>2 074</b>	<b>99</b>
- interests on bill of exchange liabilities State Treasury		
- contingent liabilities		
- interests on credits	<b>4 813</b>	<b>780</b>
- other		<b>1 984</b>
c. Exercised of which	<b>2 595</b>	<b>8 110</b>
- holiday leaves		
- termination pays, jubilee bonuses	<b>495</b>	<b>168</b>
- severance pays for dismissed employees		
- contingent liabilities	<b>2 100</b>	<b>2 593</b>
- interests on credits		<b>5 349</b>
- other		
d) reversals, of which:	<b>2 566</b>	<b>41 793</b>
- interests on liabilities towards State Treasury	<b>1 984</b>	
- contingent liabilities	<b>582</b>	<b>38 700</b>
- interests on credits		<b>2 816</b>
- termination pays, jubilee bonuses		<b>277</b>
<b>e. Balance at the end of period</b>	<b>13 283</b>	<b>11 557</b>

**Note 22**

<b>LONG-TERM INTERPERIOD SETTLEMENTS</b>	<b>2005</b>	<b>2004</b>
a) accrued expenses, of which:	-	-
- other	-	-
b) deferred income, of which:	<b>758</b>	<b>58 477</b>
- long-term accruals:		
- redeemed arrangement liabilities		<b>57 700</b>
- evaluation of shares	<b>741</b>	<b>741</b>
- other	<b>17</b>	<b>36</b>
<b>Total long-term interperiod settlements</b>	<b>758</b>	<b>58 477</b>

## Note 23A

SHORT-TERM LIABILITIES	2005	2004
<b>a. Towards subsidiary companies</b>	<b>12 415</b>	<b>77 891</b>
- credits and loans	9 400	9 200
- issue of debt securities		
- dividends		
- other financial receivables :	783	5 759
- interests on loans and prepayments	783	5 759
- prepayments for capital increase		
- trade accounts payable, with maturity of:	2 232	62 581
- less than 12 months	2 232	62 581
- over 12 months		
- trade prepayments received		
- promissory notes payable		
- other ( by type )	-	351
- in virtue of investment		351
-other		
<b>b. Towards associated entities</b>	<b>4 588</b>	<b>3 660</b>
- credits and loans	3 340	3 340
- issue of debt securities		
- dividends		
- other financial receivables :	257	-
- interests on loans and prepayments	257	
- prepayments for capital increase		
- trade accounts payable, with maturity of:	991	235
- less than 12 months	991	235
- over 12 months		
- trade prepayments received		
- promissory notes payable		
- other ( by type )	-	85
- in virtue of investment		85
-other		
<b>e. Towards the dominant entity</b>	<b>-</b>	<b>-</b>
- credits and loans		
- by virtue of issue of debt securities		
- dividends		
- other financial receivables :	-	-
- interests on loans and prepayments		
- prepayments for capital increase		
- trade accounts payable, with maturity of:	-	-
- less than 12 months		
- over 12 months		
- trade prepayments received		
- promissory notes payable		
- other (by type)	-	-
- penalty interests and other		
- other		
<b>f. towards other entities</b>	<b>65 675</b>	<b>64 114</b>
- credits and loans of which:	7	2
- issue of debt securities		
- dividends		
- other financial receivables :	-	-
- interests on loans and prepayments		
- guarantees		
- trade accounts payable, with maturity of:	62 348	62 189
- less than 12 months	62 348	62 189
- over 12 months		
- trade prepayments received		495
- bill of exchange liabilities	350	
- other (by type)	2 970	1 428
- taxes, import tariffs, social security and other benefits payable	926	459
- liabilities by virtue of remunerations	93	
- other	1 951	969
Total short-term receivables	82 678	145 665



**Note 23 B**

<b>SHORT-TERM RECEIVABLES (CURRENCY STRUCTURE )</b>	<b>2005</b>	<b>2004</b>
a) in Polish currency (zlotys)	<b>81 030</b>	<b>139 221</b>
b) in foreign currencies (acc to currencies and as restated in zlotys)	<b>1 648</b>	<b>6 444</b>
b1. Unit / currency in thousand USD	<b>376</b>	<b>1 220</b>
in zlotys	<b>1 227</b>	<b>3 648</b>
b2. Unit / currency in thousand EUR	<b>104</b>	<b>673</b>
in zlotys	<b>403</b>	<b>2 743</b>
b3. Unit /currency in thousand GBP		
in zlotys		
b4. Other currencies in thousand zlotys	<b>18</b>	<b>53</b>
<b>Total short-term receivables</b>	<b>82 678</b>	<b>145 665</b>

## Note 23C

SHORT-TERM RECEIVABLES by virtue of credits and loans									
Name (firma) of the entity	Seat	Amount of credit/loan acc to the agreement		Amount of credit /loan to be repaid		Interest conditions	Date of payment	security	Other
		zloty	currency	zloty	currency				
Stalexport Autostrada Dolnośląska S. A.	Katowice	8 200		8 200		WIBOR + margin	30.09.2006		
Stalexport Autostrada Śląska S. A.	Katowice	3 340		3 340		WIBOR + margin	25.08.2006		
Stalexport Transroute Autostrada S. A.	Mysłowice	1 000		1 000		WIBOR + margin	30.09.2006		
Stalexport Serwis Centrum S. A.	Katowice	200		200		WIBOR + margin	19.01.2006		
Pozostale					7				
		<b>12 740</b>		<b>12 747</b>					

**Note 23D**

SHORT-TERM LIABILITIES IN VIRTUE OF ISSUED HEDGING INSTRUMENTS						
Hedging instruments by category	Nominal value	Interest terms	Redemption date	Guarantees/hedging	additional rights	Other
<b>TOTAL</b>	-	x	x	x	x	x

**Note 24**

<b>CHANGES IN SHORT-TERM PROVISIONS - specifically</b>	<b>2005</b>	<b>2004</b>
a. Balance at the beginning of period	11 007	6 496
b. Additions (in virtue of )	3 255	4 925
- holiday leaves	681	384
- termination pays, jubilee bonuses	395	
- severance pays for dismissed employees	9	
- contingent liabilities	582	1 200
- interests on credits		3 339
- other	1 588	2
c) applications, of which:	5 748	88
- holiday leaves		
- termination pays, jubilee bonuses		87
- severance pays for dismissed employees		
- contingent liabilities		
- interests on credits	5 746	
- other	2	1
d) reversals, of which:	3 055	326
- holiday leaves	384	326
- interests on credits	2 671	
- capital group dimishing		
<b>e. Balance at the end of period</b>	<b>5 459</b>	<b>11 007</b>

**Note 25**

<b>SHORT-TERM INTERPERIOD SETTLEMENTS</b>	<b>2005</b>	<b>2004</b>
a) accrued expenses, of which:	-	-
- other		
b) deferred income, of which:	5 772	21 749
- settlements of incomes	5 763	281
- redeemed arrangement liabilities		21 453
- advanced payments for supplies and services		
- other	9	15
<b>Total short-term interperiod settlements</b>	<b>5 772</b>	<b>21 749</b>

**Off-balance sheet items**

	2005	2004
1. Contingent liabilities	-	-
1.1. From related entities (by virtue of)	-	-
- received warranties and guarantees		
1.2. From other entities (by virtue of)	-	-
- received warranties and guarantees		
2. Contingent liabilities	4 474	288 125
2.1. In favour of related entities (by virtue of)	84	-
- granted warranties and guarantees	84	
- customs warranties		
- other		
2.2. In favour of other entities (by virtue of)	4 390	288 125
- granted warranties and guarantees	4 390	285 825
- opening of the letter of credit		2 300
- other		
3. Other (by virtue of)	-	-
- mortgage		
- third party goods		
- other		
<b>Total off-balance sheet liabilities</b>	<b>4 474</b>	<b>288 125</b>

**Explanatory notes to profit and loss account**

**Note 27A**

<b>NET REVENUES FROM SALE OF GOODS (by class of business )</b>	<b>2005</b>	<b>2004</b>
a. Maintenance and Construction of motorways		<b>43 922</b>
- of which: from related companies		<b>1</b>
b. Reinforcement production for building industry	<b>44 390</b>	<b>25 787</b>
- of which: from related companies	<b>785</b>	<b>612</b>
c. Sale of services	<b>2 543</b>	<b>6 816</b>
- of which: from related companies	<b>1 053</b>	<b>5 309</b>
<b>Total net revenues from sale of goods</b>	<b>46 933</b>	<b>76 525</b>
- of which: from related companies	<b>1 838</b>	<b>5 922</b>

**Note 27B**

<b>NET REVENUES FROM SALE OF GOODS (by geographic area )</b>	<b>2005</b>	<b>2004</b>
a. Domestic sales	<b>46 933</b>	<b>76 525</b>
- of which: from related companies	<b>1 838</b>	<b>5 922</b>
b. Export sales		
- of which: from related companies		
<b>Total net revenues from sale of goods</b>	<b>46 933</b>	<b>76 525</b>
- of which: from related companies	<b>1 838</b>	<b>5 922</b>

**Note 28A**

<b>NET REVENUES FROM SALE OF GOODS AND MERCHANDISE (BY CLASS OF BUSINESS)</b>	<b>2005</b>	<b>2004</b>
a. Export	<b>211 141</b>	<b>249 325</b>
- of which: from related companies		
c. Sale of imported goods	<b>17 971</b>	<b>92 029</b>
- of which: from related companies	<b>146</b>	<b>1 113</b>
d. Sale of goods purchased in Poland	<b>165 524</b>	<b>275 453</b>
- of which: from related companies	<b>17 579</b>	<b>114 706</b>
j. Sale of goods	<b>395</b>	
- of which: from related companies		
<b>Total net revenues from sale of goods and merchandise</b>	<b>395 031</b>	<b>616 807</b>
- of which: from related companies	<b>17 725</b>	<b>115 819</b>

**Note 28B**

<b>NET REVENUES FROM SALE OF GOODS AND RAW MATERIALS (by geographic area)</b>	<b>2005</b>	<b>2004</b>
a. Domestic sales	<b>183 890</b>	<b>367 482</b>
- of which: from related companies	<b>17 725</b>	<b>115 819</b>
b. Export sales	<b>211 141</b>	<b>249 325</b>
- of which: from related companies		
<b>Total net revenues from sale of goods and raw materials</b>	<b>395 031</b>	<b>616 807</b>
- of which: from related companies	<b>17 725</b>	<b>115 819</b>

**Note 29**

<b>EXPENSES BY TYPE</b>	<b>2005</b>	<b>2004</b>
a. Depreciation	2 376	6 252
b) raw materials and energy used	36 986	21 808
c) third party work	26 219	63 341
d) taxes and charges	2 342	1 345
e) remunerations	14 634	9 924
f) social security and other employee benefits	2 923	1 991
g) other expenses:	1 894	1 507
<b>Total expenses by type</b>	<b>87 374</b>	<b>106 168</b>
- Changes in inventories, products and deferred expenses	647	(394)
- Cost of work and services for own needs (negative value)		
- Distribution expenses (negative value)	(12 760)	(12 767)
- General administrative expenses (negative value)	(31 369)	(21 029)
<b>Manufacturing costs of products sold</b>	<b>43 892</b>	<b>71 978</b>

**Note 30**

<b>OTHER INCOMES</b>	<b>2005</b>	<b>2004</b>
a. Profit from disposal of non-financial fixed assets	2641	
a. provisions and allowances cancelled, of which:	18 035	98 693
- dissolved allowances updating receivables	14 232	35 947
- dissolved other updating allowances	823	22 050
- dissolution of reserve for conditional liabilities	2 100	40 093
- dissolution of other reserves	880	603
c. Other income of which:	34 122	11 831
- settlement of contingent liabilities	28 136	6 566
- interests on receivables by virtue of supplies, works and services	1 419	4 528
- other	4 567	737
<b>Total other operating income</b>	<b>54 798</b>	<b>110 524</b>

**Note 31**

<b>OTHER EXPENSES</b>	<b>2005</b>	<b>2004</b>
a. loss on sale of non-financial fixed assets		1 902
b. Revaluation of non financial assets, of which:	137 963	7 538
- established receivables updating allowances	133 810	6 955
- established other updating allowances	1 080	99
- reserve established for contingent liabilities		
- established other provisions	3 073	484
c. other, of which:	14 333	8 045
- judicial fees	600	334
- donations	8	8
- costs of non-effective investments	856	877
- interests on liabilities by virtue of supplies, works and services	3 219	4 234
- prior years' costs and receivables in stale	4 881	82
- other	4 769	2 510
<b>Total other expenses</b>	<b>152 296</b>	<b>17 485</b>



## Note 32

<b>FINANCIAL INCOMES</b>	<b>2005</b>	<b>2004</b>
a. Dividends and shares in profits, including:	<b>2 205</b>	<b>1 637</b>
- from related entities	<b>2 204</b>	<b>1 632</b>
b. Interests, including:	<b>7 328</b>	<b>6 358</b>
b.1. From bank accounts and investments	<b>121</b>	<b>133</b>
b.2. By virtue of granted loans, out of which:	<b>12</b>	
- from related entities		
b.3. other interests: out of which:	<b>7 195</b>	<b>6 225</b>
- from related entities		
c. Profit on sale of investment		
d. Re-valuation of the investment	<b>1 560</b>	<b>173 353</b>
e. other income, including:	<b>122 156</b>	<b>5 787</b>
e.1. Balance of positive difference in rates, of which:	-	-
- executed		
- onon-executed		
e.2. Dissolved updating write-off (by virtue of)	<b>500</b>	<b>137</b>
- calculted interests	<b>500</b>	<b>137</b>
- other		
e.3. Other, of which:	<b>121 656</b>	<b>5 650</b>
- bills discount		
- receivables from Walcownia Rur Jedność	<b>119 208</b>	
- revaluation of investments on A4 motorway	<b>2 298</b>	<b>2 407</b>
- other	<b>150</b>	<b>3 243</b>
<b>Total financial income</b>	<b>133 249</b>	<b>187 135</b>

**Note 33**

<b>FINANCIAL EXPENSES</b>	<b>2005</b>	<b>2004</b>
a. Interests, including:	<b>24 570</b>	<b>27 305</b>
a.1. On credits and loans, of which:	<b>9 181</b>	<b>13 660</b>
- for related entities	<b>931</b>	<b>944</b>
a.2. Other interests, of which:	<b>15 389</b>	<b>13 645</b>
- for related entities	<b>195</b>	<b>146</b>
b. Loss on sale of investment	<b>8 279</b>	<b>163 365</b>
c. Revaluation of investments	<b>7 928</b>	<b>15</b>
d. Other financial costs, including:	<b>125 689</b>	<b>87 483</b>
d.1. Balance of the negative differences in rates of which:	<b>905</b>	<b>689</b>
- executed	<b>606</b>	<b>440</b>
- not executed	<b>299</b>	<b>249</b>
d.2. Created other updating allowance (by virtue of)	<b>2 156</b>	<b>4 690</b>
- for calculated interests	<b>2 156</b>	<b>4 690</b>
-		
-		
- other		
d.3.. Other, of which:	<b>122 628</b>	<b>82 104</b>
- liabilities towards bank syndicate and the State Treasury	<b>119 208</b>	<b>72 592</b>
- costs by virtue of redemption of bonds		
-		
- other	<b>3 420</b>	<b>9 512</b>
<b>Total financial costs</b>	<b>166 466</b>	<b>278 168</b>

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**Note 34A**

<b>CURRENT CORPORATE INCOME TAX</b>	<b>2005</b>	<b>2004</b>
1. Gross profit (loss)	(141 572)	12 851
3. Differences between gross profit (loss) and the income tax basis (by type)	117 863	(173 611)
- permanent differences adjusting expenses	133 779	84 230
- transient differences adjusting expenses	157 410	25 845
- permanent differences adjusting incomes	(149 549)	(9 722)
- transient differences adjusting incomes	(23 777)	(273 964)
- other		
3. Income tax basis	(23 709)	(160 760)
4. Corporate income tax at 19 % rate		
5. Increases, reliefs, exemptions, allowances, and reductions of corporate income tax		
6. Current corporate income tax as stated in the taxation statement for the period, of which:	-	-
- disclosed in the profit and loss account		
- referring to items that decreased or increased the shareholders' equity		
- referring to items that decreased or increased the goodwill or negative goodwill		

**Note 34B**

<b>DEFERRED CORPORATE INCOME TAX IN PROFIT AND LOSS ACCOUNT</b>	<b>2005</b>	<b>2004</b>
- decrease (increase) due to occurrence or reversal of timing differences	(584)	(25)
- decrease (increase) due to change of taxation rates		
- decrease (increase) due to formerly not recognized losses, tax reliefs, or timing differences of prior periods		
- decrease (increase) due to writing-off assets by virtue of deferred income tax or lack of possibility of applying a reserve on deferred income tax	4 101	
- other components of deferred income tax, of which:	-	-
- calculated due interests included in result		
- interests paid		
- write-off updating receivables not being the costs of obtaining the revenues		
- reserve for holiday leaves		
<b>Total deferred income tax</b>	<b>3 517</b>	<b>(25)</b>

**Note 34 C**

<b>TOTAL AMOUNT OF DEFERRED INCOME TAX</b>	<b>2005</b>	<b>2004</b>
- included in equity	3 517	(25)
- included in goodwill		

**Note 35**

<b>CALCULATION OF PROFIT (LOSS) PER ONE ORDINARY SHARE AND PER DILUTED SHARE</b>	<b>2005</b>	<b>2004</b>
Net profit (loss) (annualized)	(145 089)	12 876
Average weighted number of ordinary shares	-	-
Profit (loss) per one ordinary share (in zloty)	-145 089,00	12 876,00
Average weighted diluted number of ordinary shares		
Diluted profit (loss) per one ordinary share (in zloty)		

## **Additional information**

### **1. Transformation of the balance sheet on the date of changing to International Financial Reporting Standards (IFRS), i.e. on 1<sup>st</sup> January 2005.**

The financial report of the Company for 2005 was drawn up according to the binding International Accounting Standards and International Financial Reporting Standards binding as at 31.12.2005. 01.01.2005 is the date of change to International Financial Reporting Standards.

Adapting the accounting principles to International Accounting Standards / International Financial Reporting Standards International (IAS/IFRS) did not affect the financial result of the Company, as well as the equity capital. The changed principles affected only the presenting of particular items of assets and liabilities of the balance sheet, profit and loss account, which was presented in the tables of changes (attachments no 1 and 2)

#### The reasons for changes in particular assets and liabilities in the balance sheet and in financial result on 31.12.2005

Main factors, which affected the changes in particular assets and liabilities and the financial results of the Company as on 31.12.2005 in relation to their balance at the end of 2004, are:

- a. merger of the Companies Stalexport S.A. and Stalexport Centrostal S.A.,
- b. change in principles of accounting policy in 2005,
- c. taking into account the existing off-balance sheet liabilities being the guarantee of Walcownia Rur Jedność,
- d. revaluation of long-term financial assets

#### Ad. a.

The merger of the Companies Stalexport S.A. and Stalexport Centrostal Warszawa S.A. as from 1st March 2005 was made on the basis of International Financial Reporting Standards International (IFRS 3) via purchase method. The evaluation of Stalexport Centrostal Warszawa S.A., the subsidiary company of Stalexport S.A. was carried out by the method of adjusted net assets.

The financial report of the Company as on 31.12.2004 examined by the expert auditor was the basis of the evaluation as well as not verified financial report as on 28.02.2005.

As a result of the carried out evaluation by the method of adjusted net assets on 28.02.2005, the value of 100 % of basic capital of Stalexport Centrostal Warszawa S.A. amounted to 18,610 thousand zloty.

As a result of the accepted above price the negative goodwill arose, in the amount of 1,191 thousand zloty, which in the balance sheet of Stalexport S.A. as at 31.12.2005 was settled to „0” (zero).

As on the date of the merger of the companies, i.e. on 1<sup>st</sup> March 2005, the balance sheet sum increased by 57,168 thousand zloty.

#### Ad. b.

Changes in accounting policy in 2005 concerned methodology of settling the receipts of future periods, connected with settlement of amortised liabilities covered by arrangement proceedings.

In the years 2002-2005 Stalexport S.A., settled the amortised part of liabilities, recorded in „the receipts of future periods”, respectively with “reserve capital” and financial result the moment of repayment of the successive arrangement instalment.

To the date of publishing the financial report of Stalexport S.A. in due time fulfilled the payment of successive arrangement instalments and it repaid 11 instalments, i.e. more than half of required arrangement liabilities. In connection with the above the Management Board of Stalexport S.A. decided to settle one-off the receipts of future periods, which additionally affected the reserve capital increase by 37,900 thousand zloty and the financial result by 22,033 thousand zloty at the end of reporting period , i.e. on 31.12.2005.

With keeping the hitherto applied principles of accounting policy by virtue of settling „receipts of future periods” the increase in reserve capital would amount to 13,116 thousand zloty, and an increase financial result would amount to 6,103 thousand zloty. So an increase in reserve capital in the reporting period by virtue of the above amounted to 51,016 thousand zloty, and the financial result to 28,136 thousand zloty. The results were presented in the attachments 3 and 4.

#### Ad. c

In 1997 roku Stalexport S.A. granted the Bank syndicate the guarantee of credits of Walcownia Rur Jedność (141.5 m zloty plus interests) and simultaneously re-guaranteed to the State Treasury its guarantee for Walcownia Rur Jedność (114.8 m zloty). In 2005 the Bank Syndicate terminated Walcownia Rur Jedność the credits agreements. Simultaneously the Company expecting to be called by banks to fulfill the guarantee agreements, held intense talks on determining the amount and principles of restructuring these liabilities. In connection with the above for the correct evaluation of assets and liabilities the Management Board of Stalexport S.A. decided to make real and include off-balance sheet liabilities towards banks and the State Treasury among balance sheet liabilities.

Total value of balance-sheet liability is estimated at 119,208 thousand zloty, which comprises liability towards Bank Syndicate – 33,476 thousand zloty, and towards the State Treasury 85,732 thousand zloty. The amount of a/m liability was also shown in balance sheet books as the receivable in the amount of 119,208 thousand zloty from Walcownia Rur Jedność, for which the updating write-off was established. The way of restructuring of liability repayment was in detail described in the report of the Management Board.

#### Ad. d

The Company evaluated selected long-term financial assets, regarding motorway companies, i.e. Stalexport Autostrada Małopolska S.A. and Stalexport Transroute S.A.

The evaluation was made by BRE Corporate Finance S.A. with the income method. The results of evaluation of the Company Stalexport Autostrada Małopolska amounted to 134,197 thousand zloty and Stalexport Transroute amounted to 19,454 thousand zloty.

Simultaneously the Company established the reserve for income tax in the amount of 29,194 thousand zloty. The results of evaluation were reflected the balance sheet, in changes of revaluation capital in the amount of 124,457 thousand zloty, which affected the increase in equity capital.

## 2. Financial instruments.

The Company did not have any financial instruments at the end of reporting period.

## 3. Value of land in perpetual usufruct as at 31.12.2005 ( in thousand zloty)

Specification	Opening balance	Closing balance
Office building and parking space of the company	1 754	1 754
Panewniki Entity	1 176	1 176

4. **Value of non-amortised and non-depreciated fixed assets** by the Company used on the basis of contracts of lease as at 31.12.2005 amounted to 773 thousand zloty, including hardware and passenger cars.
5. **No liabilities towards the state budget** or the entities of the territorial administrative autonomy occurred by virtue of obtaining the right to the ownership of buildings and houses in the discussed period.
6. **Information on the property structure of the equity** and number and the nominal value of subscribed shares, including privileged (detailed description included in note no 13 of the financial report).

Stock capital:

Share capital	value	215,524 thousand zlotys
Subscribed shares	number	107 762 023 shares
Nominal value	value	2 zloty

Main shareholders are:

Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej	share	16,72%
Powszechna Kasa Oszczędności Bank Polski S.A.	share	7,10%
Other shareholders	share	76,18%.

## 7. Proposals regarding distribution of profit or coverage of loss for the turnover year 2005

The Company showed the net loss in the amount of 145,089 thousand zloty for the turnover year, which will be covered from profits economized in the following years

## 8. List of liabilities group secured on the assets of the company ( by type)

### List of mortgages and pledges

SUBJECT OF SECURITY	Type of security	Liability group
Real estate in Panewniki KW 33944	Mortgage	Credit liability
	Mortgage	Credit liability
Real estate in Katowice, ul.Mickiewicza KW 32921	Mortgage	Credit liability
Seat of Stalexport in Katowice KW 30094	Mortgage	Credit liability

	Mortgage	Credit liability
	Mortgage	Credit liability
Real estate in Chorzów KW 17662	Mortgage	Credit liability
Real estate in Katowice, ul. Opolska KW 8459	Mortgage	Credit liability
Real estate in Piła KW 5722	Mortgage	Liability by virtue of goods purchase
Real estate in Gostyń KW 27409	Mortgage	Liability by virtue of goods purchase
Real estate in Gniezno KW 1658	Mortgage	Liability by virtue of goods purchase
Shares of Stalexport Serwis Centrum Katowice	Pledge	Credit liability
Shares of Stalexport Wielkopolska	Pledge	Credit liability
Shares of Stalexport Centrostal Lublin	Register pledge	Credit liability
Shares of Beskidzki Dom Maklerski	Register pledge	Credit liability
Steel goods stocks in trade depot Piła	Register pledge	Liability by virtue of goods purchase
Steel goods stocks in trade depot Gostyń	Register pledge	Liability by virtue of goods purchase
Steel goods stocks in trade depot Gniezno	Register pledge	Liability by virtue of goods purchase
Steel goods stocks in trade depot Rzeszów	Register pledge	Liability by virtue of goods purchase
Steel goods stocks in trade depot Krzyż Wlkp.	Register pledge	Liability by virtue of goods purchase
Steel goods stocks in Warsaw	Register pledge	Liability by virtue of goods purchase
Steel goods stocks in Warsaw	Alienation	Liability by virtue of goods purchase
Steel goods stocks in Zielona Góra	Alienation	Liability by virtue of goods purchase
Steel goods stocks in trade depot Koronowo	Register pledge	Liability by virtue of goods purchase

## 9. Contingent liabilities, guarantees and warranties

Total guarantees as at 31.12.2005 amounts to 4,474 thousand zloty, including:

- guarantee for Szczecin Mill in the amount of 1,782 thousand zloty which is systematically repaid by the Mill,
- guarantee for the subsidiary company Stalexport Bełchatów S.A. in the amount of 85 thousand zloty,
- guarantees (commercial) for the benefit of Banks in the amount of 2,607 thousand zloty.

In relation to the previous year the balance of guarantees considerably decreased, due to signing the agreement with the representative of the bank syndicate - ING Banki Śląski, what was described in detail in the report of the Management Board.

## 10. Abandoned activity.

There was no abandoned activity in the company in the discussed period.

## 11. The planned investment outlays

The incurred and planned investment outlays were discussed in "Report of the Management Board".

## 12. Significant transactions of Stalexport S.A. – the dominant company with the subsidiary companies covered by the consolidation

- mutual receivables and liabilities (thousand zlotys)



Specification		Receivables of Stalexport S.A. as at 31.12.2005	Liabilities of Stalexport S.A. as at 31.12.2005	Surcharges as at 31.12.2005
Stalexport Autostrada Małopolska	Mysłowice	49,638	-	-
Stalexport Autostrada Dolnośląska	Katowice	36	13,863	-
Stalexport Serwis Centrum	Katowice	341	2,950	-
- Stalexport Serwis Centrum	Bełchatów	558	3	-
- Stalexport Metalzbyt	Białystok	1,881	-	-
Stalexport Centrostal	Lublin	286	257	200
Stalexport Transroute Autostrada	Mysłowice	346	1 005	-
Stalexport Autostrada Śląska S.A.	Katowice	9	3,598	-
Biuro Centrum Sp. z o.o.	Katowice		402	-
<b>Total</b>		<b>53,095</b>	<b>22,078</b>	<b>200</b>

- costs and incomes from mutual transactions (in thousand zlotys)  
incomes of Stalexport S.A. 20,912  
costs of Stalexport S.A. 8,460

### 13. Mutual undertakings

In the discussed period there was no mutual undertakings.

### 14. Employment.

The average employment in 2005 amounted to:

- full time jobs in total 297,4  
- Management Board 2,4  
- commercial employees 135,1  
- administration-office employees 48,8  
- other employees 111,1

Total employment in Stalexport S.A. in comparison with the analogous period of the previous year increased by 117,9 full time jobs, because of the taking over the subsidiary company Stalexport Centrostal Warszawa S.A.

**15. Total remuneration** paid to the proxies, the Management Board and the Supervisory Board members for 2005 was presented in the Management Board's report.

**16. The Company's managing as well as supervising persons** did not benefit by advance payments, credits, guarantees.

**17. The Company Stalexport SA did not have legal predecessor.**

**18. The financial report** did not subject to necessity to be corrected by inflation ratio.  
(in this period the inflation rate did not exceed 20 % in the year)

### 19. Events after the balance sheet date

They were described in details in the Report of the Management Board.



## Attachment no1

## Table of changes

Balance sheet	31.12.2003			30.06.2004			31.12.2004		
	Act on accounting	Results of change to IFRS	IFRS	Act on accounting	Results of change to IFRS	MSSF	Act on accounting	Results of change to IFRS	IFRS
<b>ASSETS</b>									
<b>I. Long-term assets</b>	375 635 791,47	0,00	375 635 791,47	349 419 533,10	0,00	349 419 533,10	207 904 172,96	128 011 507,21	335 915 680,17
1. Fixed assets	164 847 805,76	-2 199 166,11	162 648 639,65	156 882 928,28	-2 199 166,11	154 683 762,17	28 439 121,02	-2 199 166,11	26 239 954,91
2. Intangible assets including:	1 738 957,64	0,00	1 738 957,64	1 149 660,19	0,00	1 149 660,19	210 222,11	0,00	210 222,11
- goodwill	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
3. Goodwill of entities	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
4. Long-term receivables	55 143 532,75	0,00	55 143 532,75	60 817 067,25	0,00	60 817 067,25	50 800 182,82	0,00	50 800 182,82
5. Long-term investments	153 905 495,32	0,00	153 905 495,32	130 569 877,38	0,00	130 569 877,38	128 454 647,01	0,00	128 454 647,01
5.1 real estates	36 658 405,37	0,00	36 658 405,37	36 658 405,37	0,00	36 658 405,37	36 658 405,37	0,00	36 658 405,37
5.2 intangible assets	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
5.3 long-term financial assets	117 047 089,95	0,00	117 047 089,95	93 711 472,01	0,00	93 711 472,01	91 596 241,64	0,00	91 596 241,64
a) in related entities, including:	110 856 837,77	0,00	110 856 837,77	92 007 581,33	0,00	92 007 581,33	89 788 845,82	0,00	89 788 845,82
- stocks or shares in subsidiary entities evaluated via the method of ownership rights	0,00	0,00	0,00	32 400,00	0,00	32 400,00	32 400,00	0,00	32 400,00
- stocks or shares in subsidiary and co-related entities not covered by consolidation	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
b) in other entities	6 190 252,18	0,00	6 190 252,18	1 703 890,68	0,00	1 703 890,68	1 807 395,82	0,00	1 807 395,82
4.4 Other long-term investments	200 000,00	0,00	200 000,00	200 000,00	0,00	200 000,00	200 000,00	0,00	200 000,00
5. Assets available for sale	0,00	2 199 166,11	2 199 166,11	0,00	2 199 166,11	2 199 166,11	0,00	130 210 673,32	130 210 673,32
6. Assets by virtue of the deferred income tax	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
7. Long-term interperiod settlements	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
<b>II. Short-term assets</b>	183 716 294,76	0,00	183 716 294,76	269 594 346,45	0,00	269 594 346,45	309 613 078,05	-128 011 507,21	181 601 570,84
1. Inventories	31 192 326,67	0,00	31 192 326,67	50 938 820,17	0,00	50 938 820,17	59 863 809,03	0,00	59 863 809,03
2. Short-term receivables	132 412 664,56	0,00	132 412 664,56	190 474 383,66	0,00	190 474 383,66	113 981 350,11	0,00	113 981 350,11
3. Short-term investments	7 515 184,26	0,00	7 515 184,26	13 550 023,67	0,00	13 550 023,67	18 690,21	0,00	18 690,21
4. Cash and its equivalent	12 076 293,33	0,00	12 076 293,33	13 103 211,99	0,00	13 103 211,99	6 678 043,63	0,00	6 678 043,63
5. Short-term interperiod settlements	519 825,94	0,00	519 825,94	1 527 906,96	0,00	1 527 906,96	129 071 185,07	-128 011 507,21	1 059 677,86
<b>Assets in total</b>	<b>559 352 086,23</b>	<b>0,00</b>	<b>559 352 086,23</b>	<b>619 013 879,55</b>	<b>0,00</b>	<b>619 013 879,55</b>	<b>517 517 251,01</b>	<b>0,00</b>	<b>517 517 251,01</b>

## Attachment no 4

### Profit and loss account

	2004	zmiany	2004	2005	zmiany	2005
I. Net income from the sale of products, goods and materials, including:	693 331 519,25	0,00	693 331 519,25	441 964 133,87	0,00	441 964 133,87
II. Costs of sold goods, products and materials, including:	648 691 078,79	0,00	648 691 078,79	408 692 473,31	0,00	408 692 473,31
III. Gross profit (loss) on sales (I - II)	44 640 440,46	0,00	44 640 440,46	33 271 660,56	0,00	33 271 660,56
IV. Other incomes	110 524 018,44	28 135 961,97	138 659 980,41	54 798 130,91	-28 135 961,97	26 662 168,94
V. Sales costs	12 766 992,41	0,00	12 766 992,41	12 759 529,07	0,00	12 759 529,07
VI. Costs of general management	21 028 824,83	0,00	21 028 824,83	31 369 324,96	0,00	31 369 324,96
VII. Other costs	17 485 127,50	0,00	17 485 127,50	152 296 051,32	0,00	152 296 051,32
VIII. Profit (loss) on operating activity (III + IV - V - VI - VII)	103 883 514,16	28 135 961,97	132 019 476,13	-108 355 113,88	-28 135 961,97	-136 491 075,85
IX. Financial incomes	187 134 739,43	0,00	187 134 739,43	133 249 060,77	0,00	133 249 060,77
X. Financial costs	278 167 512,95	0,00	278 167 512,95	166 466 409,09	0,00	166 466 409,09
XI. Gross profit (loss) (VIII + IX - X)	12 850 740,64	28 135 961,97	40 986 702,61	-141 572 462,20	-28 135 961,97	-169 708 424,17
XII. Income tax	-24 727,00	0,00	-24 727,00	3 516 863,77	0,00	3 516 863,77
a) current part	0,00	0,00	0,00	0,00	0,00	0,00
b) deferred part	-24 727,00	0,00	-24 727,00	3 516 863,77	0,00	3 516 863,77
XIII. Net profit (loss) (XII - XIII)	12 875 467,64	28 135 961,97	41 011 429,61	-145 089 325,97	-28 135 961,97	-173 225 287,94

MANAGEMENT BOARD  
REPORT ON THE  
ACTIVITY  
Of STALEXPORT SA  
for the year 2005

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## 1. INTRODUCTION

The Management Board's Report on the activity of STALEXPORT Joint Stock Company with the seat in Katowice for the year 2005 comprises the most important information concerning the Company's functioning in the reporting period, and also describes the most important events after the balance sheet date.

The main tasks accepted by STALEXPORT SA to be executed in 2005 resulted from accepted in 2002 - the "Programme of executing the strategy of STALEXPORT S.A. in years 2002 - 2007 in the conditions of the arrangement proceedings".

These tasks were and mainly still remain up-to-day:

- 1) repayment of arrangement and off-arrangement liabilities
- 2) conducting effective commercial activity on the basis of an existing and being optimized sales network and reconstruction of the market position in steel trade;
- 3) a further organizational restructuring of the Company and the Capital Group pursuing the consolidation of its distribution part,
- 4) continuation of motorway activity through:
  - § executing by the company of the Capital Group the granted concession for operating of A4 toll motorway Katowice-Kraków section, including signing an Annexe no 5 to the Concession Agreement as well as obtaining the „financial close of the project”,
  - § participation in tenders for granting concession for constructing and operating the toll motorways: A4 section Wrocław-Katowice, A1 section Pyrzowice-Stryków and A2 sections: Stryków-Konotopa and Konin-Stryków via the companies of the Capital Group of STALEXPORT;
- 5) development of steel processing,
- 6) maintaining the cost discipline.

Execution of the arrangement and off-arrangement liabilities is the most important task of the Company. The arrangement proceedings ( 605 m zloty) and the restructuring of off-arrangement liabilities (251 m zloty) created a possibility for further functioning of STALEXPORT SA. The Company systematically meets its arrangement liabilities.

We would like to remind that the arrangement proceedings covered 605 m zloty, of which:

- a) ca 240 m zloty was reduced,
- b) nearly 190 m zloty was paid through the conversion into shares,
- c) till April 2006 the amount of over 120 m zloty (capital + arrangement interests ) was repaid by cash; of which in 2005 the amount of 42 m zloty was repaid.

Moreover, the restructured liabilities towards banks - off-arrangement creditors - are also systematically repaid, which on the date of signing the agreements amounted to 173 m zloty. Till the end April 2006 these payments amounted in total to 151 m zloty ( capital plus interests), including 39 m zloty repaid in 2005. While off-arrangement liability towards the State Treasury by virtue of guarantees for Ostrowiec Mill (ca 78 m zloty) will be paid till the half of 2008. The interests on this amount will be paid currently.

Such significant financial encumbrances affect the decrease in working capital and the same the limitation of the commercial possibilities. Discussion of the taken up actions and achieved results are discussed in the consecutive chapters of this report.

The Management Board Report consists of:

**1. Introduction,**

**2. The general part,** which comprises basic information about the Company.

3. **The financial part**, which contains the discussion of the financial results, description of the non-typical factors affecting the activity result, the description of the financial and material situation as well as the description of the investment activity in the reporting period.
4. **The commercial part**, which contains the basic information about the market and sales.
5. **The detailed part**, which comprises other information required by the Regulation of the Minister of Finance, including among other: the composition of the Management Board and the Supervisory Board, information on remuneration of the managing persons, the list of the shareholders of the Company.
6. **The part describing the prospects of the development and basic risks and threats for STALEXPORT S.A.**, as well as actions of the STALEXPORT SA Management Board taken up in order to determine the conditions of a further development of STALEXPORT SA and of continuation of the Company' s activity in the following years.
7. **The part comprising the statements of the Management Board** required by the Regulation of the Minister of Finance dated October 19<sup>th</sup> 2005 on current and periodic information to be published by issuers of securities.

The submitted report comprises the matters determined in the Regulation of the Minister of Finance dated October 19<sup>th</sup> 2005 on current and periodic information to be published by issuers of securities (Journal of Laws of 2005 no 209, item 1744).

## 2. BASIC INFORMATION ABOUT THE ISSUER

<i>Name:</i>	STALEXPORT S.A.
<i>Core business:</i>	Export, metal and iron ores import, PKD 51 52 Z
<i>Legal status of the company:</i>	Joint Stock Company
<i>Registering authority :</i>	District Court in Katowice, Economic Department of Judicial National Domestic Register
<i>Seat of the Company:</i>	40-085 Katowice, ul. Mickiewicza 29
<i>Judicial National Register (KRS):</i>	0000016854 registered in District Court, VIII Department of Judicial Domestic Register (KRS):) in Katowice, ul. Lompy 14
<i>Statistical number (Regon):</i>	271936361
<i>Tax identification number (NIP):</i>	634-013-42-11
<i>NKP:</i>	38-10454
<i>Share capital:</i>	215.524.046 zł
<i>Account:</i>	FORTIS BANK POLSKA S.A. O/Katowice Nr 78 1600 1055 0002 3211 5570 2001
<i>www:</i>	<a href="http://www.stalexport.com.pl">http://www.stalexport.com.pl</a>
<i>e-mail:</i>	<a href="mailto:stalex@stalexport.com.pl">stalex@stalexport.com.pl</a>
<i>Switchboard:</i>	(032) 251 22 11, 251 32 21, 207 30 90
<i>fax:</i>	(032) 251 12 64
<i>Social Insurance Institution(ZUS)</i>	ZUS Branch Office in Chorzów ul. Dąbrowskiego 45, 41-500 Chorzów
<i>Revenue Office (Urząd Skarbowy) :</i>	1st Silesian Revenue Office ul. Braci Mieroszewskich 97, 41-219 Sosnowiec

STALEXPORT began its activity on 1st January 1963 as the Enterprise of Foreign Trade specializing in export and import steel products, as well as in import of iron ores for Polish steel industry. In the year 1993 the company was transformed into a One-person Company of the Treasury and its privatisation occurred. At present it is the Joint Stock Company, the shares of which were admitted to public trading at Warsaw Stock Exchange on 26th October 1994.

In the year 1997 STALEXPORT S.A. won the tender proceedings and received a 30 year concession for construction by adapting and operating of the toll A4 motorway section Katowice-Kraków. The same the activity of the company focuses on two main segments:

- a) **Commercial segment** comprising: export, import, domestic turnover of steel products, raw materials and processing of steel goods,
- b) **Motorway services segment** comprising the adaptation to the conditions of toll motorway and operation of the A4 Katowice-Kraków motorway section.

The development of these segments of the activity by gaining new customers in trade activity and by winning successive concession for construction and operating motorways is the strategic goal of STALEXPORT S.A.

High quality of the offered services, reliability and solidity in servicing the customers, the Company confirms, constantly improved Management Quality System since 1998, certified by TÜV Systems GmbH, initially for conformability with standard ISO 9002: 1994 and at present corresponding with the amended requirements of ISO 9001:2000.

At present STALEXPORT S.A. has been executing the agreement with the creditors, which was approved by decision of District Court in Katowice dated 27.06.2002. According to the conditions of the arrangement agreement the liabilities are to be repaid in 20 quarterly instalments. Till today STALEXPORT S.A. repaid 11 arrangement instalments.

### 3. FINANCIAL ANALYSIS OF THE COMPANY

#### 3.1. Discussion of the financial results

The below table presents the financial result of STALEXPORT S.A. for 2004 and 2005

in thousand zloty	2004	2005	
I. Net incomes from selling products, goods & materials	693 332	<b>441 964</b>	-36,3%
1. Net incomes from selling products	76 525	<b>46 933</b>	-38,7%
2. Net incomes from selling goods and materials	616 807	<b>395 031</b>	-36,0%
II. Costs of sold products, goods and materials.	648 691	<b>408 692</b>	-37,0%
1. Cost of manufacturing sold products	71 978	<b>43 892</b>	-39,0%
2. Value of sold goods and materials	576 713	<b>364 800</b>	-36,7%
<b>III. Gross profit/loss from sales</b>	44 641	<b>33 272</b>	-25,5%
IV. Other incomes	110 524	<b>54 799</b>	-50,4%
V. Sale costs	12 767	<b>12 759</b>	-0,1%
VI. General management costs	21 029	<b>31 369</b>	49,2%
VII. Other costs	17 485	<b>152 296</b>	771,0%
<b>VIII. Profit (loss) from operating activity</b>	103 884	<b>-108 355</b>	-
IX. Financial incomes	187 134	<b>133 249</b>	-28,8%
X. Financial costs	278 167	<b>166 466</b>	-40,2%
<b>XI. Gross profit (loss)</b>	12 851	<b>-141 572</b>	-
XII. Income tax	-25	<b>3517</b>	-
<b>XIII. Net profit (loss)</b>	12 876	<b>-145 089</b>	-

#### 3.1.1. Discussion of core activity

In a structural aspect, according to sale directions, incomes from sales in the discussed period are as follows:

In thousand zloty	2004	2005	% Share in turnover in general in 2005	Change 2005 to 2004 (thousand zloty)	Change %
I. Incomes from sales in total including:	693 332	<b>441 964</b>	100,0%	-251 368	-36,3%
1. Commercial activity	642 594	<b>439 421</b>	99,4%	-203 173	-31,6%
a) export (and re-export)	249 325	<b>211 141</b>	47,8%	-38 184	-15,3%
b) domestic market	275 072	<b>165 524</b>	37,5%	-109 548	-39,8%
c) import	92 029	<b>17 971</b>	4,1%	-74 058	-80,5%
d) production	26 168	<b>44 785</b>	10,1%	18 617	71,1%
2. Other sale	2 714	<b>2 543</b>	0,6%	-171	-6,3%
3. Motorway A-4	48 024	<b>0</b>	0,0%	-48 024	-100,0%
II. Purchase and sales costs	661 458	<b>421 451</b>	x	-240 007	-36,3%
III. Sales margin	31 874	<b>20 513</b>	x	-11 361	-35,6%
Margin ratio in % (in total )	4,60%	<b>4,64%</b>	x		

In 2005 incomes from sales of STALEXPORT SA amounted to 441,964 thousand zloty and were by 36,7 % lower in comparison with the year 2004. The decline was caused by the following factors:

- the lack of external financing, falling through of the planned issue of shares, and the same the limited working assets (diminished additionally by payment of arrangement and off-arrangement liabilities), possessed by Company;
- transfer of concession for toll motorway section from STALEXPORT S.A. to Stalexport Autostrada Małopolska S.A. – which reflected in non-showing revenues by virtue of tolls for motorway crossing in profit and loss account of the Company;
- change in supply policy by the company Mittal Steel Poland (the owner of former PHS S.A.), which resulted in eliminating, crossing out the domestic trade agents among others STALEXPORT S.A., from the list of sub-suppliers of raw materials for production, i.e. iron ores and refractories to Mittal Steel Dąbrowa Górnicza and Krakow Branch Offices, what considerably affected the sale decline in import and decrease in revenues from import.
- recess on steel products market maintaining in 1st half 2005, resulted in considerable decline in their prices, and next the made re-valuation of inventories resulted – additionally - in decrease in result of sale.

The cost of sold goods, products and merchandise amounted to 408,692 thousand zloty in 2005.

Diminishing sale concerns mainly import sales, which is lower than in previous year by 80,5 % ( it is caused by the change in supply policy in raw materials for production, i.e. iron ores and refractories, by direct purchases of Mittal Steel) and the domestic sale, which is by 39,8 % lower, than in 2004.

The export sale, which despite lower scale of turnover than last year (decline by 15,3%) constitutes the biggest part in trade (47,8 % in 2005). There was an increase in incomes from sale of reinforcement for building industry (by 71,1 %) caused among others by incorporating the plant of reinforcement prefabricating in Warsaw in structures of STALEXPORT S.A.

The achieved gross profit from sales amounted to 33,282 thousand zloty and was by 25,4 % lower than in 2004; the dynamics of decline in result is lower than the decline in sales, which means that in present market situation one managed partly to compensate the decline in turnover by an increase in gross margin from sales ( from 6.4 to 7.5 %). .

The sale costs in the amount of 12,759 thousand zloty were at the similar level as in the previous year. While there was an increase in the cost of general management, which at the end of 2005 amounted to 31,369 thousand zloty, which means an increase by 49 %. This increase resulted from first of all, changes in organisational structure of the Company. The costs of general management increased by the costs of functioning of new trade depots which did not function in the structure of STALEXPORT S.A. in 2004 ( ca 2.5 m zloty) and first of all by costs of STALEXPORT- CENTROSTAL Warszawa S.A. taken over together with its branch offices (ca 7.5 m zloty).

### **3.1.2. Other operating incomes and costs**

Other operating incomes amounted to 54,799 thousand zloty, other operating costs amounted to 152,296 thousand zloty.

In the range of other operating incomes, reserves and updated write offs were dissolved in the total amount of 18,035 thousand zloty, out of which the write offs for receivables of Centrostal War-

szawa for the amount of 7,334 thousand zloty constitute the biggest part, in connection with the carried out merger proceedings. .

Moreover, the amount of 28,136 thousand zloty, resulting from the settlement of the depreciated part of arrangement liabilities within the incomes of future periods was included in other operating incomes.

STALEXPORT S.A. in previous years settled the amortised arrangement liabilities proportionally to the repaid arrangement instalments, while at the end of 2005 the Company decided to settle one-off the depreciated value of liabilities constituting the incomes of future periods (we describe more about this change in point 3.2.3). In other incomes there are also interests by virtue of stale trade accounts receivable in the amount of 1,437 thousand zloty.

The level of other operating costs was mainly affected by updating the value of non-financial assets for total amount of 137,963 thousand zloty, which comprises write offs for receivables towards Walcowni Rur Jedność Sp. z o.o. (WRJ) in the amount of 119,208 thousand zloty, by virtue of granted in 1997 guarantees for repayment of credits (explanations in point 3.2. ad 4).

Moreover, the costs of interests on stale liabilities by virtue of trade account receivable in the amount of 3,219 thousand zloty was shown.

### **3.1.3. Financial incomes and costs**

The achieved financial incomes amounted to 133,249 thousand zloty, while the incurred financial costs amounted to 166,466 thousand zloty. A loss in the amount of 32,217 thousand zloty incurred on the financial activity.

The restructuring of the off-balance sheet liability by virtue of the guarantee granted the bank syndicate financing the WRJ investment (vide point 3.2. ad 4) had the biggest impact upon the amount of the financial incomes and costs.

The receivables in the amount of 119,208 thousand zloty towards Walcownia Rur Jedność Sp. z o.o. was shown in incomes, and simultaneously the updating write-off for this amount was established, in the range of financial costs, the liability towards banks and the State Treasury by virtue of granted guarantees was shown.

The other essential items within the financial activity in 2005 regarded interests.

In the range of financial revenues the amount of interests amounted to 7,328 thousand zloty, which mainly comprise:

- interests on receivables by virtue of guarantees covered by: arrangement agreement	2,672 thousand zloty
- amortised interests on credits :	2,184 thousand zloty
- interests on sale of shares of Ferrostal to the company Złomrex:	2,137 thousand zloty

The received dividend from the company STALEXPORT Transroute Autostrada S.A. in the amount of 2,205 thousand zloty is the other important item to be noted in the range of financial incomes.

In the range of costs the amount of interests amounted to 24,570 thousand zloty, including:

- interests on credits :	8,250 thousand zloty
- interests on arrangement liabilities	7,848 thousand zloty
- interests on liabilities by virtue of guarantee for the benefit the State Treasury	3,783 thousand zloty

Moreover in the range of financial costs, of the essential importance were:

- loss by virtue of sale of real estate of Huta Kościuszko in the amount of: 7,443 thousand zloty
- establishing the updating write-off for the real estate of Huta Kościuszko in the amount of: 6,015 thousand zloty
  
- establishing the write-off for shares of STALEXPORT Serwis Centrum Belchatów S.A. in the amount of : 1,677 thousand zloty
  
- loss on sale of shares of Towarzystwo Inwestycyjne Merkury S.A.: 1,411 thousand zloty .

### **3.1.4. Financial results - summary**

All actions and events described above had a direct impact upon the results of the Company achieved in 2005.

The gross result of STALEXPORT SA in 2005 was negative and amounted to 141,572 thousand zloty. Diminishing of the gross result by virtue of income tax from legal persons amounts to 3,517 thousand zloty.

Net loss of STALEXPORT S.A. for 2005 amounted to 145,089 thousand zloty ( in 2004 net profit amounted to 12, 876 thousand zloty).

Negative net result results mainly from establishing the updating write-off for receivables and investments.

### **3.2. Evaluation of the factors and untypical events which have an impact upon an economic activity taking into consideration events after the balance sheet date**

The most essential untypical events, which have an impact upon the financial report of STALEXPORT S.A. in 2005 are:

1. Coming into force of the Annexe no 5 to the Concession Agreement and obtaining credit (basing on this event) – which were so called „Financial close” - by the subsidiary company STALEXPORT Autostrada Małopolska S.A. (SAM S.A.) which enabled settling mutual liabilities between the Company and SAM S.A., including the reimbursement of the financial outlays borne by STALEXPORT S.A. in the past.
2. Revaluation of the shares of the subsidiary companies: STALEXPORT Autostrada Małopolska S.A. and STALEXPORT Transroute Autostrada S.A. (STA S.A.) as well as showing the results of this revaluation of the a/m assets in the balance sheet of STALEXPORT S.A. as at 31.12.2005.
3. Change in hitherto applied principles of settling a depreciated part of liabilities resulting from executing arrangement proceedings.
4. Introducing into books of STALEXPORT S.A. off-balance sheet liability regarding the guarantees granted by the Company for the credit for Walcownia Rur Jedność Sp. z o.o. in Siemianowice Śląskie.

**Ad. 1.** On 22.12.2005 STALEXPORT S.A. and STALEXPORT Autostrada Małopolska S.A. signed an „Agreement on reimbursement of outlays”. As a result of this signed agreement STALEXPORT S.A. will receive the net amount of 59 m zloty payable in two instalments.

The first instalment is under settling of SAM S.A. and it is envisaged to be settled in June/July 2006. The final payment is planned under last drawing of credit by SAM S.A., i.e. at the end of 2009.



The transaction of the reimbursement of investment outlays in the amount of 127 m zloty negatively affected the financial result in the amount of 1,121 thousand zloty (existing amortisation amounts to 128,121 thousand zloty). While it was positively reflected in cash flow account in „net cash flow from investment activity”.

**Ad. 2.** In 2005 there were two vital events which affected the financial assets of the Company. Firstly, the Annexe no 5 to the Concession Agreement concluded between SAM S.A. and the Infrastructure Minister became valid (October 2005). Secondly, on this basis SAM S.A. signed a credit agreement with bank syndicate (December 2005), being so called „Financial close”, the lack in time determined by the concession could be the ground for withdrawing the concession. Among others, setting up the target company by STALEXPORT S.A. and contributing shares of subsidiary motorway companies, i.e. SAM S.A. and STA S.A. to it, was a condition to draw the means from the credit agreement.

In connection with the above – on the basis on so called „fair value” (according to I.A.S.) – the revaluation of shares, constituting the contribution, was made. The carried out evaluation of the portfolio of companies shares increased their value by the amount of 153,652 thousand zloty, for which a reserve by virtue of deferred income tax in the amount of 29,194 thousand zloty was established. Net value in the amount of 124,458 thousand zloty was shown in the balance sheet in an item „revaluation capital”, and finally it was reflected in „equity capital”.

**Ad. 3.** STALEXPORT S.A. in previous years, i.e. 2003 and 2004 settled arrangement liabilities in a „careful” way, i.e. proportionally to the repaid instalments it assigned suitable value of amortised liabilities from „future periods incomes” to „reserve capital” and financial result of given reporting period.

STALEXPORT S.A. as on date of drawing up the balance sheet repaid 11 arrangement instalments out of due 20, so it executed 50% of liabilities value resulting from the arrangement agreement concluded in 2002.

In the light of concluded transactions, i.e. reimbursement of investment outlays regarding A4 motorway, signed agreement for sale of real estate in Warsaw, Obrzezna street (for 62 m zloty), the Management Board of STALEXPORT S.A. decided to settled one-off as on 31.12.2005 the amortised value of liabilities constituting „future periods receipts”, assuming very considerable risk limitation of the lack of repayment of remaining arrangement liabilities ( ca 76 m zloty), which allowed to obtain the positive equity capital ( at the end of 2005 this capital was negative for the amount of 367 m zloty) for the first time since commencing the restructuring of the Company.

One-off settlement of the value of „future periods receipts” affected the increase in reserve capital by the amount of 37,901 thousand zloty as well as financial result by the amount of 22,033 thousand zloty.

**Ad. 4.** In 1998 STALEXPORT S.A. granted the bank syndicate the guarantee of credits of Walcownia Rur Jedność Sp. z o.o. (141.5 m zloty plus interests) and simultaneously re-guaranteed the State Treasury its securities for WRJ (114.8 m zloty). In 2005 the bank syndicate terminated the credit agreements to WRJ.

Simultaneously the Company, expecting the call from the banks to fulfill the guarantee agreements, held talks with banks so as to determine the amount and principles of restructuring these liabilities.

In connection with the above to properly evaluate assets and liabilities, the Management Board of STALEXPORT S.A. considering the current banks engagement in WRJ Sp. z o.o., decided to make real and include off-balance sheet liability towards banks and the State Treasury to the balance sheet liabilities.

This operation unfavourably affected the financial result as on 31.12.2005, diminishing it by the amount of 119,208 thousands zloty.

On 4.05.2006 STALEXPORT S.A. signed with Bank Syndicate an agreement, which determined the basic principles of settling the liabilities, i.e.:

- a) arrangement character of the liabilities (reduction by 40%),
- b) the amount of the reduced liability 33,5 m zloty according to the decision of the Arbitration court
- c) repayment of the liability in total by conversion into shares of the Company, at a price resulting from the average for the last 6 months before signing an Agreement.

Summing up, the impact of the a/m events upon the financial result amounted to ca 98 m zloty. While in balance sheet the equity capital increased by the amount of 65 m zloty and the same for the first time since opening the arrangement proceedings (in 2001) the capital obtained a positive level in the amount of 1,4 m zloty. Additionally, the amount of off-balance sheet liabilities decreased from 288 m zloty at the end of 2004 to 4,5 m zloty at the end of 2005.

### 3.3. Material and financial situation together with a description of financing sources, debts policy as well as risk management policy

Balance sheet data at the end of 2005 in comparison with the balance at the end of 2004 are as follows.

In thousand zloty	31.12.2005	31.12.2004	Dynamics	Structure
<b>I. Long-term assets</b>	<b>338 653</b>	335 916	1%	65,3%
1. Tangible fixed assets	<b>49 069</b>	26 240	87%	9,5%
2. Intangible fixed assets	<b>212</b>	210	1%	0,0%
3. Long-term receivables	<b>509</b>	50 800	-99%	0,1%
4. Long-term investments	<b>286 664</b>	128 455	123%	55,3%
4.1. Real estates	<b>56 945</b>	36 658	55%	11,0%
4.2. Intangible fixed assets				
4.3. Long-term financial assets	<b>229 519</b>	91 597	151%	44,3%
4.4. Other long-term investments	<b>200</b>	200	0%	0,0%
5. Assets for sale	<b>2 199</b>	130 211	-98%	0,4%
6. Deferred income tax assets				
7. Long-term interperiod settlements.				
<b>II. Current assets</b>	<b>179 927</b>	181 601	-1%	34,7%
1. Inventories	<b>43 810</b>	59 864	-27%	8,4%
2. Short-term receivables	<b>130 814</b>	113 981	15%	25,2%
3. Short-term investments	<b>235</b>	19	1137%	0,0%
4. Cash and its equivalent	<b>4 658</b>	6 678	-30%	0,9%
5. Short-term interperiod settlements	<b>409</b>	1 059	-61%	0,1%
<b>Assets in total</b>	<b>518 580</b>	517 517	0,2%	100,0%

<b>I. Equity capital</b>	<b>1 399</b>	-28 963	-105%	0,3%
1. Stock capital	<b>215 524</b>	215 524	0%	41,6%
2. Due payments for the stock capital ( negative value)				
3. Own shares (negative value)	<b>-23</b>			
4. Inventory capital	<b>35</b>	42 343	-100%	0,0%
5. Reserve capital from revaluation	<b>132 879</b>	8 457	1471%	25,6%
6. Other reserve capitals	<b>51 016</b>	95 979	-47%	9,8%
7. Prior years' loss /profit	<b>-252 943</b>	-404 142	-37%	-48,8%
8. Net profit (loss)	<b>-145 089</b>	12 876	-1227%	-28,0%

<b>II. Long-term liabilities</b>	<b>423 271</b>	368 059	15%	81,6%
1. Credits and loans	<b>78 040</b>	100 110	-22%	15,0%
2. Liabilities by virtue of financial leasing	<b>995</b>			0,2%
3. Liabilities by virtue of trade account receivable				
4. Other liabilities	<b>291 508</b>	197 190	48%	56,2%
5. Reserve by virtue of deferred income tax	<b>38 687</b>	725	5236%	7,5%
6. Reserves for other liabilities	<b>13 283</b>	11 557	15%	2,6%
7. Long-term interperiod settlements	<b>758</b>	58 477	-99%	0,1%
<b>III. Short-term liabilities</b>	<b>93 909</b>	178 421	-47%	18,1%
1. Credits and loans	<b>12 747</b>	12 542	2%	2,5%
2. Liabilities by virtue of financial leasing				
3. Liabilities by virtue of trade account receivable	<b>65 571</b>	125 005	-48%	12,6%
4. Other liabilities	<b>4 360</b>	8 118	-46%	0,8%
5. Reserves for other liabilities	<b>5 459</b>	11 007	-50%	1,1%
6. Short-term interperiod settlements	<b>5 772</b>	21 749	-73%	1,1%
<b>Liabilities in total</b>	<b>518 580</b>	<b>517 517</b>	<b>0,2%</b>	<b>100,0%</b>

### 3.3.1. Assets of the Company

The company's assets in total as at 31<sup>st</sup> December 2005 nearly did not change in comparison with the balance as at 31<sup>st</sup> December 2004. The value of assets amounted to 518,580 thousand zloty, out of which long-term assets constitute 65% , while current assets 35%.

In 2005 fixed assets increased by 1 % , and in their structure the biggest changes occurred in connection with incorporating the subsidiary company STALEXPORT CENTROSTAL WAR-SZAWA S.A to Stalexport S.A. As a result of this merger the fixed assets increased by 8 % to the amount of 49,069 thousand zloty, while the level of long-term receivables decreased by 99 % due to excluding mutual receivables and liabilities.

Long-term investments increased from 128,455 thousand zloty at the end of 2004 to the amount of 286,664 thousand zloty at as 31<sup>st</sup> December 2005, i.e. an increase by 123 % . It is first of all connected with revaluation of shares of motorway companies by total amount of 153,652 thousand zloty. Other changes in long-term investments result mainly from taking over the financial assets and real estates of STALEXPORT Centrostal Warszawa S.A. and sale of real estate of Huta Kościuszko.

The assets available for sale shown in balance sheet decreased by the amount of 128,012 thousand zloty due to selling the investment outlays connected with A4 motorway section Katowice-Kraków to the company STALEXPORT Autostrada Małopolska S.A., for which the motorway concession was transferred.

Current assets at the end of 2005 amounted to 179,927 thousand zloty and were at the similar level as in previous year. Short-term receivables in the amount of 130,814 thousand zloty are the biggest item in the range of current assets, which in comparison with previous year increased by 15%. While the carried out actions in the range of increasing the assets liquidity resulted in decline of inventories by 27%, achieving at the end of 2005 the level of 43,810 thousand zloty.

### 3.3.2. Equity capital and liabilities

The liabilities of the Company comprises:

- positive equity capital which for the first time since many years achieved positive value in the amount 1,399 thousand zloty,

- long-term liabilities in the amount of 423,271 thousand zloty, what constitutes 81,6 % share in total amount of liabilities;
- short-term liabilities in the amount of 93,909 thousand zloty, what constitutes 18 % share in liabilities.

Positive equity capital was achieved mainly due to revaluation of shares of motorway companies: STALEXPORT Autostrada Małopolska S.A. and STALEXPORT Transroute Autostrada S.A. by the total amount of 153,652 thousand zloty reduced by created reserve by virtue of deferred income tax in the amount of 29,194 thousand zloty. Net value in the amount of 124,458 thousand zloty was shown in an item „Capital from revaluation”.

Simultaneously other reserve capital achieved value of 51,016 thousand zloty due to posting an entry of full value of depreciated part of the arrangement liabilities from receipts “from future periods”.

The prior years’ loss decreased in 2005 by 151,198 thousand zloty, due to its coverage by reserve capital shown so far in the amount of 42,343 thousand zloty, by other reserve capital in the amount of 95,979 thousand zloty as well as net profit for 2004 in the amount of 12,875 thousand zloty.

The level of long-term liabilities increased by 15 %. Other liabilities in the amount of 197,173 thousand zlotys are of decisive importance in the range of these liabilities, which are the long-term liability towards the State Treasury by virtue of granted bill of exchange guarantees regarding Huta Ostrowiec and towards the State Treasury and the Bank Syndicate by virtue of guarantees regarding Walcownia Rur Jedność Sp. z o.o. These liability are to be repaid since 2008, i.e. after paying off arrangement instalments.

Arrangement liabilities in the amount of 94,345 thousand zloty and credits in the amount of 78,040 thousand zloty are also of vital importance. They are diminishing systematically due to their repayment according to the accepted schedule.

In structure of short-term liabilities which decreased at the end of 2005 by 47 % in relation to 2004, the liabilities by virtue of trade accounts receivable in the amount of 65,570 thousand zloty are of major importance. Their decline is connected with limitation of turnover, and also with settling liabilities towards STALEXPORT Autostrada Małopolska S.A. in the amount of 38,083 thousand zloty, which were shown in this item.

The amount of current credits and loans nearly did not change and amounts to 12,747 thousand zloty.

Short and long-term interperiod settlements comprised mainly revenues from future periods regarding amortised part of arrangement liabilities, which at the end of 2005 were in total accounted for other reserve capital and other revenues.

### **3.3.3. Structure of sources of financing and management of financial resources**

The source of financing assets were exclusively liabilities, because in the majority of the reporting period the Company possessed negative equity capital and not till the end of the year it achieved a slight positive value.

The general indebtedness ratio (ratio of liabilities to the balance sheet sum) decreased from 105,6 % to 99,6 %.

The assessment of management of financial resources comprises mainly events affecting the Company’s liquidity and profitability. The following ratios were used so as to evaluate the liquidity and profitability:

§ current ratio: current assets/short-term liabilities,

- § quick ratio: current assets - inventories/short-term liabilities,
- § sale profitability: profit on sales /revenues from sales,
- § net profitability: net profit /revenues from sales ,

<b>Ratio</b>	<b>2004</b>	<b>2005</b>
Current ratio	1,02	1,92
Quick ratio	0,68	1,45
Sale profitability	6,40 %	7,50%
Net profitability	1,86 %	-32,80 %

In 2005 the liquidity ratios improved considerably in comparison with 2004. It results mainly from the decline in liabilities by virtue of trade accounts receivable.

The necessity to repay the off-arrangement credits (39 m zloty together with interests) affected the cash flow standing as well as the repayments of major creditors while executing the provisions of the arrangement proceedings (42 m zloty).

These factors resulted in reducing the working capital of the Company, which caused limiting the level of incomes from sale possible to be achieved.

In 2005 the Company still was deprived of the access to the financing in a form of bank credits, which prevented from an increase on incomes from sale.

Except for executing the arrangement liabilities and banks' agreements regarding repayment of restructured credits, the liabilities resulting from the guarantees for the State Treasury by virtue of credits granted Huta Ostrowiec and guarantees by virtue of credits granted for investment of Wal-cownia Rur Jedność Sp. z o.o. are vital encumbrance for the Company. Having in mind the limited financial possibilities the Management Board took actions to finally fix the amount of contingent liabilities and the mode of their repayment, conversion or postpone the cash payments beyond the period of repaying the arrangement liabilities and determining convenient dates of their repayment in longer period of time.

Signing an agreement with the State Treasury in 2004 served the a/m matter in connection with guarantees regarding Huta Ostrowiec in the amount of 72,6 m zloty, and also current actions aimed at solving matter of guarantees of WRJ Sp. z o.o. which in part regarding liabilities towards banks was defined by the agreement signed on 04.05.2006 (described in detail in point 3.2 ad 4).

Sale in 2005 shows an increase in gross profitability. The profitability ratio for 2005 was negative mainly due to necessity of establishing the updating write-offs of receivables (WRJ) and as a result of financial burdens (interests).

### **3.4. Description of investment activity**

The below table presents the value of investment outlays of fixed assets (without the granted long-term loans) incurred in 2005:

<b>Investment outlays in thousand zlotys</b>	<b>31.12.2005</b>	<b>%</b>
In thousand zloty in total, including	1,777	100,0
1) intangible assets	121	7,0
2) tangible fixed assets	1,656	93,0

The total value of investment outlays incurred in 2005 amounts to 1,777 thousand zloty.

Within incurred investment outlays it should be mentioned:

- purchase of real estate in
  - Kostrzyn 609 thousand zloty
  - Krzyż Wielkopolski 362.3 thousand zloty
- purchase of hardware etc 81.4 thousand zloty
- machines and equipment for reinforcement plant in Warsaw 299.5 thousand zloty
- other for maintaining current activity 303.8 thousand zloty

#### 4. ANALYSIS OF THE COMMERCIAL ACTIVITY OF THE ISSUER

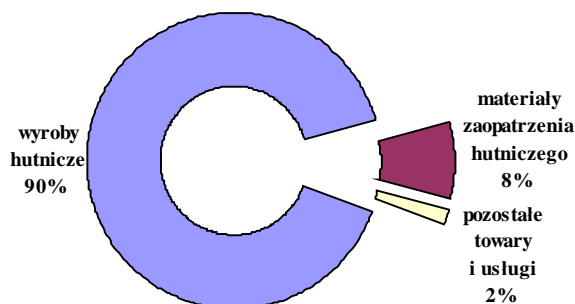
##### 4.1. Sale - Information about basic products, goods and services

In 2005 the incomes from sales came entirely from the commercial activity, i.e. the incomes of the company did not cover turnover from motorway activity, which still in 2004 constituted 6,2% of the Company's turnover. The below table presents the assortment structure of sales.

Main merchandise in the turnover of STALEXEXPORT SA in 2005

Merchandise/service	Sale value [in m zloty]	Share in incomes
sections	138,3	31,2%
flat products	80,2	18,1%
plates and sheets	49,1	11,1%
pipes	42,5	9,6%
prefabricated reinforcement	41,2	9,3%
non-ferrous products	32,1	7,3%
semi-finished products	21,1	4,8%

Asortymentowa struktura  
przychodów ze sprzedaży STALEXEXPORT S.A.  
w 2005 roku



The share of metallurgical products in the turnovers of the Company increased from 70% (in 2004) to 90% (in 2005). The share of metallurgical supply materials decreased considerably from 20% to 8% respectively.

Invariably, the assortment which constitutes the biggest share in the sales of STALEXEXPORT SA were sections. However, slump on the market in 2005 resulted in sale decline by 26% in relation

to 2004. Sale of flat products also decreased – by 43%, bars and wire rod – by 42% , and semi-finished products – by 53%.

In 2005 – in relation to 2004 – the incomes from sale of non-ferrous products increased by 53% and pipes by 46%.

#### 4.2. Information about sales markets and suppliers

In 2005 the domestic sale – 48,2% and export sale – 47,8 %- had comparable share in incomes from sale, while import sale constituted 4,0% .

In the analogous period – in 2004 - the share was the following: domestic sale – 45%, export sale - 36%, import sale – 13 %.

##### Export sale

In 2005 29% export sale of the Company was directed to the European Union market, 9% to the other European countries. Export to South America constituted 49%, export to North America constituted 12%, only 1% of products reached African and Far East markets.

The sale of metallurgical products constituted 89% of turnovers in the assortment export structure, the remaining 11% - metallurgical supply materials and other merchandise.

##### Main merchandise in the export sale of STALEXPORT SA in 2005

	Sale value [in m zloty]	Share in export
sections	112,7	53,4%
non-ferrous products	30,4	14,4%
pipes	24,6	11,6%
semi-finished products	20,9	9,9%
other steel products	11,6	5,5%
bars	7,9	3,7%

##### Domestic and import sale

The sale of steel products constituted 91% and metallurgical supply materials and other goods and services constituted 9% of the assortment structure of domestic sale.

##### Main merchandise in sale on the domestic market of STALEXPORT S.A. in 2005

	Sale value [in m zloty]	Share in sale on domestic market
flat products	64,9	30,5%
prefabricated reinforcement	41,2	19,4%
bars and wire rod	41,1	19,3%
sections	25,6	12,0%
pipes	17,7	8,3%
fuels	6,3	3,0%

##### Main suppliers

Mittal Steel Poland S.A. was the biggest supplier in 2005.

##### Main suppliers (over 5% share in purchases) of STALEXPORT S.A. in 2005

	Purchase value [in m zloty]	Share in amount of purchases
MITTAL STEEL POLAND S.A	148,5	41,7%
ZŁOMREX Sp. z o.o.	34,7	9,8%
Huta Batory Sp. z o.o.	22,3	6,3%
CMC Zawiercie S.A.	17,6	5,0%

## **Main customers**

The two biggest customers of STALEXPORT S.A. in 2005 were foreign companies from South America, North America, the European Union and Ukraine.

As a result of the consolidation of the companies of the Capital Group the sale to the distribution companies – subsidiary ones constituted ca 4% of turnover of STALEXPORT S.A.

None of the individual customers did not exceed 10% of the incomes form sale, main customers of the reinforcement constituted ca 8%.

### **4.2a. Distribution network**

The restructuring of the distribution companies of the Capital Group of STALEXPORT commenced in 2001 focuses on an improvement of trade processes and customer servicing, as well as optimising of borne costs. Continuous analysis of effectiveness of possessed assets and its transferring to spheres bringing in suitable receipts has been carried out.

The effectiveness of activity aimed at direct customer servicing as well as at increasing the added value of the sold steel by its processing and prefabricating is the subject of particular concern.

The large distribution network, aimed at customer, possessing the support of the growing possibilities of steel processing, is one of the main, not fully used factor of the development of STALEXPORT S.A.

At the end of 2005 the distribution network of STALEXPORT S.A. comprises:

- 3 trading offices (Warszawa, Częstochowa, Białystok).
- 11 trade depots (Gostyń, Gniezno, Piła, Bełchatów, Krzyż Wielkopolski, Komorniki, Koszalin, Kostrzyn, Rzeszów, Łódź, Koronowo),
- 4 sale places serviced by the subsidiary companies, i.e.:
  - STALEXPORT SERWIS CENTRUM S.A. (Wrocław, Opole, Katowice),
  - STALEXPORT CENTROSTAL LUBLIN S.A. (Lublin),

The analysis of the sale profile as well as the profile of serviced customers indicates that despite the fact that the particular trade depots are situated in similar geographic areas, each trade depot is of specific character. It is a big advantage which reflects the individualisation of requirements, but also it is quite big difficulty, because it is not so easy to obtain the effect of scale at supply purchases.

In 2005 so called Central Store was prepared logistically, which will supply all trade depots, which minimizes transport costs and also optimizes inventory rotation. The full use of it will be possible after working capital.

Simultaneously there is change in attitude towards the existing distribution network. Assuming that not only quantity and presence of trade depots on the territory of the whole country, but also the work effectiveness is important, in 2006 the decision to liquidate 3 trade depots (Komorniki, Rzeszów, Łódź) was taken.

STALEXPORT S.A. widening its offer, develops the reinforcement prefabricating and processing works. There are more information about this matter in point 6.1.2. Strategy – prospects of the development of commercial activity.

The company constantly has been striving after simplification of procedures of servicing customers and winning goods as well as improving the flexibility and quickness of reacting to the processes and occurrences on steel market.



## 5. OTHER INFORMATION

### 5.1. Information on concluded agreements significant to the issuer's business, including the shareholder agreement known to the issuer, insurance, partnership and cooperation agreements

1. **On 13<sup>th</sup> June 2005** STALEXPORT S.A. and the company Stalexport Autostrada Dolnośląska in Katowice concluded the agreement of sale. The agreement concerns the sale of all 1080 shares of the company Konsorcjum Autostrada Śląsk S.A. in Katowice possessed by STALEXPORT S.A. with the nominal value of 100 zlotys each share. The shares 5,43% in the equity on the general meeting. The total sale price of shares amounts to 388 784 zlotys. The balance sheet value as at 31.03.2005 amounts to zero zloty.
2. **In the period from June till November 2005** the Company concluded export contracts for the deliveries to South America for the total amount of 38.5 m zloty, to North America for the amount of 24 m zloty and for the customer from Ukraine for 32.9 m zloty.
3. **On 8<sup>th</sup> July 2005** the company STALEXPORT SA and Bank Handlowy w Warszawie SA signed an agreement for sale of perpetual lease of a real estate located in Chorzów of an area of 99558 sq. meters together with property of building being separate real estates. Payment was made by the reduction of STALEXPORT SA debts towards Bank Handlowy w Warsaw S.A.
4. **On 19<sup>th</sup> August 2005** STALEXPORT S.A. received a letter from the Minister of Finance in which it was stated that the condition suspending, shown in the agreement on payment of debt by virtue of the guarantee granted by STALEXPORT S.A. in 1997 for the credit to execute an investment called „The complete modernization of steel products line in Huta Ostrowiec S.A.” The same the paragraph defining the principles of fulfilling the commitments by STALEXPORT S.A. towards the State Treasury. The Finance Minister confirmed the fulfillment of the condition on the basis of the letter received from the President of the Anti-Monopoly Office dated August 17<sup>th</sup> 2005, which contains the opinion regarding the consistency of the stipulation of the Agreement about the debt payment, concluded on September 1<sup>st</sup> 2004 between the State Treasury and the company STALEXPORT S.A. with the regulations which refer to granting the public aid.
5. **On 17<sup>th</sup> October 2005** Stalexport Autostrada Małopolska, signed with the Infrastructure Ministry all attachments to the Annexe no 5 of the Concession Agreement for construction via adapting and operating of A4 toll motorway, Katowice – Kraków section. Coming into force of the Agreement gives the possibility to get financial closing – in a form of long-term credit from Bank consortium, designed for financing necessary investment works and settlements resulting from transferring the concession by STALEXPORT S.A. to Stalexport Autostrada Małopolska S.A.
6. **On 28<sup>th</sup> December 2005** STALEXPORT AUTOSTRADA MAŁOPOLSKA S.A., signed a significant agreement in regard to grant the credit. Agreement parties are STALEXPORT AUTOSTRADA MAŁOPOLSKA S.A. Myslowice, and WESTLB BANK POLSKA S.A. Warszawa, WESTLB AG (London Branch), DEPFA BANK PLC, Dublin, Ireland, KfW Frankfurt, Germany, BANK BPH SPÓŁKA AKCYJNA, Warszawa.  
Granting the credit in the amount up to 380 m zloty, for financing the A4 toll motorway project – section Katowice-Kraków (i.e. Construction Work of Phase II a and refinancing of Construc-

tion Work of Phase I) is the subject of the agreement.

7. **On 12<sup>th</sup> January 2006** the company Stalexport S.A. signed with a company located in Warsaw, a preliminary agreement for sale of the real estate. The preliminary sale agreement amounts to 62 m zloty net. The agreement in question concerns the sale of real estate located in Warsaw at Obrzeźna Street (right of perpetual usufruct), with total area of 45 622 sq m, together with buildings and constructions (property right) with surface of 9 769 sq m. „The promised agreement” is to be concluded till 15.02.2006, however the Buyer has the right to extend the date of concluding “the promised agreement” not later than till 15.03.2006.
8. **On 13<sup>th</sup> January 2006** STALEXPORT S.A. informed that the company concluded export contracts to South America with total value of ca 28,5 m zloty. Execution: January – February 2006. Supplier: Mittal Steel Poland/ Mittal Steel Ostrava.
9. **On 3rd February 2006** STALEXPORT S.A. informed that that the company concluded export contracts for deliveries in 1st qtr 2006 of seamless tubes for customers in the USA, with total value of ca 8.8 m zloty.
10. **On 9th march 2006** STALEXPORT S.A. signed “a promised agreement” of sale of the a/m real estate, with the company „Obrzeźna 11 Sp. z o.o.” with seat in Warsaw, for the net amount of 62 m zloty. The agreement in question concerns the sale of real estate located in Warsaw at Obrzeźna Street (right of perpetual usufruct), with total area of 45 622 sq m, together with buildings and constructions (property right) with surface of 9 769 sq m. The agreement amount has already been paid. The real estate will be transferred to the Buyer till 31th August 2006.
11. **On 4th May 2006** the Company signed an agreement with the Bank Syndicate represented by ING Bank Śląski S.A. in Katowice, i.e. Bank Millenium S.A. with its seat in Warsaw, Bank Gospodarki Żywnościowej S.A. with its seat in Warsaw, Bank Handlowy in Warszawa S.A. with its seat in Warsaw, Bank Ochrony Środowiska S.A. with its seat in Warsaw, PKO Bank Polski S.A. with its seat in Warsaw, Bank PEKAO S.A. with its seat in Warsaw, Kredyt Bank S.A. with its seat in Warsaw, Bank Zachodni WBK S.A. with its seat in Wrocław, ING Bank Śląski S.A. with its seat in Katowice. The above agreement was concluded so as to settle the debts of the Bank Syndicate, by Stalexport S.A., by virtue of guarantees granted by the Company in order to secure the repayment of credits granted Walcownia Rur Jedność by the Bank Syndicate.  
Liabilities of the Bank Syndicate are, by virtue of law ( art. 67 § 1 Law on arrangement proceedings), covered by the arrangement proceedings of STALEXPORT S.A as liabilities of major creditors and they are subject to reduction by 40% of their amount. The total sum of liabilities of Stalexport S.A - after 40% reduction - amounts from 33.447.189,48 zloty to 65.160.620,17 zloty, plus interests calculated since 4th March 2005 ( date of termination of credit agreements of Walcownia Rur Jedność by the Bank Syndicate) to the date of the passing a resolution by the Management Board of Stalexport S.A. regarding an increase in the equity of the Company. The final amount of liabilities of Stalexport S.A. will be determined by an Arbitration Court ad hoc. Settlement of all liabilities of the Bank Syndicate by the Company along with interests will be carried out by a conversion into shares in the equity of Stalexport S.A. via contributing the above liabilities as the in-kind contribution, in exchange for shares. The issue of shares will be carried out with an exclusion of the subscription right for the existing shareholders.  
The issue price will be fixed on the basis of the binding in this period market conditions, on the ground of an average Warsaw Stock Exchange rate of shares of Stalexport, for the period of six months previous to signing this Agreement, however at the level not lower than 2 zloty for

one share. In case of the lack of duly executed provisions of the agreement due to the circumstances, which are not the responsibility of Stalexport S.A., the Company will be obliged to pay the stipulated penalty for the benefit of the Bank Syndicate.

## **5.2. Information on changes in organisational or capital links between the issuer and other entities and specification of the major domestic and foreign investments as well as description of the methods of their financing**

- 1. On 1st March 2005** on the strength of the decision of the Register Court in Katowice the company STALEXPORT CENTROSTAL Warszawa S.A. was incorporated into STALEXPORT S.A.
- 2. On 31st August 2005** the Company received the decision of the District Court for Warsaw city in Warsaw (XX Economical Department National Court Register dated 05.08.2005) informing about deleting Stalexport Centrostal Warszawa SA in Warsaw from the National Court Register.
- 3. On 31st August 2005** the Company purchased from the bankruptcy trustee of Stalexport Wielkopolska Sp. z o.o. (being in the state of bankruptcy) the previously usufructed, organized part of failed enterprise, i.e. Division in Kostrzyn on Odra, including: perpetual usufruct of the land along with real property for the net amount of 600 thousand zlotys.
- 4. On 18<sup>th</sup> October 2005** STALEXPORT SA informed the Polish Securities and Exchange Commission (KPWiG) about transferring beyond the regulated market, the own shares of STALEXPORT S.A for the benefit of parties being the shareholders of STALEXPORT CENTROSTAL Warszawa SA. The transfer of shares is an element of a executed process of incorporating STALEXPORT CENTROSTAL WARSZAWA S.A. to STALEXPORT S.A.
- 5. On 20<sup>th</sup> December 2005** the Company received an information about registering by the District Court in Katowice on 19.12.2005 an increase in the equity of the company STALEXPORT TRANSROUTE Autostrada S.A., by the amount of 240,000 zloty, i.e. from 260,000 zloty to 500,000 zloty. Stalexport S.A. subscribed the amount of 132,000 zloty ( 55 % of the amount of increase ), the remaining sum, i.e. 108,000 zloty ( 55 % of the amount of increase ), was subscribed by the other shareholder, the company Transroute International S.A. located in St-Quentin-en-Yvelines. After the equity increase its structure has not changed.  
As a result of the increase in equity of the a/m company Stalexport S.A. possesses 275 shares with nominal value of 1,000 zloty each share, what constitutes 55 % of the equity of the company STALEXPORT TRANSROUTE Autostrada S.A. and gives right to the same number of votes at GSM. The structure of the equity STALEXPORT TRANSROUTE Autostrada S.A, after the increase, is as follows: STALEXPORT SA 55 % - 275 shares, capital - 275,000 zloty Transroute International S.A. 45 % - 225 shares, capital - 225,000 zloty  
The amount of votes equals to the amount of shares possessed by both companies.
- 6. On 22<sup>nd</sup> December 2005** the Ccompany signed 2<sup>nd</sup> agreement with the company Stalexport Autostrada Malopolska S.A. with its seat in Myslowice regarding the refund of costs born by Stalexport S.A.  
Phase I Cost Refund in the amount of 127,000,000 zloty (in real values as of the 28th July 2004) is the subject of the agreement.  
75 % of the amount of Phase I Cost Refund , i.e. 95,250,000 zloty will be paid by SAM S.A. for the benefit of Stalexport S.A. after reaching the Financial Close, taking into account the deduction in the amount of 67,659,288.41 zloty being the liability of Stalexport S.A. towards

SAM S.A., 25 % of the amount of Phase I Cost Refund, i.e. 31,750,000 zloty will be paid out of last draw-downs of funds under planned project financing.

7. **On 27<sup>th</sup> December 2005** the Company received a notice that on 19th December 2005 the transaction of selling 500,000 shares of Stalexport S.A- by Bank Zachodni took place. After the transaction of sale of the shares of Stalexport S.A., the Bank possesses 4 952 246 shares of Stalexport S.A. , what constitutes 4,60% of the initial capital of Stalexport SA and gives voting right to 4 952 246 votes on General Shareholders Meeting, what constitutes 4,60% of the total number of votes on the GSM of Stalexport S.A. Before the transaction of sale of shares of Stalexport S.A. , the Bank possesses 5 452 246 shares of Stalexport S.A. , what constituted 5,06% of the initial capital of Stalexport S.A. and it gave voting right to 5 452 246 votes on GSM, what constituted 5,06 % of the total number of shares on the GSM of Stalexport S.A.
8. **On 2<sup>nd</sup> January 2006** the Company received a notice about registering, by notary in Luxembourg, on 30.12.2005, of the company „Stalexport Autoroute S.a.r.l.” Societe a responsabilite limitee with seat in Luxembourg.  
The equity of the company amounts to 15,000 EUR (say: fifteen thousand ) and it is divided into 600 shares with nominal value of 25 EUR each. One share gives right to one vote on the general shareholders meeting. The equity of the a/m company was fully covered by cash and in 100 % subscribed by Stalexport S.A.  
The establishing of the company is an element of the holding structure which is anticipated by the agreement in regard to grant the credit for financing the toll motorway project - Katowice-Kraków section (financial closing).
9. **On 24<sup>th</sup> February 2006** the Company received from its proxy in Luxembourg the original documents concerning the registration of the increase in equity of the company „Stalexport Autoroute S.a.r.l.” with seat in Luxembourg (Stalexport S.A. subsidiary company in 100%).  
The company equity was increased from the amount of 15,000 EUR to the amount of 42,765,000 EUR, i.e. by the sum of 42,750,000 EUR, through the issue of 1,710,000 shares, with value of 25 EUR per each share. The total number of votes, after registering the change in equity, amounts to 1,710,600.  
The equity was increased by an in-kind contribution made by Stalexport S.A. in a form of 100 % shares of the company Stalexport Autostrada Małopolska S.A.
10. **On 22<sup>nd</sup> March 2006** the Company was notified by its proxy in Luxembourg about registration of the increase in equity of the company „Stalexport Autoroute S.a.r.l.” with seat in Luxembourg (Stalexport S.A. subsidiary company in 100%). The company equity was increased from the amount 42,765,000 EUR to the amount of 47,565,000 EUR, i.e. by the sum of 4,800,000 EUR, through the issue of 192,000 shares, with value of 25 EUR per each share. The total number of votes, after registering the change in equity, amounts to 1,902,600.  
The equity was increased by a contribution in kind made by Stalexport S.A. in a form of 55 % shares of the company Stalexport TRANSROUTE Autostrada S.A.

### **5.3. Description of related party transactions (for single or the total value of transactions exceeding the value of EUR 500,000)**

The balance of mutual receivables and liabilities with the related entities is described in Additional Information point 12 of the financial report. The only significant transaction in the Capital Group is the settlement with STALEXPORT Autostrada Małopolska S.A. of the investment outlays borne by STALEXPORT S.A. and connected with the A4 motorway Kraków- Katowice in the amount of 127 m zloty. This transaction was concluded on the market conditions.

#### 5.4. Information on advanced credits, loans agreements specifying maturity dates and guarantees and sureties issued

Long-term liabilities, the payment date of which exceeds one year, amount to 423,271 thousand zloty They comprise among others the arrangement liabilities in the amount of 59,096 thousand zloty, bank credits covered the restructuring agreements, in the amount of 40,507 thousand zloty, liability towards the State Treasury, by virtue of security of guarantee granted Huta Ostrowiec by the State Treasury in the amount of 77,955 thousand zloty, also covered by restructuring agreement and liability towards the State Treasury by virtue of security of guarantee granted Walcownia Rur Jedność by the State Treasury as well as liability towards the Bank Syndicate by virtue of guarantees of credits of Walcownia Rur Jedność in the global amount of 119,208 thousand zloty.

Long-term liabilities, the payment date of which is below one year, amount in total to 93,909 thousand zloty, including among others the arrangement liabilities due for repayment within twelve months in the amount of 33,769 thousand zloty and by virtue of restructured bank credits due for repayment within 12 months and loans in the amount of 42,481 thousand zloty.

Short-term liabilities by virtue of loans amounts to 12,740 thousand zloty, including:

Lender/ location	Loan amount (thousand zloty)	Maturity	Remarks
STALEXEXPORT Transroute Autostrada S.A.	1 000	30.09.2006	
STALEXEXPORT Autostrada Dolnośląska S.A.	8 200	30.09.2006	
STALEXEXPORT Autostrada Śląska S.A.	3 340		Repayment in instalments till 25.08.2006 r
STALEXEXPORT Serwis Centrum S.A.	200	19.01.2006	Repaid in total in January 2006
<b>Total</b>	<b>12 740</b>		

Total liabilities of the Company by virtue of contracted credits at the end of 2005 amounted to 78,041 thousand zloty, including:

Name of entity	Seat	Credit amount due to be repaid (thousand zloty)	Date of repayment
Bank Handlowy S.A.	Katowice	37 079	according to the signed restructuring agreement
BRE Bank S.A.	Katowice	5 315	according to the signed restructuring agreement
ING Bank Śląski	Katowice	600	according to the signed restructuring agreement
PKO B.P. S.A.	Katowice	22 317	according to the signed restructuring agreement
Bank BPH S.A.	Sosnowiec	4 938	according to the signed restructuring agreement
Getin Bank	Katowice	792	credit repaid on 9.03.2006
<b>Total:</b>		<b>78 041</b>	

In relation to the balance from 31.12.2004 the credits decreased by 22,071 thousand zloty. The difference results mainly from:

- repayment of credit from Bank Handlowy S.A. in the amount of 17,270 thousand zloty,
- diminishing of the liabilities by virtue of credit from PKO BP by 6,833 thousand zloty,
- diminishing of the liabilities by virtue of credit from Bank BPH S.A. by 3,350 thousand zloty,

- taking over a credit from Getin Banku (as a result of incorporating the company STALEXPORT Centrostal Warszawa), the sum of which at 31.12.2005 amounted to 7,792 thousand zloty.

#### **5.5. Information on advanced loans, specifying maturity dates, as well as sureties and guarantees issued, including in particular loans advanced, sureties and guarantees issued to the entities related to the issuer**

Receivables by virtue of loans granted by STALEXPORT S.A. amount to 83,784 thousand zloty. The updating write-off for receivables by virtue of loans in the amount of 83,549 thousand zloty was established. The detailed statement of granted loans presents the table:

Loans granted – balance as at 31.12.2005

<b>Maturity</b>	<b>Borrower</b>	<b>Capital due for payment (in thousand zloty)</b>
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
30.09.2001	Centrozłom Warszawa	3 500
30.06.2001	Centrozłom Warszawa	1.949
30.07.2006	PU „In-bud”	180
29.02.2007	Jarosław Jatkiewicz	55
x	x	<b>Total 83 784</b>

Loans granted Huta Ostrowiec and Centrozłom Warszawa were reported to assets and debts of an insolvent company in connection with running proceedings in bankruptcy of these companies. The loans for PU “In-bud” and Jarosława Jatkiewicz were taken over by STALEXPORT-Centrostal Warszawa as a result of incorporating this company to STALEXPORT S.A. Total value of off-balance sheet burdens by virtue of granted guarantees and securities amounted to 4,474 thousand zloty.

The guarantees decreased in comparison with the end of 2004 by the amount of 280,395 thousand zloty as a result of re-qualification of off-balance sheet liabilities by virtue of credits guarantees of Walcownia Rur Jedność Sp. z o.o. into long-term liabilities. The details are described in Chapter 3 FINANCIAL ANALYSIS OF THE COMPANY point 3.2 (ad 4).

#### **5.6. Information on issued securities along with a description of the use of the issue proceeds by the issuer**

In 2005 STALEXPORT S.A. did not carry out any issue of securities, but it undertook actions, which prepared carrying out new shares issue within the target capital.

#### **5.7. Explanation of the differences between the financial results disclosed in the annual report (SA-RS) and in the quarterly report (SAQ)**

The values shown in items of profit and loss account in the annual report (SAR) decreased in relation to data shown in quarterly report (SAQ) by 556 thousand zloty and constitute insignificant amount, so they do not require the detailed explanations.

**5.8. Assessment along with a justification of financial assets management, including in particular the ability to perform the obligations as well as identification of threats and measures used or intended to be used by STALEXPORT S.A. to counteract such threats**

Information covering the contents of this point are described in point 3.3.3. of the present report.

**5.9. Assessment of the feasibility of planned investments**

Information covering the contents of this point were described partly in point 4 of the present report. While investment actions of the Company were presented in the Plan of Investment Outlays for 2006 and accepted by the Supervisory Board. The means for investment outlays will come from current activity of the Company.

**5.10. Assessment of factors and non-typical events which had an impact on the results of activity in a given financial year, including the extent of such impact on the achieved results**

Information covering the contents of this point are described in Chapter 3. Financial Analysis of the Company, point 3.2.

**5.11. Description of internal and external factors material to the development of the issuer and description of development prospects for the issuer's business**

**Situation in the European and world steel industry**

The world production of raw steel in 2005 amounted to 1,13 billion tonnes, what meant a 5,9% increase in relation to the previous year, out of which over half was produced in Asia. The biggest production increase (by 24,6%) was noted in China, which produced 349,4 m tonnes of steel. China's share in the world production increased from 26,3% in 2004 to 30,9% in 2005. In China production significantly surpassed demand in 2005.

There was a drop in production and inventories on American markets. There was also a drop in production in Europe (by 2,1%) caused by the necessity to clear stocks from 2004.

After the period of price drops in the first half of 2005, the situation stabilized in the second half of the year in the range of prices of metallurgical products with a growth trend in 2006 caused by, among others, the increase of the prices of raw materials.

The biggest share and consumption dynamics in 2006 will be observed in the countries of the Far East and 1/3 of the demand will come from China. India is also going to be the driving force for demand. A demand increase is expected in steel consuming sectors, eg. the construction sector in all regions of the world, especially in the NAFTA region and South America.

**Macroeconomic situation in Poland and in steel consuming sectors**

The economic growth rate in 2005 was lower than in 2004. The Gross Domestic Product increased by 3,2% (in 2004 the GDP increased by 5,3%). The domestic demand increased by 1,9% and the gross outlays for fixed assets increased by about 6,2%. The unemployment rate decreased, nevertheless in December 2005 there were about 2,8 million people unemployed.

Industry also increased its sales value by 4%. Nevertheless, in the previous year this increase amounted to 12,3% and in 2003 it amounted to 8,1%. The presented figures are a proof of a diminishing growth dynamics.

In 2005 there was a production increase in 19 sections of the processing industry. The biggest increase occurred in sectors which worked for export. An increase was noted, among others, in areas of industry important from the point of view of steel consumption: Enterprises manufacturing investment goods noted a 8% increase (35% in 2004), consumption goods noted a 7% increase and supply goods noted a 4% increase (12% in 2004).

In industrial branches regarded as the sources of technical progress, the production growth amounted to 6,4% and it was considerably lower than 40% growth index achieved in 2004.

The biggest growth occurred in such branches of industry as:

- production of machines and equipment by 17, %
- production of metals by 10,9%

The construction-assembly sector shows a systematic growth. In 2005 it amounted to 7,4% and there was a 12% growth in the sector carrying out infrastructural investments, including the construction of roads. No considerable increase in the housing construction is noticeable.

There was only a slight 2% increase of work efficiency. In 2004 work efficiency increased over 10%, whereas the inflation index dropped considerably from 4,4% at the end of 2004 to 0,7% in December 2005. According to current estimations inflation in 2006 will increase in a moderate way and should not exceed the threshold of 2,2%.

According to preliminary estimations investment outlays in 2005 increased by 9,8% (in 2004 there was a 6,5% increase), yet it is considered that in order to accelerate economic growth, investment outlays should have a two-figure value – the growth in the construction industry and the widely understood investments would then have a more permanent growth trend.

Own means and bank credits are still the sources of financing investments. The EU aid has only a slight share in investments. Such a situation results mainly from the inability to prepare investments according to EU Standards and bureaucratic barriers, unstable tax law, social insurance, lengthy procedures, protests of ecologists. In 2005, the Monetary Policy Council reduced the interest rates by 250 basis points supporting the investment policy by lowering the credit costs.

By analysing the data it can be ascertained that the economic situation improved at a lower growth rate than last year. There is an export growth, a low inflation under control and an increase in the construction industry. The growth is smaller than assumed probably because the UE funds were not fully used. That is why there is hope that the economic growth rate will increase (it has a growth potential).

### **Production and commercial situation in the Polish metallurgical industry**

In 2005 there was a clear drop in the production of steel and steel products in the Polish iron and steel industry. The Polish mill produced over 4,5 million tonnes of pig iron (drop by 30,5% in relation to 2004) and 8,4 million tonnes of raw steel (drop by 20,3%).

6,2 million tonnes of hot rolled products were produced (drop by 17,3%). There was also a lower production of long products (by 16,7%), as well as, flat products (by 18,2%). There was a 22,6% drop in the production of cold rolled plates and a 11,7% drop in the production of galvanized sheets.

The production of tubes amounted to 380 thousand tonnes, ie. it increased by 1,5% in relation to the previous year, including 169 thousand tonnes of seamless tubes (14,5% growth) and 212 thousand tonnes of seamed tubes (7% drop).



In the period January-November 2005, the export of steel products in total amounted to 3,6 million tonnes (18% drop) and import amounted to 4,4 million tonnes (17% growth). The balance of turn-overs in foreign trade according to quantity and in a value aspect was negative.

In the period January – November 2005 the apparent consumption of steel products amounted to 7,4 m tonnes and was by 5% lower than in the analogous period of 2004.

In the structure of apparent consumption there was a consumption decrease in flat products by 6% and long products by 5% and tubes by 1%.

The share of import in the apparent consumption after eleven months of 2005 amounted to 51,9% (42,2% - in the analogous period of 2004).

### **Projection of the macro-economic situation in Poland.**

In 2006, according to the projections of the Free Market Economy Research Institute, the Gross National Product in Poland will increase by 4,5% and in 2007 by 5,0%. Maintaining a 5% growth rate will be possible due to a growing dynamics in the domestic demand and a relatively high export growth dynamics.

In 2006 there will also be a lower growth in the added value in industry than in the year 2005 and will amount to about 3,7%. In 2005 the recession in the construction industry was overcome. The added value in this sector, after four recession years and a growth in 2005, will increase by a further 8,6% in 2006. A 5% growth rate of added value in market services will be maintained, whose share in the GDP will increase.

In the years 2006-2007 inflation in an average –annual aspect should be maintained at the level of 2,5% what means that it will not pose a threat to the macroeconomic stability of the Polish economy. However, the unstable political situation and the confusion around the Monetary Policy Council and the Central Bank can be a big threat to such an assumption.

At the end of 2005 the unemployment rate amounted to 17,8% and it is assumed that in 2006 it should decrease by one per cent point.

### **Projections for sectors – steel consumers in Poland**

The general economic projections for the sectors-steel consumers are positive.

First of all the investments in infrastructure (roads, motorways) and positive projections for building industry affect the demand growth.

The prosperity in processing industry on the turn of 2005 and 2006 was positive. This estimation was mainly created by positive anticipations regarding the backlog of orders and production.

In building industry on the turn of the year the general prosperity was positively estimated. It resulted from optimistic estimations of current and future backlog of orders and construction-assembly production .

The financial situation of enterprises, including liquidity, is expected to improve both in the processing industry, as well as, in the construction-assembly sector.

The description of internal factors essential for the development of the Company and the description of prospects of the economic activity is shown in **Chapter 6**.

## **5.12. Changes in the basic principles of managing the Company's enterprise and its Capital Group**

The changing external conditions, including the variable macroeconomic situation, forces the Management Board to continuously monitor and – if it is necessary – to modify the applied principles and model of management.

Because, trade with steel, except for the motorway activity, is the main activity field of STALEXPORT S. A., the Company systematically optimises the value formation chain covering the winning and customer service, logistics, supply, guarantee services. The worked-out „ **Marketing-commercial strategy of STALEXPORT S.A.**.” anticipates conducting this activity so as the working capital, which is at the Company’s disposal, could generate the means for repayment of the arrangement liabilities, an increase in goodwill for the shareholders and profits increase.

This aim is achieved by optimising the sale network and its consolidation, simplification of the management principles, flattening of the organizational structure.

#### Optimising the sale network

In 2005 the sale network of STALEXPORT S.A. consisted of: 3 commercial divisions, 11 trade depots and 4 sale places serviced by the subsidiary companies. Assortment structure of sale of particular trade depots is of wide range and differentiated. Its analysis indicates that ca 30% of assortment items of sale gives 85% revenues. Plates and tubes constitute significant group in the sale assortment. Because MITTAL STEEL Krakow Branch Office is the main producer of this assortment, which prefers railway transport, the store in Czestochowa was prepared, which will improve the logistics, will reduce costs, will complete supplies for individual customers as well as trade depots, optimising their stocks and it increases the inventory rotation. Full launching the central store is planned for the 1<sup>st</sup> half 2006, because in this time the inflow of working capital is expected.

#### Consolidation of the sale network

On 1.03.2005 the District Court in Katowice issued a decision about taking over the company STALEXPORT CENTROSTAL Warszawa S.A. by STALEXPORT S.A. Incorporating the company into the structure of STALEXPORT S.A. enabled to carry out the structural and organizational changes giving the chances to maintain the market in Warsaw and the region.

#### Flattening of the organisational structure

The executed merger flattened the organizational structure and improved the management flexibility. This state better serves the present conditions of trading and it facilitates the mutual cooperation between STALEXPORT S.A. and the direct customers. Working capital management has been improved.

#### Simplification of managing principles

Registration of the purchase invoices, the integrated system of supplying trade depots, unification of the principles of drawing up invoices as well as launching IT integrated the prefabricating and production system and supply management resulted in standardizing principles and in simplifying the management.

The works in the above mentioned ranges are directed by the Director of the Distribution Network appointed as from 01.06.2005.

Moreover taking over from the company STALEXPORT Centrostal Warszawa S.A., of the prefabricating and production division and its re-organisation by STALEXPORT S.A. allowed to coordinate the work better and to increase its processing capacity.

Flexible and effective, sale network directed to customer, supported by increasing possibilities of steel processing, is the main, not fully used, factor of the development of STALEXPORT S.A.

Introduced in 2002 and modified in successive years the model of managing is aimed at an increase in work effectiveness of STALEXPORT S.A. and more close cooperation of the Capital Group, both in planning and operating range. Operations in the range of improvement of managing principles of the Company are of continuous character.

**5.13. Changes in the composition of persons managing and supervising the issuer within the previous turnover year, principles in regard to appointing and calling off managing persons, in particular the right to make decision about issue buyout of shares**

**a) Management Board**

The composition of the Management Board till 31.07.2005 was as follows:

- 1) Emil Wąsacz, Chairman of the Management Board - General Director
- 2) Mieczysław Skołożyński, Vice-Chairman of the Management Board - Financial Director

As from 1st August 2005, Urszula Dzierżoń – Commercial Director became the member of the Management Board.

**b) Supervisory Board**

There were changes in the composition of the Supervisory Board in 2005 and it was as follows:

In the period from 01.01.2005 to 14.06.2005 :

- |    |                                |   |               |
|----|--------------------------------|---|---------------|
| 1. | Zbigniew Szalajda <sup>1</sup> | - | Chairman      |
| 2. | Przemysław Majka               | - | Vice-Chairman |
| 3. | Krystyna Strzelecka            | - | Secretary     |
| 4. | Robert Bender                  |   |               |
| 5. | Stanisław Berkieta             |   |               |
| 6. | Tadeusz Włudyka                |   |               |

In the period from 15.06.2005 to 23.06.2005 :

- |    |                     |   |               |
|----|---------------------|---|---------------|
| 1. | Przemysław Majka    | - | Vice-Chairman |
| 2. | Krystyna Strzelecka | - | Secretary     |
| 3. | Robert Bender       |   |               |
| 4. | Stanisław Berkieta  |   |               |
| 5. | Tadeusz Włudyka     |   |               |

On 23.06.2005 the XII Ordinary General Shareholding Meeting changed the composition of the Supervisory Board. After these changes in the period from 23.06.2005 till today, the composition of the Supervisory Board is as follows:

In the period from 23.06.2005 to 29.03.2006:

- |    |                     |   |               |
|----|---------------------|---|---------------|
| 1. | Tadeusz Włudyka     | - | Chairman      |
| 2. | Przemysław Majka    | - | Vice-Chairman |
| 3. | Krystyna Strzelecka | - | Secretary     |
| 4. | Robert Bender       |   |               |

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<sup>1</sup> On 06.06.2005 resigned the duties of the Chairman of the Supervisory Board and on 14.06.2005 he resigned work in SB.

5. Jacek Legutko
6. Bohdan Wyżnikiewicz

On 29.03.2006 Robert Bender submitted his resignation form the Supervisory Board.  
In the same period as from 29.03.2006 till today the composition of the Supervisory Board is as follows:

In the period from 23.06.2005 to 24.05.2006:

1. Tadeusz Włudyka - Chairman
2. Przemysław Majka - Vice-Chairman
3. Krystyna Strzelecka - Secretary
4. Jacek Legutko
5. Bohdan Wyżnikiewicz

On 24.05.2006 the Extraordinary General Meeting of Shareholders changes the composition of the Supervisory Board recalling Mrs Krystyna Strzelecka and Mr Bohdan Wyżnikiewicz, and appointing to its composition three new members, i.e. Mrs Katarzyna Galus, Mr Tadeusz Sadowski and Mr Jerzy Zieliński.

After these changes as from 24.05.2006 still – the composition of the Supervisory Board is as follows:

In the period from 24.05.2006 still:

1. Tadeusz Włudyka - Chairman
2. Przemysław Majka
3. Katarzyna Galus
4. Jacek Legutko
5. Jerzy Zieliński
6. Tadeusz Sadowski

#### **c) Proxies**

Till 25.07.2005 the proxies of the Company were:

- 1) Marek Bury - Director of the Finance Managing and Controlling
- 2) Urszula Dzierżoń - Commercial Director
- 3) Małgorzata Michalunio-Kępys – Chief Accountant, Director of the Accounting Office

As from 25.07.2005 the Management Board give the proxy to:

- Barbara Boś – Director of the Distribution Network
- while as from 31.07.2005 it cancelled the proxy for Urszula Dzierżoń (she was appointed the member of MB).

The same the proxies of the Company are:

1. Marek Bury - Director of the Finance Managing and Controlling
2. Małgorzata Michalunio-Kępys – Chief Accountant, Director of the Accounting Office
3. Barbara Boś – Director of the Distribution Network

#### **5.14. Information on agreements concluded between the issuer and managing persons, stipulating for the compensation in case their resignation or dismissal from the occupied post without an important reason or their removal result from a merger of the issuer through taking over**

In 2005 the Company did not conclude with managing persons the agreements stipulating for the compensation in case of their resignation or dismissal from the occupied post without an important reason or when their removal or dismissal result from a merger of the issuer through taking over. The employment agreements concluded with the Management Board include the clause 6 months compensation in case recalling or before the termination of the term of office.

#### 5.15. Remuneration of the persons managing and supervising the Company and other benefits resulting for example from motivating programmes separately for each person

The total remuneration, by virtue of employment agreement of the persons managing the Company STALEXPORT SA, ie. of the Management Board and the proxies for the year 2005 amounted to 2,024,799,61 zloty, including:

No.	Name, surname	Function in Stalexport S.A	Amount of remuneration by virtue of employment agreement in STALEXPORT S.A.	Bonuses in STALEXPORT S.A.	Remuneration by virtue of functions in the Supervisory Boards in the subordinated entities	TOTAL
1	Emil Wasacz	Chairman of MB	754,744.30	-	0.00	754,744.30
2	Mieczysław Skołożyński	Vice-Chairman of MB	614,958.00	-	42,169.60	657,127.60
3	Urszula Dzierżoń	Proxy and member of MB as from 01.08 2005	268,044.30	-	42,169.60	310,213.90
4	Marek Bury	Proxy	116,218.80	-	30,121.14	146,339.94
5	Małgorzata Michalunio -	Proxy	141,152.60	-	0.00	141,152.60
6	Barbara Boś	Proxy	129,681,61	-	0.00	129,681,61
x	<b>TOTAL</b>	<b>x</b>	<b>2,024,799.61</b>	<b>-</b>	<b>114,460.34</b>	<b>2,139,259.95</b>

The principles of the remuneration for the members of the Management Board according to the Charter of the Company are determined by the Supervisory Board.

While total remuneration of the managing persons of the Company by virtue of being the member of the supervisory boards in subsidiary companies for the year 2005 amounted to 114,460.34 zloty.

The total remuneration of the Supervisory Board amounted to **117.954,34** zloty, including:

No.	Name, surname	Function in the Supervisory Board of STALEXPORT S.A.	Remuneration by virtue of participating in the Supervisory Board STALEXPORT S.A.
1	Tadeusz Włudyka	Chairman	25,970.64
2	Przemysław Majka	Vice-Chairman	24,443.04
3	Krystyna Strzelecka	Secretary	21,387.60
4	Bohdan Wyżnikiewicz	Member from 23.06.2005	11,109.67
5	Robert Bender	Member	0.00
6	Jacek Legutko	Member from 23.06.2005	11,109.67
7	Stanisław Berkieta	Member till 23.06.2005	10,218.52
8	Zbigniew Szalajda	SB Chairman till 06.06.2005 SB Member RN till 14.06 2005	13,715.20

	<b>TOTAL</b>		<b>117,954.34</b>
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Robert Bender resigned from the remuneration since the day he was appointed the member of the Supervisory Board.

The principles of the remuneration of the members of the Supervisory Board according to the Company's Charter determines the General Meeting of Shareholders.

The Company did not grant loans, advance payments, warranties and guarantees to managing persons.

#### **5.16. Issuer's shares and shares or stocks in issuer's related entities which are in the possession of managing and supervising persons (for each person separately)**

The number and nominal value of STALEXPORT SA shares which are in the possession of managing and supervising persons as on 31.12.2005 is the following:

- |                        |                                  |               |
|------------------------|----------------------------------|---------------|
| 1) Emil Wąsacz         | 59,000 shares with nominal value | 118,000 zloty |
| 2) Urszula Dzierżoń    | 23,430 shares with nominal value | 46,860 zloty  |
| 3) Krystyna Strzelecka | 4,075 shares with nominal value  | 8,150 zloty   |

The persons managing and supervising the issuer do not possess shares and stocks of related entities.

#### **5.17. A list of shareholders possessing at least 5% in the total number of votes at the General Meeting of STALEXPORT S.A.**

A list of shareholders possessing at least 5% in the total number of votes (107.762.023) at the Ordinary General Meeting of Shareholders as on 31<sup>st</sup> December 2005:

Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej	18.022.835 shares	16,72%
Powszechna Kasa Oszczędności BP S.A.	7.654.779 shares	7,10 %

While the list of shareholders possessing at least 5% in the total number of votes (107.762.023) at the Extraordinary General Meeting of Shareholders as on 24.05.2006 is as follows: :

Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej	18.022.835 shares	16,72%
Powszechna Kasa Oszczędności BP S.A.	7.654.779 shares	7,10 %

#### **5.18. Information on agreements known to the Company, as a result of which changes in the proportions of possessed shares by the previous shareholders can occur in the future**

The Company does not know of any information about concluded agreements, as a result of which changes in the proportions of the possessed shares by the previous shareholders or bondholders can occur in the future, except for the agreement concluded with Bank Syndicate on 04.05.2006, which concerns the restructuring of liabilities by virtue of granted guarantee for WRJ Sp. z o.o. This agreement anticipates the conversion of the a/m receivables into shares of STALEXPORT S.A.

#### **5.19. Holders of shares which give special control rights in relation to the Company, together with the description of these rights**

No shares of STALEXPORT S.A. give special control rights in relation to the issuer.

#### **5.20. Information on supervision of employee stock option plans**

There are no plans of employee stock option in STALEXPORT S.A.

#### **5.21. Information on any limitations in regard to transferring of the property rights of securities and limitations in regard to exercising the voting right connected with shares of STALEXPORT S.A.**

The shares of STALEXPORT S.A. are not subject to any limitations connected with transferring of the property right or exercising the voting right connected with the shares.

#### **5.22. Date of concluding an agreement with the entity entitled to examine financial reports and the consolidated financial report, period for which the agreement was concluded, as well as total amount of the remuneration for the examining of the individual and consolidated financial reports in given turnover year.**

The agreement on auditor services with the company BDO Polska Sp. z o.o. was signed on 11.08.2005 for the period of one year 2005. The agreement comprises:

- semi-annual review of individual and consolidated financial report of STALEXPORT S.A.,
- examining of the annual individual and consolidated financial report of STALEXPORT S.A .

Total remuneration for the auditor amounted to 191 thousand zloty.

The remaining amount of the remuneration paid by virtue of other services than examining the financial reports in 2005 amounted to 32 thousand zloty. .

In 2004 the total remuneration of the auditor amounted to 160 thousand zloty.

## 6. THE PROSPECTS OF DEVELOPMENT AND THE DESCRIPTION OF BASIC RISKS AND THREATS, DESCRIPTION OF EXTERNAL AND INTERNAL FACTORS MATERIAL TO THE DEVELOPMENT OF STALEXPORT S.A.

### 6.1 Prospects of development

The year 2005 and the beginning of 2006 was a period full of many events, which essentially affected current and future situation of STALEXPORT S.A. Among them are:

- **Obtaining the financial closing for the motorway project** by signing a credit agreement between the subsidiary company STALEXPORT AUTOSTRADA MAŁOPOLSKA S.A. (SAM S.A.) with Bank Syndicate. It allowed to fulfill main liability of the concessionaire of A4 motorway section Kraków-Katowice, resulting from the successive Annexe to the Concession Agreement which came into force (on October 2005), and the same to keep the financial assets of considerable value in assets of the Company.
- **The talks held with Bank Syndicate** in the whole year 2005 and at the beginning of 2006 resulted in signing an agreement on 4<sup>th</sup> May 2006. It regulates the principles and conditions of repayment of liabilities resulting from granted guarantee for WRJ, which are described in point 3.2 (ad4) of this report. The solution of this matter is very important for the Company's shareholders and creditors, because finally the matter of off-balance sheet liabilities had been explained, which at the beginning of the year 2005 amounted to ca 288 m zloty, and which at the end of the year dropped to somewhat less than 5 m zloty. Moreover this agreement enables the negotiations with Finance Minister regarding principles and conditions of restructuring of liabilities by virtue of guarantee (bill of exchange), granted by STALEXPORT S.A. in connection with the security by Finance Minister of credits for the benefit of Walcownia Rur Jedność Sp. z o.o. The solution of this problem will definitively close the history of 90-ties, which brought the Company to the edge of bankruptcy.
- **The improvement of the current liquidity of the Company.** In the discussed period, due to the sale of the real estate in Warsaw at Obrzeźna Street, in connection with planned location change of the trade and production activity, the net cash in the amount of 50 m zloty was obtained. Moreover along with signing Successive annexe to the Concession Agreement along with obtaining the financial close, STALEXPORT S.A. signed an agreement with its subsidiary company (SAM S.A.) in regard to reimbursement of investment outlays borne by STALEXPORT S.A. in the period when it was a concessionaire. The agreement will result in the reimbursement of ca net 62 m zloty for the benefit of STALEXPORT S.A.
- **Repayment of 81 m zloty in the 2005 of arrangement and restructured off-arrangement liabilities.** There is not doubt that such considerable financial effort was achieved at the expense of the Company's incomes in 2005. However, the execution of a/m liabilities is peculiar „to be or not to be” of STALEXPORT S.A. Till the date of the report the Company repaid 460 m zloty of liabilities, out of 190 m zloty by issuing shares, and remaining by cash. Still the amount of 76 m zloty of arrangement liabilities and 61 m zloty of off-arrangement liabilities remains to be repaid to the end of the first half of 2008. That's why the improvement of the current liquidity is so important, which was discussed in the previous paragraph.

The corporate strategy of STALEXPORT SA considering the above concentrates on two basic fields:



1. development of trading activity, both on domestic market on the basis of network of trade depots and subsidiary companies, and also on foreign market (export, import), as well as the development of processing activity,
2. the development of the motorway activity.

**ad 1)**

In the development of the trade activity the Company focuses particularly on:

- improvement of economic effectiveness of the distribution network,
- development of processing and prefabrication of reinforcement

These fields are the basis for the executed „**Marketing-and commercial strategy of STALEX-PORT S.A.**”. Its aim is to coordination the marketing-commercial and restructuring actions, so as to the limited working capital, STALEXPORT S.A. possesses, could generate the margin facilitating the repayment of arrangement liabilities, the growth in goodwill for the shareholders and the profit increase.

**Improving the economic effectiveness of the distribution network**

Within the improvement of the economic effectiveness of the distribution network the following actions are carried out:

- § improvement of the principles and improvement of compact marketing, trade and logistics policy, allowing to better use the existing potential (scale profit and synergy effect),
- § improvement of the financial controlling principles as the basic method to estimate the work effectiveness of the particular trade depots and segments of commercial activity, ,
- § focusing on maintaining substantial market position in the selected assortments of products and goods ensuring the suitable margins and rotation cycles,
- § improving the process of the customer servicing on the basis of Quality Management System ISO 9001:2000 functioning in STALEXPORT S.A. so as to SATISFY THE CUSTOMERS NEEDS IN THE BEST POSSIBLE WAY AND REMAIN AHEAD OF HER/HIS EXPECTATIONS.

The principle of current cooperation with strategic customers, bringing the Company the highest turnover and margin. The financial situation of customers is monitored continuously as far as their financial liquidity and the amount of mercantile credit are concerned.

Taking into account the economic effectiveness criteria, STALEXPORT S.A. currently changes the organisational structure aimed at its flattening and simplification. Analysing the activity of the particular trade depots of STALEXPORT S.A. adapts their number and location to the future(anticipated) market needs.

The executed processes should bring in the further improvement of the trade activity, the sale costs reduction and better management of working capital in the future.

**The development of the processing and reinforcement prefabricating**

The necessity to reduce costs results in transferring the preliminary stage of production beyond the company. The newly-set up companies with foreign capital are especially interested in it, they are on one hand used to receiving such external services, on the other hand they want to limit the level of the capital outlays necessary to launch own production. For the steel distributors, it is the possibility to increase the amount of services and added value in their activity allowing to strengthen their position on steel market.

STALEXPORT SA basing on its knowledge and experience is striving after satisfying growing demand in the segment of market of steel products preliminary processed having in mind custom-

ers' needs. Improving the quality of services rendered, it incorporates into the production schedule of the customers in *just in time* system.

STALEXPORT S.A. possessed in its structure two works of reinforcement prefabricating and production located in :

- Katowice,
- and in Warsaw.

These works are at present are under deep modernization. Their two automatic production line are equipped with machines of such companies as: EVG, Schnell and MEP, possess production capacities amounting to ca 3.000 Mg/reinforcement elements per month each.

Taking into account the development capacity of Wielkopolska and Pomorza Zachodniego, STALEXPORT S.A. is under organisation of the reinforcement production work in Krzyż Wielkopolski. The production possibilities of the launched line amounts to ca 1.000 Mg/reinforcement elements per month.

Modernized works of reinforcement production for building industry enables the processing in the qty BST500S, RB500W, ST500B and diameters from  $\phi$  6 to  $\phi$  36 mm according to need of the customer as well as they render the transport services on the building site.

**The current chances to be use are:**

- growing reinforcement steel market (consumption in Poland 20 – 30 kg/person, EU–Spain, Portugal, Italy 90-100 kg/person)
- to 2013 Poland is to use for infrastructure investments 35 milliard EUR (roads, sewage – treatment plant, railway, engineering constructions)
- prognoses of the increase in building investments,
- the higher added value in the processed steel, increase in share on the market, costs reduction.

Except for reinforcement STALEXPORT S.A. possessed also the processing possibilities in the range of flat products. However the possessed position in this market segment is far beyond the potential possibilities. Only a few dozens of tones was subject to the enriching processes out of ca 175 thousand tones in 2005. This fields of activity will de developed. At present the talks with potential partners are held, which are interested in strategic cooperation in order to determine the optimal range of planned investment and mutual participation in it.

**Ad.2)**

STALEXPORT S.A. possessed granted in 1997 30-year concession for constructing via adapting the A4 motorway on section Kraków -Katowice to the conditions of toll motorway and fro its operating, which was transferred on 28.07.2004 to the subsidiary company STALEXPORT Autostrada Małopolska S.A.

In the development of the motorway activity the essential attention of the Management Board is focuses on:

- executing of the liabilities resulting from the concession agreement on A4 Kraków-Katowice section, including especially the execution of the investment programme from the range of main overhauls and modernisation of the route till 2009,
- preparing for participation in further stages of tenders proceedings for constructing wand operating the A1 motorway Stryków-Pyrzowice and A2 Stryków-Konotopa in partnership with Autostrade SpA,

- preparing for possible tender for maintaining and operating A4 motorway Wrocław-Katowice,
- promoting the Public-Legal-Partnership in the range of the motorway projects,
- podejmowanie działań dla pozyskania inwestora strategicznego.

Good prognoses in the motorway activity of STALEXPORT S.A. are:

- in the range of executed motorway project:
  - maintaining economic growth generating traffic increase,
  - development of the trade cooperation with Ukraine generating the increase in transit traffic,
  - development of the A4 motorway to the East and West,
- in the range of future motorway projects:
  - the plans of the development of the motorway activity in Poland (over 2000 km to 2013) including the share of private sector,
  - the interests of the foreign companies in entering the Polish motorway market with the share of domestic partners,

The Management Board of STALEXPORT S.A. conducts the active policy aiming at obtaining new capital and commercial partners to take part in current and future motorway tenders, using its strategic advantage in motorway activity in Poland, reflected among others in: :

- longest experience in managing the projects of toll motorway on the Polish market,
- economically effective management of the motorway section because of traffic level – which do not require public subsidies,
- possessed experience in the participation in motorway tenders in Poland.

## **6.2. Description of basic risks and description of external and internal factors material to the development of the Company, these risks counteractions.**

Basic risks and threats for the business activity of STALEXPORT S.A. connected with the following fields:

- a) **trade activity,**
- b) **financial activity,**
- c) **motorway activity.**

### **ad a) Basic risks and threats connected with commercial activity of STALEXPORT S.A.**

The basic risks and threats connected with trade activity are:

- limited access to the working capital – analysis of trade activity and existing potential of the market in the range of increasing steel market, alloy steel and non-ferrous metals indicates the possibility to increase turnover , and the same to increase the amount of margin by the increase in working capital,
- trade policy of the mills owners aiming at diminishing the part of the agents,
- growing competitiveness mainly from the part of distributors representing the bog steel companies, affecting the diminishing of the average amount of trade margin. .

### **Actions limiting the mentioned above risks**

In situation when the market due to growing competitiveness characterised with diminishing margin value, increased working capital, and the same better payment conditions allow to obtain better supply conditions at the producers, improving the competitive situation and directly influencing the

increase in share in the market. STALEXPORT S.A. has here very limited possibilities. It has been conducting the activity already 5th year with the access to the bank credits. However, the Management Board expects that along with regaining the market confidence by the Company, as a result of systematical repayment of our liabilities and obtaining good results, the bank market will renew gradually the crediting of contract of STALEXPORT S.A. Concluding in May 2006, the blanket agreement on financing and on renewable credit with Fortis Bank Polska S.A. and the guarantee agreement with PZU S.A. is a good prognostic.

The following actions serve diminishing the negative effects of limited access to the working capital:

- § further optimising of functioning costs and improvement of processes executed in STALEXPORT S.A. and the whole Capital Group, including executed consolidation of the Capital Group,
- § the sale of other redundant assets not connected with the basic activity of the Company, mainly real estates (real estate of Huta Kościuszko, real estate located at streets: Mickiewicza, Sobieskiego and Opolska in Katowice, and transferring the activity of the Branch Office in Warsaw to the new seat with lower functioning costs),
- § the reimbursement of investment outlays borne by STALEXPORT S.A. for adapting the A4 motorway on section Kraków-Katowice in connection with transferring the concession to STALEXPORT Autostrada Małopolska S.A.,
- § carrying out a new share issue. Already in the half of May 2004 the shareholders authorized the Management Board to increase the equity capital within the target capital. The Management Board till 13<sup>th</sup> may 2007 – one-off or in a few stages – can decide about the issue up to 50 m shares (capital increase by 46%). Having in mind the concluded agreement with the Bank Syndicate the Management Board of STALEXPORT S.A. using the possessed authorization, will carry out in the nearest period, the issue for the banks-creditors, with the value of ca 35 m zloty.

#### **ad b) The risks factors and threats for executing the strategy in the range of financial activity**

The basic threats in the range of the financial activity we can include:

- the necessity to conduct the activity with diminishing value of the working capital resulting from fulfilling the arrangement and off-arrangement liabilities, without the bank credits support,
- low credit creditability of STALEXPORTU S.A.,
- charges resulting from other arrangement and off-arrangement liabilities to be repaid.

#### **Actions limiting the above risk**

The following actions serve the diminishing of risks connected with the necessity to conduct activity with diminishing value of working capital:

- **speed up the circle of rotation of the working capital** by increasing the share of trade transactions characterised with shortest possible period of financing (understood as total period of storing stocks and collecting receivables), looking for the possibility of discounting selected trade receivables from the customers, to which longer than 30-days terms of payments, increasing the frequency of export supplies are offered,
- **taking advantage of the possessed not charged assets of STALEXPORT S.A.** for securing the possible credit lines;
- **winning the external sources of financing** in close connection with trade transactions requiring financing, including especially export, production activity and import.

**Ad c)**

**The basic risk and threat for the motorway activity of STALEXPORT S.A. is:**

- changeability of policy of successive cabinets in the range of constructing and operating motorway in Poland.

Despite changing outlines of constructing and operating of motorways in Poland, the Management Board is of the opinion that Public-Legal-Partnership is the best method of executing the infrastructure investments, applied with success in many dynamically developing countries.

### **Summary**

Analysing the existing situation of STALEXPORT SA, it should be stated that the main tasks of the Company for the nearest years are as follows:

- repayment of restructured liabilities
- effectiveness improvement via the organizational integration of the distributive network and development of the production and processing activity,
- increasing the share in the market and strengthening the company's position in domestic market and in export,
- development of motorway activity.

The basic conditions of executing the above mentioned goals are, among others:

- winning financial means from the credit and capital market,
- improvement of the market credibility and the image of STALEXPORT S.A,

**Member  
of the Management Board  
Commercial Director**

**/Urszula Dzierżoń**

**Vice-Chairman  
of the Management Board  
Financial Director**

**Mieczysław Skołożyński/**

**Chairman  
of the Management Board  
General Director**

**/Emil Wąsacz/**

Katowice, May 2006.

## **7. ENCLOSURES**

According to the Decree of the Finance Minister of 19 October 2005 regarding the current and periodic information handed over by issuers of securities, the annual report includes:

**7.1. The statement of the Management Board that according to the best of their knowledge the annual financial report and comparable data were drawn up in compliance with the binding accounting principles and that they reflect in an authentic, reliable and clear way the Company's material and financial situation and its financial result and that the report of the management board contains a true picture of development and achievements and the issuer's situation, including the presentation of the basic risks.**

### **Statement**

We, hereby, state that according to the best of our knowledge the annual financial report for the year 2005 and the comparable data were drawn up in compliance with the binding accounting principles and that they reflect in a true, reliable and clear way the material and financial situation and also the financial result of STALEXPORT SA.

Simultaneously, we state that the annual report of the Management Board contains a true picture of development and achievements and the Company's situation, including the presentation of the basic risks and hazards.

**Member  
of the Management Board  
Commercial Director**

**/Urszula Dzierżoń/**

**Vice-Chairman  
of the Management Board  
Financial Director**

**/Mieczysław Skołożyński/**

**Chairman  
of the Management Board  
General Director**

**/Emil Wąsacz/**

Katowice, May 2006

**7.2. The statement of the management board ascertaining that the entity entitled to examine the annual financial report was chosen according to the rules of law and that this entity and the chartered auditors examining this report fulfilled the conditions to express a fair and independent opinion about this examination, according to the proper national rules of law.**

### **Statement**

We, hereby, state that the company BDO Polska Sp. z o.o. in Warsaw, entitled to examine the annual financial report for the year 2005, was chosen according to the rules of law, ie. under the § 18 passage 2 item 11 of the Charter of STALEXPORT SA in Katowice.

Simultaneously, we state that the above mentioned entity and the chartered auditors examining this report fulfilled the conditions to express a fair and independent opinion about this examination, according to the proper rules of Polish law.

**Member  
of the Management Board  
Commercial Director**

**Vice-Chairman  
of the Management Board  
Financial Director**

**Chairman  
of the Management Board  
General Director**

**/Urszula Dzierżoń**

**Mieczysław Skołożyński/**

**/Emil Wąsacz/**

Katowice, May 2006

**7.3. Statement of the Management Board on applying the Best Practices by the Company.**

**Statement**

We, hereby, state that in 2005 STALEXPORT S.A: approved and applied in its activity the principles of the Best Practices.

**Member  
of the Management Board  
Commercial Director**

**Vice-Chairman  
of the Management Board  
Financial Director**

**Chairman  
of the Management Board  
General Director**

**/Urszula Dzierżoń**

**Mieczysław Skołożyński/**

**/Emil Wąsacz/**

Katowice, May 2006