



KONSORCJUM STALI S.A.

04-462 Warszawa, ul. Stężycka 11, www.konsorcjumstali.com.pl, e-mail: ks@ks.mall.pl

**FINANCIAL SUPERVISORY COMMISSION
WARSAW STOCK EXCHANGE S.A.
POLISH PRESS AGENCY**

Unit Annual Financial Report 2009

**ACCORDING WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Warsaw, April 2010

1. GENERAL INFORMATION

1.1. Company's data:

Name:	Konsorcjum Stali Spółka Akcyjna
Registered office:	ul. Stężycka nr 11, 04-462 Warszawa
Basic scope of activity according to Polish Classification of Activity (PKD):	Remaining wholesale sale – PKD 2007: 4690Z
Registering authority:	District Court for the capital city of Warsaw in Warsaw, XIII Commercial Division of the National Court Register; entry no. 0000279883; entry made on 2 nd May 2007
Legal form:	Spółka Akcyjna (joint stock company)

Konsorcjum Stali S.A. is a legal successor of Konsorcjum Stali Sp. z o.o. – the transformation was performed according to art. 551 - 570 and art. 577 – 580 of Commercial Companies Code.

Konsorcjum Stali S.A. is one of the most important steel mill products distributors in Poland. Company's securities are listed on the Warsaw Stock Exchange since 6th December 2007.

The activity of Konsorcjum Stali within the scope of steel mill products trade started in 1999. The company was the progenitor of consolidation in the branch of steel mill products distributors and in 2000 joined under its name the activity of steel mill products warehouses: Stalko, Stalhurt i Budo-Market. On 1st July 2008, Konsorcjum Stali S.A. joined with Bodeko Sp. z o.o. and became one of the biggest steel distributors operating on the Polish market.

Konsorcjum Stali S.A. operates on the market of distribution and processing steel mill products from regular steel. The trade activity in which the company specialised within the first years of its operation has been extended to the production of steel reinforcements and steel constructions for the building industry as well as services within the scope of customised steel cutting.

Konsorcjum Stali, within individual areas of activity, offers:

Trade activity

- metal plates,
- shaped steel,
- plain square and flat bars,
- rifled bars,
- z/g profiles,
- wire rods,
- pipes,

- other small products.

Manufacturing activity

- reinforcements for the building industry,
- steel constructions.

Services

- cutting and straightening metal plates from coils,
- cutting metal plates with guillotine shears,
- cutting shapers.

The above mentioned servicing activity does not constitute a separate sales activity of the Company and is included in the prices for products and materials.

After joining Emitent with Bodeko Sp. z o.o., on 1st July 2008, the number of trade divisions and production facilities owned by the Company in Poland grew significantly – the number of trade divisions grew from four to ten and the number of production facilities from two to five.

The distribution activity is conducted in ten trade divisions located in Białystok, Kraków, Lublin, Poznań, Sępólno Krajeńskie, Warszawa-Bielany, Warszawa-Ursus, Wrocław, Zawiercie, Zielonka. The manufacturing activity – is conducted in five production facilities located in Poznań, Warszawa-Bielany, Warszawa-Rembertów, Warszawa-Ursus, and Wrocław. The facility in Rembertów produces steel constructions, whereas other facilities equipped with modern stock of machine tools produce reinforcements for the building industry. Divisions located in Wrocław and Lublin as well as a steel yard in Wrocław constitutes the new localisations of the Company, which started their activity in 2008. In addition, in 2008 in Gdynia, Szczecin and Rzeszów Emitent's trade offices started their activity. They constitute the basis for Company's future divisions which are to be created in these regions.

The current production and trade net consists of 5 production facilities and 10 trade divisions which dispose of their own warehouses; the biggest two are located in Warsaw and Zawiercie and they play the role of buffer warehouses together with the ever developing subsidiary company of Polcynk Sp. z o.o., which produces steel constructions. All this places Konsorcjum Stali S.A. in the group of companies disposing of the most developed distribution net and with the strongest production power within the scope of producing steel reinforcements for the building industry.

Construction companies, steel construction manufacturers, and enterprises conducting industrial and residential investments, constitute the group of major customers of Emitent and its Group. The products that are designed for these customers are rifled bars, wide rods, reinforcements for the building

industry as well as hot rolled shapers. The sale and processing of flat products and cold rolled shapers related to customers representing the machine-building industry have risen systematically. A very important group of customers consists of trade companies, smaller steel distributors, and companies selling building materials.

1.2. Company's duration:

The company has been created for an indefinite period.

1.3. Presented periods:

Individual financial statement includes data for the period from 1st January 2009 until 31st December 2009. Comparison data are presented according to the state from 31st December 2008 for the financial standing statement, for the period from 1st January 2008 until 31st December 2008 for total income statement, cash flow statement and statement of changes in equity.

1.4. Composition of governing bodies at 12.31.2009:

Executive Board:

Robert Wojdyna	– President CEO
Janusz Kocłęga	– Vice-President
Ireneusz Dembowski	– Member
Marek Skwarski	– Member

Supervisory Board:

- Tadeusz Borysiewicz – Chairman
- Paweł Maj – Vice Chairman
- Elżbieta Mikuła – Member
- Mieczysław Maciążek – Member
- Jan Walenty Pilarczyk – Member

1.5. **Auditors:** Mazars Audyt Sp. z o.o. established in Warsaw
(formerly Mazars&Guerard Audyt Sp. z o.o. established in Warsaw)

1.6. Banks: Bank Handlowy w Warszawie S.A.

Bank Polska Kasa Opieki S.A.

ING Bank Śląski S.A.

BRE Bank S.A.

1.7. Quotation on a regulated market:

1. General information:

Stock exchange:

Giełda Papierów Wartościowych w Warszawie S.A.
ul. Książęca 4
00-498 Warszawa

WSE Symbol: KSTA

WSE Sector: wholesale trade

2. Depository system :

Krajowy Depozyt Papierów Wartościowych S.A. (KDPW)
ul. Książęca 4
00-498 Warszawa

3. Investor relations :

Robert Wojdyna

President of the Executive Board Konsorcjum Stali S.A.

ul. Stężycza 11

04-462 Warszawa

tel.: 0 22 879 11 31

e-mail: robert.wojdyna@ks.mail.pl

1.8. Shareholders at 31.12.2009

	number of shares	percentage of capital	percentage of votes	percentage of capital without its own shares held by the Issuer	percentage of votes without its own shares held by the Issuer
Kocłęga Janusz	883 283	14,98%	14,98%	16,18%	16,18%
Borysiewicz Krystyna	816 980	13,85%	13,85%	14,97%	14,97%
Dembowska Barbara	816 980	13,85%	13,85%	14,97%	14,97%
Skwarski Marek	400 200	6,79%	6,79%	7,33%	7,33%
Wojdyna Robert	400 200	6,79%	6,79%	7,33%	7,33%
Opoka TFI	389 155	6,60%	6,60%	7,13%	7,13%
Przybysz Krzysztof	330 000	5,60%	5,60%	6,05%	6,05%
Skyline Investment S.A. established in Warsaw	310 000	5,26%	5,26%	5,68%	5,68%
Towarzystwo Funduszy Inwestycyjnych Allianz Polska S.A.	306 055	5,19%	5,19%	5,61%	5,61%
Konsorcjum Stali S.A. purchase under the buy-back operation	439 934	7,46%	7,46%	0,00%	0,00%

1.9. **Subsidiary companies:**

Polcynk Sp. z o.o. – which basic scope of activity is production of steel constructions.

Polcynk Sp. z o.o. with its registered residence in Radom is a middle-sized company producing steel constructions and having its own warehouse-production base. Polcynk renders also varnishing services. The company produces elements for hall construction, parts for assembly lines and elements for road infrastructure. Sales revenues of Polcynk for the year 2008 amounted to PLN 12,723, and net profit amounted to PLN 1,038. In 2009, Polcynk's revenue amounted to PLN 12,758 and its net profit amounted to PLN 983,000. Polcynk employs about 90 employees.

On 30th July 2009 Konsorcjum Stali S.A. took up 100% of shares from Spółka Polcynk Sp. z o.o. with its registered residence in Radom of total face value of PLN 500.00 (in words: five hundred) each.

The company took up 100% of shares from Polcynk Sp. Z o.o. in the total amount of PLN 9,350,040.00. The financial contribution for purchasing shares in Polcynk Sp. z o.o. was financed from company's own equities.

Financial statements of Polcynk Sp. z o.o. are consolidated with Konsorcjum Stali S.A. by means of full method.

All balances and transactions among companies included in the Group of Companies are wholly excluded.

1.10. **Associated entities:**

Konsorcjum Stali S.A. owns also equity interest in RBS STAL Sp. z o.o. and in Stalprodukt Warszawa Sp. z o.o. disposing of 33.3% and 49% of shares respectively; however, it has no influence on control over these entities. Data concerning these entities are presented in a consolidated statement by means of equity method.

1.11. **Declarations and financial statement format**

Declaration of conformity with IFRS

According to Regulation of the Minister of Finance from 19th February 2009 on current and periodic information transferred by equities issuers (Journal of Laws No. 33, item 259)., the Company's Management declares that according to its best knowledge the following financial statement and comparative data were prepared in accordance with accounting rules and that they reflect in a real, reliable and clear manner the financial standing of the company as well as its financial result.

The following financial statement was prepared in accordance with IFRS as well as IFRS approved by the EU. As for the day of the following statement publication approval, taking into consideration the process of introducing IFRS in the EU and the current company's activity, within the scope of applied accounting rules there is no difference between valid IFRS standards and IFRS standards approved by the EU.

IFRS include standards and interpretations accepted by International Accounting Standards Board (IASB) and International Finance Reporting Interpretation Committee (IFRIC).

The following individual financial statement was prepared in thousands PLN. The statement covers the period from 1st January to 31st December 2009 and comparative period from 1st January to 31st December 2008.

In order to obtain full information about group's financial standing on 31st December 2009 as well as financial result for the period from 1st January to 31st December 2009 in compliance with IFRS approved by the EU, the following individual financial statement should be read together with the consolidated financial statement approved for publication by the Management and publicised on the same day as the individual financial statement.

Preparation of a financial statement in accordance with IFRS requires performance of assessments and assumptions which influence the values presented in the financial statement. Any assumptions and assessments base on the Management's best knowledge about current actions and events, the real results may be different from the predicted ones.

Declaration about auditor choice

The Management declares that entity entitled to audit financial statements who performed the audit of the financial statement was chosen according to legal provisions and that this entity as well as the certified auditors who performed the audit fulfilled the conditions necessary to issue impartial and independent opinion, according to national legislation. According to the rules of corporate order accepted by the Management, the certified auditor was appointed by the Supervisory Board of Konsorcjum Stali S.A. with an act 1/10.09.2009 from 10th September 2009 on the choice of a certified auditor. The Supervisory Board has made the above-mentioned choice taking into consideration guarantee of full independence and impartiality of the choice itself as well as realisation of tasks by the certified auditor.

Financial statement approval

The following financial statement is an individual financial statement and was approved for publication as well as signed by the Company's Management on 30th April 2010. Apart from the following

individual financial statement, there is a consolidated financial statement of Grupa Kapitałowa Konsorcjum Stali S.A. prepared, where the Konsorcjum Stali S.A is a dominant entity.

UNIT ANNUAL REPORT OF KONSORCJUM STALI S.A.

2.1. Selected financial data

Basic items of the balance sheet, income statement and cash flow statement of the financial statements and comparative data are also converted into Euro.

	01.01.2009 - 31.12.2009		01.01.2008 - 31.12.2008	
	in thousands PLN	in thousands EUR	in thousands PLN	in thousands EUR
Net sales of products, goods and materials	720 203	165 922	757 602	214 491
Cost of sales	675 642	155 656	696 322	197 142
Operating profit (loss)	2 968	684	25 729	7 284
Gross profit (loss)	-70	-16	21 195	6 001
Net profit (loss)	31	7	16 845	4 769
Net cash flows from operating activities	27 181	6 262	31 867	9 022
Net cash flows from investing activities	-13 862	-3 194	-12 687	-3 592
Net cash flows from financial activities	-30 588	-7 047	-16 568	-4 691
Net cash flows in total	-17 269	-3 978	2 612	740
Total assets	401 415	97 711	444 145	106 448
Liabilities and provisions	158 000	38 460	197 920	47 436
Long-term liabilities	4 075	992	9 128	2 188
Short-term liabilities	144 228	35 107	179 310	42 975
Equity	243 415	59 251	246 225	59 013
Share capital	5 897	1 435	5 897	1 413
Number of shares	5 897 419	5 897 419	5 897 419	5 897 419
Annualized profit (loss) per ordinary share (PLN/EUR)	0,01	0,00	2,86	0,81
Diluted profit (loss) per ordinary share (PLN/EUR)	0,01	0,00	2,86	0,81
Book value per ordinary share (PLN/EUR)	41,27	10,05	41,75	10,01
Diluted book value per share (PLN/EUR)	41,27	10,05	41,75	10,01
Dividend per share declared or paid out (PLN/EUR)	0,00	0,00	0,00	0,00

Announced by Narodowy Bank Polski average exchange rate of PLN against the Euro:

FY	average rate during the period *	minimum rate for the period	maximum rate for the period	rate on the last day of the period
01.01.2009 - 31.12.2009	4,3406	3,917	4,8999	4,1082
01.01.2008 - 31.12.2008	3,5321	3,2026	4,1848	4,1724

*) average exchange rates prevailing on the last day of each month during the period

The various items of the balance sheet assets and liabilities are converted at the exchange rates announced by Narodowy Bank Polski for EUR exchange rate at the last day of the period.

The various items of profit and loss account and reports on cash flows were converted at the exchange rates which are the arithmetic mean of the average rates announced by Narodowy Bank Polski for EUR exchange rate at the last day of the period.

2.2. Profit and loss account

	NOTE	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Net sales of products and services, goods and materials, including:	1,2	720 203	757 602
- from related parties		12 283	16 173
Net sales of products and services		167 577	144 539
Net sales of goods and materials		552 626	613 063
Cost of products, goods and materials sold, including:	2,3	675 642	696 322
- from related parties		11 495	15 150
Manufacturing costs of products sold	3	159 663	132 028
Value of goods and materials sold		515 979	564 294
Gross profit (loss) on sales		44 561	61 280
Selling costs	3	34 197	26 925
Costs of general administration	3	7 581	8 799
Profit (loss) on sales		2 783	25 556
Other operating revenues	4	1 659	1 229
Other operating costs	4	1 474	1 056
Operating profit (loss)		2 968	25 729
Financial revenue	5	1 195	959
Financial costs	5	4 233	5 493
Share in profit (loss) of associated units		0	0
Gross profit (loss) before taxing		-70	21 195
Income tax	6	-101	4 350
- current part		493	4 258
- deferred part		-594	92
Net profit (loss)		31	16 845
Annualized net profit (loss) (in thousands PLN)	8	31	16 845
Weighted average number of ordinary shares (items)		5 897 419	4 563 730
Profit (loss) per ordinary share (in PLN)		0,01	3,69
Diluted weighted average number of ordinary shares (items)	8	5 897 419	4 563 730
Diluted profit (loss) per ordinary share (in PLN)		0,01	3,69

Warsaw, 30.04.2010

2.3. Statement of comprehensive income

	NOTE	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Profit (loss) net		31	16 845
Changes in the surplus arising from revaluation		0	0
Profit (loss) on revaluation of financial assets available for sale		0	0
Effective portion of profit (loss) on hedging instruments cash flows		0	0
Actuarial profit (loss) from defined benefit pension		0	0
Income taxes associated with elements of other comprehensive income		0	0
Total income	10,11	31	16 845

Warsaw, 30.04.2010

2.4. Balance sheet

ASSETS	note	at 31.12.2009	at 31.12.2008
Total non-current assets		236 876	225 275
Tangible assets	12	126 976	125 807
Intangible assets, including:	13	96 589	96 627
- goodwill	14	96 283	96 283
Shares of subordinated units	15	9 384	0
Investments in associated units under the equity method	15	1 448	1 448
Financial assets available for sale		0	0
Long-term loans		0	0
Long-term receivables	19	477	228
Investment property	14	20	20
Other long-term investments		0	0
Deferred tax assets	6	1 982	1 145
Other accruals		0	0
Current assets		164 539	218 870
Stocks	20	60 527	77 349
Short-term receivables, including:	22	96 941	111 450
- from related parties		4 941	5 075
- from other parties		92 000	106 375
Claims arising from the current income tax		42	480
Other short-term receivables	23	2 410	7 703
Short-term loans	19	3 000	3 000
Short-term financial assets		0	0
Cash and cash equivalents	25	1 619	18 888
Non-current assets classified as held for sale		0	0
Total assets		401 415	444 145

Warsaw, 30.04.2010

LIABILITIES	note	at 31.12.2009	at 31.12.2008
Equity attributable to shareholders of the parent		243 415	246 225
Share capital	26	5 897	5 897
Own shares (negative value)	28	-13 869	-11 028
Capital reserve from the sale of shares above the nominal price	29	178 100	178 100
Capital reserve	29	15 620	15 620
Revaluation reserve	29	193	193
Other reserve capitals	29	30 900	17 420
Profit (loss) from previous years	30	26 543	23 178
Net profit (loss)	30	31	16 845
Liabilities and provisions for liabilities		158 000	197 920
Total provisions for liabilities		9 697	9 482
Provision for deferred income tax	6	9 177	8 935
Provision for retirement and similar benefis, including:	40	144	126
- long-term		130	114
- short-term		14	12
Other provisions	41	376	421
- long-term		0	0
- short-term		376	421
Total long-term liabilities		4 075	9 128
Long-term loans	31	3 478	8 368
Other long-term liabilities	33,38,39	597	760
Total short-term liabilities		144 228	179 310
Short-term loans	31	48 315	66 085
Current part of long-term loans	31	4 724	4 940
Trade payables, including:	34	83 252	95 867
- from related parties		325	360
- from other parties		82 927	95 507
Liabilities from income tax		0	0
Other short-term liabilities	35,38,39	7 937	12 418
Liabilities directly associated with fixed assets classified as held for sale		0	0
Total liabilities		401 415	444 145
Book value in thousands PLN		243 415	246 225
Number of shares		5 897 419	5 897 419

(amounts are expressed in thousands PLN unless otherwise stated)

Book value per share in PLN		41,27	41,75
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2.5. Statement of changes in equity

	Share capital	Own shares (negative value)	Capital reserve from the sale of shares above the nominal price	Capital reserve	Revaluation reserve	Other capitals	Profit (loss) from previous years	Net profit (loss) for the current year	TOTAL EQUITY
twelve months ended December 31, 2009									
Equity at 01.01.2009	5 897	-11 028	178 100	15 620	193	17 420	40 023	0	246 225
Net result 01.01-31.12.2009								31	31
Issue of shares at nominal price									0
Issue of shares above above the nominal price									0
Deferred tax transferred to the capital									0
Consolidation adjustments									0
Option program									0
Transfer of profits									0
Transfers between capitals									0
Purchase of own shares		-2 841							-2 841
Division of financial results						13 480	-13 480		0
Exchange differences									0
Others									0
Equity at 31.12.2009	5 897	-13 869	178 100	15 620	193	30 900	26 543	31	243 415
twelve months ended December 31, 2008									
Equity at 01.01.2008	3 230	0	14 723	17 919	193	2 420	36 231	0	74 716
Net result 01.01-31.12.2008	0	0	0	0	0	0	0	16 845	16 845
Issue of shares at nominal price	2 667	0	0	-352	0	0	0	0	2 315
Issue of shares above above the nominal price	0	0	163 377	0	0	0	0	0	163 377

(amounts are expressed in thousands PLN unless otherwise stated)

Deferred tax transferred to the capital	0	0	0	0	0	0	0	0	0
Consolidation adjustments	0	0	0	0	0	0	0	0	0
Option program	0	0	0	0	0	0	0	0	0
Transfer of profits	0	0	0	13 053	0	0	-13 053	0	0
Transfers between capitals	0	0	0	-15 000	0	15 000	0	0	0
Purchase of own shares	0	-11 028	0	0	0	0	0	0	-11 028
Division of financial results	0	0	0	0	0	0	0	0	0
Exchange differences	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0	0
Equity at 31.12.2008	5 897	-11 028	178 100	15 620	193	17 420	23 178	16 845	246 225

Warsaw, 30.04.2010

2.6. Cash flow statement

	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
A. Cash flows from operating activities		
Net profit	-70	21 195
Total adjustments:	27 251	10 672
Minority shareholders' profit (loss)	0	0
Amortization	4 095	2 895
Profits (losses) on net foreign exchange differences	0	0
Interest and dividends, net	3 563	4 236
Profit (loss) from investment activities	-77	-47
Change in reserves	-27	40
Change in stocks	16 822	23 779
Change in receivables	19 550	57 085
Change in liabilities excluding loans and credits	-16 621	-70 145
Change in active accruals and income in future period	0	407
Other adjustments	0	-3 216
Income tax paid	-54	-4 362
A. Net cash flows from operating activities	27 181	31 867
B. Cash flows from investing activities		
Total inflows	881	2 474
Disposal of fixed assets and intangible assets	211	133
Disposal of financial assets	670	0
Others	0	2 341
Total outflows	14 743	15 161
Purchase of fixed assets and intangible assets	5 359	12 161
Expenditure on financial assets	9 384	0
Dividends paid to minority shareholders	0	0
Others	0	3 000
B. Net cash flows from investing activities	-13 862	-12 687
C. Cash flows from financial activities		
Total inflows	0	10 527
Proceeds from loans	0	10 527
Issue of debt securities / shares	0	0
Others	0	0
Total outflows	30 588	27 095
Repayment of loans	22 876	10 873
Purchase of own shares	2 841	11 028
Remission of own shares	0	0
Interest paid	4 233	4 236

Dividends paid to owners	0	0
Others	638	958
C. Net cash flows from financial activities	-30 588	-16 568
D. Total net cash flows	-17 269	2 612
E. Balance sheet change in cash	-17 269	2 612
- change in cash flows from exchange rate	0	0
F. Cash and cash equivalents at beginning of period	18 888	16 276
G. Cash and cash equivalents at the end of period	1 619	18 888
- with limited possibility to dispose of	0	0

Warsaw, 30.04. 2010

3. ADDITIONAL INFORMATION TO THE FINANCIAL STATEMENT

3.1. Compliance with IFRS.

The following financial statement was prepared in accordance with IFRS as well as IFRS approved by the EU. As for the day the statement publication approval, taking into consideration the process of introducing IFRS in the EU and the current company's activity, within the scope of applied accounting rules there is no difference between valid IFRS standards and IFRS standards approved by the EU.

IFRS include standards and interpretations accepted by International Accounting Standards Board (IASB) and International Finance Reporting Interpretation Committee (IFRIC).

The following individual financial statement should be read together with the consolidated financial statement approved for publication by the Management and publicised on the same day as the individual financial statement, in order to obtain full information about group's financial standing on 31st December 2009 as well as financial result for the period from 1st January to 31st December 2009 in compliance with IFRS approved by the EU.

3.2. The assumption of business activity continuation and comparativeness of financial statements

The financial statement has been prepared with the assumption of business activity continuation by the Company within the period of 12 months after the last date of balance sheet, i.e. 31st December 2009. The Company's Management does not state any facts and circumstances on the day of signing the statement, which would indicate any threats to continuation of the activity within the period of 12 months after the balance sheet date as a result of an indented or compulsory abandonment of or significant restrictions on the current activity.

Until the day of financial statement preparation for the year 2009 there were no events that were not (and should have been) included in the accounting books for the reporting period. At the same time, there are no important events concerning previous years in the following statement.

3.3. Description of the adopted accounting principles (policy) including debit and credit valuation method as well as income and expenditure valuation method

The following individual statement has been prepared in accordance with IFRS as well as according to IFRS accepted by the EU.

IFRS include standards and interpretations accepted by International Accounting Standards Board (IASB) and International Finance Reporting Interpretation Committee (IFRIC).

The financial statement has been prepared according to the historical cost principle, excluding revaluation to fair value of fixed assets as of the day of IFRS acceptance,

- investment lands,
- valuation of financial derivatives, financial instruments according to fair value which change is presented in the profit and loss account,
- separation of assets available for sale,
- investments in real estate which were valued according to their fair value.

The balance value of the presented secured assets and liabilities is adjusted by changes of fair values that may be attributed to risks against which these assets and liabilities are secured.

The financial statement is prepared in Polish currency (PLN) and is presented in thousands („thousand PLN”), and all values, unless indicated, are presented in PLN.

3.4 Mistakes corrections and change of accounting principles

The following financial statement is the first yearly financial statement prepared in accordance with IFRS, to its preparation IFRS 1. “First-time Adoption of International Financial Reporting Standards” was used.

The date Konsorcjum Stali S.A. changed to IFRS is 1st January 2008 and the opening balance sheet was prepared for that specific day. The reporting date for the following financial statement is 31st December 2009, and the adoption of IFRS date is 1st January 2009.

The description of influence of changes in accounting principles resulting from adoption of IFRS for the first time on result and equities as well as the description of processing data for comparative periods can be found in the current point below.

The first financial statement prepared according to IFRS includes agreements and additional information presented below.

Influence of change of accounting rules on Company's results in 2008

Reconciliation of financial results as at 01 January, 2008 [in thousands PLN] (result until 31.12.2007r.)

Profit before adjustments	13053
Increase (due to):	28 823
The difference in valuation of fixed assets at fair value at the date of transition to IFRS, ie 01.01.2008	27845
The difference from valuation of intangible assets at fair value at the date of transition to IFRS, ie 01.01.2008	254
Leasing calculated according to amortized cost value at 01.01.2008	656
Elimination of negative goodwill	33
Assets from provisions for holiday pay as at 01.01.08	35
Decrease (due to):	5 645
Deferred tax - correction at the date of transition to IFRS, ie 01.01.2008.(concern revaluation of fixed and intangible assets)	5339
Deferred tax on revaluation of lease	124
Provisions for holiday pay	182
Profit according to IFRS	36 231

The most significant influence on the result of statement processed prepared on 1st January 2008 had the revaluation of the value of fixed assets used by Emitent. Fixed assets valuation to their fair value on the day of statement processing into IFRS showed a difference in comparison with valuation of fixed assets included in the balance sheet prepared according to Accounting Act in the amount of PLN 27,845. This value influences the growth of result showed in balance sheet from 1st January 2008.

The valuation of fixed assets was performed by an authorised appraiser.

Deferred tax calculated as a result of revaluation of fixed assets and intangible assets has a negative influence on the result. It lowers the result calculated on 1st January 2008 by PLN 5,339.

Reconciliation of financial results as at 31 December, 2008 [in thousands PLN] (result for the period from 01.01.2008 until 31.12.2008)

Profit before adjustments	13480
Increase (due to):	3 917
Depreciation adjustment for 2008 in connection with the revaluation of fixed assets and the period of their economic usefulness	1362
Long-term loans under the revised purchase price as at 31.12.2008 (difference until 01.01.2008)	107
Elimination of goodwill's depreciation	1944
Leasing calculated according to amortized cost value for 2008	476
Assets from provisions for holiday pay as at 01.01.08	28
Decrease (due to):	552

Deferred tax - depreciation adjustment for 2008	259
Deferred tax as at 31 December 2008 (refers to loans) - difference until 01.01.2008	21
Elimination of negative goodwill	33
Deferred tax charged on the adjustment of depreciation of assets leased for 2008	90
Provision for holiday pay as at 31 December 2008	149
Profit according to IFRS	16 845

Changes of accounting principles introduced as a result of adopting IFRS standards caused the growth of profit for the period from 1st January until 31st December 2008 by PLN 3,365.

The main reason of this growth was discontinuance of positive depreciation of company's value what in turn lowered costs for this period by PLN 1,944 as well as fixed assets depreciation by PLN 1,362.

In contrast to rules stated in the Accounting Act, IFRS standards do not assume positive depreciation of company's value which is included in the Emitent balance sheet since its merger with Bodeko Sp. z o.o.

IFRS impose testing particular assets including positive company's value in the view of possible value loss.

In the adopted accounting principles which are based on IFRS standards accepted by the EU, Emitent stated the frequency of such tests as at least once a year at the end of the financial year. Since the merger of Konsorcjum Stali S.A. (acquiring company) and Bodeko Sp. z o.o. (company acquired) has been conducted on 1st July 2008, i.e. within a period not far from the end of financial year ending on 31st December 2008, and the acquired company's valuation was prepared basing on valuation performed by independent parties, among others, neutral entity, Emitent decided that there is no need to perform a new valuation of values acquired from the acquired company Bodeko Sp. z o.o., since there was no change within the short period since the merger until the end 2008. Such opinion is justified as Emitent did not stop any of the activities acquired from Bodeko and did not eliminate any of the acquired fixed asset, the strategic aim of the merger was to create economic advantages within a long period of time.

Lowering the depreciation of fixed assets is a result of adjusting the period of depreciation of fixed assets being used by the Company to the forecasted period of their use. Most frequently it resulted in extension of depreciation period of fixed assets which use, according to current knowledge and will, the Company plans to perform for longer than so far applied periods and which mostly corresponded to depreciation periods allowed by tax law.

A full list of elements influencing positively and negatively the result from this period is presented in the table below.

Influence of accounting principles change on Emitent in 2008.

Data is presented chronologically starting from the transformation date – processing of statements to IFRS, i.e. from 1st January 2008 until 31st December 2008.

Reconciliation of equities on **1st January 2008** (the day of IFRS transformation) [**data in thousands PLN**] is presented in the table:

	Share capital	Own shares (negative value)	Capital reserve from the sale of shares above the nominal price	Capital reserve	Revaluation reserve	Other capitals	Profit (loss) from previous years	Net profit	Total
Equity capital before adjustments as at 01.01.2008	3 230	0	14 723	17 918	193	2 420	0	13 053	51 537
Increase (due to):								28 823	28 823
The difference in valuation of fixed assets at fair value at the date of transition to IFRS, ie 01.01.2008								27 845	27 845
The difference from valuation of intangible assets at fair value at the date of transition to IFRS, ie 01.01.2008								254	254
Leasing calculated according to amortized cost value								656	656
Elimination of negative goodwill								33	33
Assets from provisions for holiday pay as at 01.01.08								35	35
Decrease (due to):								5 645	5 645
Deferred tax on revaluation of fixed and intangible assets								5 339	5 339
Deferred tax on revaluation of lease								124	124
Provisions for holiday pay as at 01.01.2008								182	182
Equity capital after adjustments as at 01.01.2008	3 230	0	14 723	17 918	193	2 420	0	36 231	74 715

As a result of applying IFRS Company's equities on 1st January 2008 grew by the amount of PLN 23,178.

The major positive effect on this change had the revaluation of value of the used fixed assets. The valuation of fixed assets was performed by an authorised certified appraiser.

The valuation of the fixed assets to their fair value on the day of transformation of statements to IFRS showed a difference in comparison with the valuation of fixed assets presented in the balance sheet prepared in accordance with Accounting Act in the amount of PLN 27,845.

Deferred tax has a negative influence on equities which is calculated as a result of revaluation of value of fixed assets and intangible assets.

It lowers the equity calculated on 1st January 2008 by the amount of PLN 5,339.

Reconciliation of equities on 31st December 2008.

As a result of adopting IFRS, the Company's equities on 31st December 2008 grew by the amount of PLN 26,543. The major difference is the amount of PLN 23,178 from the transition balance sheet from 1st January 2008 explained in the previous table.

The remaining changes are connected with the growth of the result from this period; they are explained in details in table "Reconciliation of financial result on 31st December 2008."

Reconciliation of financial result on 31st December 2008

	Share capital	Own shares (negative value)	Capital reserve from the sale of shares above the nominal price	Capital reserve	Revaluation reserve	Other capitals	Profit (loss) from previous years	Net profit	Total
Equity capital before adjustments as at 31.12.2008	5 897	-11 028	178100	15 620	193	17 420	0	13 480	219 682
Increase (due to):	0	0	0	0	0	0	28 823	3 917	32 740
Revaluation of fixed assets as at 01.01.2008							27 845		27 845
Revaluation of intangible assets as at 01.01.2008							254		254
Adjustment of depreciation for the year 2008 in connection with the revaluation of fixed assets								1362	1362
Leasing calculated according to amortized cost value							656	476	1 132
Valuation of long-term liabilities by the effective interest rate as at 31.12.2008								107	107
Elimination of negative goodwill							33		33
Elimination of depreciation charge of positive goodwill								1944	1944
Assets from provisions for holiday pay							35	28	63
Decrease (due to):	0	0	0	0	0	0	5 645	552	6 195
Deferred tax on revaluation of fixed and intangible assets							5339	259	5597
Deferred tax on revaluation of lease							124	90	214
Deferred tax on revaluation of long-term liabilities								21	20

Elimination of negative goodwill								33	33
Provisions for holiday pay							182	149	331
Equity capital after adjustments as at 31.12.2008	5 897	-11 028	178 100	15 620	193	17 420	23 178	16 845	246 225

The effects of adjustments made for the financial statements for 2008 in connection with the transition to IFRS:

Balance sheet:

ASSETS	01.01.2008			31.12.2008		
	in accordance with Accounting Act	effects of transition to IFRS	IFRS	in accordance with Accounting Act	effects of transition to IFRS	IFRS
Non-current assets	35 542	28 790	64 332	190 041	6 444	225 275
Tangible assets		28 501		95 859	1 447	125 807
Intangible assets, including:		254		91 424	4 949	96 627
goodwill		0		91 350	4 933	96 283
Current assets				219 478	-608	218 870
Stocks				78 093	-744	77 349
Receivables				118 934	699	119 633
Cash				18 984	-96	18 888
Total assets		28 790		409 519	5 836	444 145

LIABILITIES	01.01.2008			31.12.2008		
	in accordance with Accounting Act	effects of transition to IFRS	IFRS	in accordance with Accounting Act	effects of transition to IFRS	IFRS
Equity attributable to shareholders of the parent	51 537	23 145	36 198	219 681	3 399	246 225
Profit (loss) from previous years	0	0	0	0	33	23 178
Net profit (loss)	13 053	23 145	36 198	13 480	3 365	16 845
Liabilities and provisions for liabilities	-	5 645	-	189 838	2 437	197 920
Provision for deferred income tax		5 645		112	3 178	8 935
Long-term liabilities	-	-	-	9 024	104	9 128
Short-term liabilities				180 244	-934	179 310
Total liabilities	-	28 790	-	409 519	5 836	444 145

Profit and loss account:

UNIT PROFIT AND LOSS ACCOUNT	01.01.-31.12.2008		
	in accordance with Accounting Act	effects of transition to IFRS	IFRS
Continued operation			
Income from sale	757 425	177	757 602
Manufacturing costs of products sold	697 638	-1 316	696 322
Gross profit (loss) on sales	59 787	1 493	61 280
Selling costs	26 776	149	26 925
Costs of general administration	8 799	0	8 799
Profit (loss) on sales	24 212	1 344	25 556
Other operating revenues	4 667	-3 438	1 229
Other operating costs	6 926	-5 870	1 056
Operating profit (loss)	21 953	3 776	25 729
Financial revenue	852	107	959
Financial costs	5 316	177	5 493
Gross profit (loss) before taxing	17 489	3 706	21 195
Income tax	4 009	341	4 350
Net profit (loss) (continued operation)	13 480	3 365	16 845

Cash flow statement:

UNIT CASH FLOW STATEMENT	01.01.-31.12.2008		
	in accordance with Accounting Act	effects of transition to IFRS	IFRS
Cash flows from operating activities			
Profit (loss) before taxing	17 489	3 706	21 195
Adjustments:	14 743	-4 071	10 672
Amortization of tangible fixed assets	4 644	-1 823	2 821
Amortization of intangible assets	89	-15	74
Change in stocks	23 035	744	23 779
Change in reserves	52 206	4 879	57 085
Change in receivables	-69 182	-963	-70 145
Changes in floating capital	3 951	-6 893	-2 942
Net cash provided by operating activities	32 232	-365	31 867
Net cash provided by investing activities	-13 062	375	-12 687
Net cash provided by financial activities	-16 462	-106	-16 568
Net change in cash	2 708	-96	2 612
Cash and cash equivalents at beginning of period	16 276	0	16 276
Cash and cash equivalents at end of period	18 984	-96	18 888

Signatures

Date	Name		Signature
30.04.2010	Robert Wojdyna	President of Executive Board	
30.04.2010	Janusz Kocłęga	Vice President of Executive Board	
30.04.2010	Ireneusz Dembowski	Member of Executive Board	
30.04.2010	Marek Skwarski	Member of Executive Board	

Signature of person, which was responsible for bookkeeping

Date	Name		Signature
30.04.2010 r.	Łucja Gawlik-Kostrz	President Rachunkowość i Finanse	