



QUARTERLY CONDENSED FINANCIAL STATEMENT FOR Q1 2011

prepared based on

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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I. Selected financial data

	in PLN thou.		in thou. EUR	
	1 quarter(s) /ytd/ 2011 period from 2011-01- 01 to 2011-03- 31	1 quarter(s) ytd/ 2010 period from 2010-01- 01 to 2010-03- 31	1 quarter(s) ytd/ 2011 period from 2011-01- 01 to 2011-03- 31	1 quarter(s) ytd/ 2010 period from 2010-01- 01 do 2010- 03-31
Net income from the sales of products, goods and materials	55 226	20 851	13 896	5 256
Profit (loss) on operating activity	5 439	1 048	1 369	264
Gross profit (loss)	4 962	896	1 249	226
Net profit (loss)	4 010	718	1 009	181
Net cash flow from operating activity	1 796	3 737	452	942
Net cash flow from investment activity	-1 840	-2 107	-463	-531
Net cash flow from financial activity	-2 150	-1 729	-541	-436
Change in cash and cash equivalents	-2 194	-99	-552	-25
Total assets	235 324	203 466	58 656	51 376
Long-term liabilities	39 084	40 793	9 742	10 300
Short-term liabilities	71 088	41 327	17 719	10 435
Share capital	125 152	121 346	31 195	30 641
Number of shares	29 103 551	20 744 000	29 103 551	20 744 000
Profit (loss) per one ordinary share (in PLN / EUR)	0,37	0,23	0,09	0,05
Diluted number of shares	32 744 000	32 744 000	32 744 000	32 744 000
Diluted profit (loss) per one ordinary share (in PLN / EUR)	0,33	0,15	0,08	0,03

Selected financial data presented in the financial statement was converted to Euro in the following way: items related to statement of comprehensive income and cash flow statements for Q1 2011 (first quarter of 2010), were calculated based on a rate being the arithmetic mean of average exchange rates quoted by the National Bank of Poland effective on the last day of each month in the first quarter. The rate was 1 EURO = PLN 3.9742 (1 EURO = 3.9669). Items in the report on the financial situation were calculated based on an average exchange rate quoted by the National Bank of Poland, effective on the balance-sheet day. The exchange rate on March 31, 2011 was 1 EURO = PLN 4.0119 (as on December 31, 2010 - 1 EURO = 3.9603). Data concerning the financial situation for the previous period are presented at the end of 2010 financial year. Annualized profit per one share was calculated based on an exchange rate being an arithmetic mean of average exchange rates quoted by the National Bank of Poland effective on the last day of each month of the four quarters. The rate was 1 EURO = PLN 4.0062 for the period Q2 2010 - Q1 2011 (1 EURO = 4.1825 for the period Q2 2009 - Q1 2010.)

II. Statement of financial position (PLN thousand)

ASSETS	As on 31.03.2011	As on 31.12.2010	As on 31.03.2010
Fixed assets (long-term)	102 523	99 568	100 212
Tangible fixed assets	101 967	98 947	99 690
Other intangible assets	170	177	145
Investments available for sale	0	0	0
Long-term financial assets	0	0	0
Deferred income tax assets	267	319	332
Long-term receivables and prepayments	119	125	45
Current assets (short-term)	132 801	103 898	40 601
Inventory	39 690	20 062	21 571
Short-term receivables and prepayments	65 919	54 450	18 843
Receivables on account of income tax	455	455	0
Short-term financial assets	0	0	0
Currency derivatives	0	0	0
Cash and cash equivalents	26 737	28 931	187
Total assets	235 324	203 466	140 813

LIABILITIES	As on 31.03.2011	As on 31.12.2010	As on 31.03.2010
Equity	125 152	121 346	52 247
Share capital	65 488	41 488	41 488
Surplus from the sale of shares above their face value	38 175	38 379	0
Spare and reserve capital	10 041	34 041	4 970
Retained and current profit/loss	11 448	7 438	5 789
Long-term liabilities	39 084	40 793	40 734
Provisions	171	171	114
Provision on account of deferred income tax	146	213	242
Long-term bank loans and credits	15 524	16 688	20 180
Other long-term financial liabilities	4 138	4 464	4 917
Long-term liabilities and accruals	19 105	19 257	15 281
Short-term liabilities	71 088	41 327	47 832
Provisions	136	238	13
Short-term bank loans and credits	0	16	16 586
Short-term part of long-term bank loans and credits	4 656	4 656	4 656
Other short-term financial liabilities	911	962	844
Short-term liabilities and accruals	64 796	35 455	25 733
Liabilities on account of income tax	589	0	0
Total liabilities	235 324	203 466	140 813

III. Statement of comprehensive income - calculation basis (PLN thousand)

CALCULATION BASIS	For the period from 01.01 to 31.03.2011	For the period from 01.01 to 31.03.2010
Income from sale of products, goods and materials	55 226	20 851
Costs of products, goods and materials sold	46 981	17 922
Gross profit/loss from sales	8 245	2 929
Costs of sale	624	272
Overheads	2 471	1 902
Other income	443	294
Other costs	154	1
Operating profit/loss	5 439	1 048
Financial income	298	349
Financial costs	775	501
Gross profit/loss	4 962	896
Income tax	952	178
Net operating profit/loss/on business activity	4 010	718
Net profit/loss for business year	4 010	718
Total other income	0	0
- Gains/losses on revaluation of tangible fixed assets	0	0
- Gains/losses on valuation of investments available for sale carried to equity	0	0
-Gains/losses on the security of cash flows (effective part)	0	0
-Exchange rate differences from the valuation of entities operating abroad	0	0
- Income tax related to items shown under total other income	0	0
Total income	4 010	718

	For the period from 01.01 to 31.03.2011	For the period from 01.01 to 31.03.2010
Profit per share: (in PLN)		
- basic based on the financial result of continued activity	0,37	0,23
- basic based of the financial result for the business year	0,37	0,23
- diluted based on the financial result of continued activity	0,33	0,15
- diluted based of the financial result for the business year	0,33	0,15

IV. Cash flow statement - indirect method (in PLN thou.)

	For the period from 01.01 to 31.03.2011	For the period from 01.01 to 31.03.2010
Cash flow from operating activity		
Profit/loss before taxation	4 977	932
Item adjustments:	-3 181	2 805
Depreciation of fixed assets	864	764
Depreciation of intangible assets	18	12
Foreign exchange gains/losses	0	0
Interest costs and income	484	471
Profit/loss on investment activity	-15	0
Change in provisions	-169	-254
Change in inventory	-19 628	1 326
Change in receivables and prepayments	-11 411	10 017
Change in liabilities and accruals	27 054	-9 240
Paid/refunded income tax	-378	-291
Other adjustments	0	0
Net cash flow from operating activity	1 796	3 737
Cash flow from investment activity		
Earnings from the sale of fixed assets and intangible assets	16	0
Earnings from the sale of financial assets	0	0
Earnings from interest	0	0
Other investment earnings - subsidies received	0	0
Expenditure on the purchase of tangible fixed assets and intangible assets	1 761	2 001
Net expenditure on the purchase of subsidiaries and associated entities	0	0
Other	-95	-106
Net cash flow from investment activity	-1 840	-2 107
Cash flow from financial activity		
Earnings from loans and credits	0	0
Net earnings from the issue of shares, bonds, bills of exchange and vouchers	0	0
Repayment of credits and loans	1 180	1 164
Repayments of liabilities under financial lease contracts	377	200
Dividends paid to Company shareholders	0	0
Interest paid	389	365
Other	-204	0
Net cash flow from financial activity	-2 150	-1 729
Increase/decrease in cash and cash equivalents	-2 194	-99
Cash, cash equivalents and overdraft facility at the beginning of the period	28 931	-10 298
Gains/losses on exchange rate differences regarding valuation of cash, cash equivalents and overdraft facility	0	0
Cash, cash equivalents and overdraft facility at the end of the period	26 737	-10 397

V. Statement of changes in equity (PLN thou.)

	Share capital	Surplus from the sale of shares above their face value	Treasury shares	Spare and reserve capital	Reserve capital from revaluation of assets	Retained and current profit/loss	Total
Balance as on 01.01.2011	41 488	38 379	0	34 041	0	7 438	121 346
Changes in equity in Q1 of 2011	24 000	-204	0	-24 000	0	4 010	3 806
Appropriation of net profit	0	0	0	0	0	0	0
Costs of shares issue	0	-204	0	0	0	0	-204
Registration of share capital	24 000	0	0	-24 000	0	0	0
Issue of share capital	0	0	0	0	0	0	0
Profit/loss for business year	0	0	0	0	0	4 010	4 010
Total revenues and costs shown in Q1 2011	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0
As on 31.03.2011	65 488	38 175	0	10 041	0	11 448	125 152
Balance as on 01.01.2010	41 488	0	0	4 970	0	5 071	51 529
Changes in equity in 2010	0	38 379	0	29 071	0	2 367	69 817
Appropriation of net profit	0	0	0	5 071	0	-5 071	0
Costs of shares issue	0	0	0	0	0	0	0
Registration of share capital	0	0	0	0	0	0	0
Issue of share capital	0	38 379	0	24 000	0	0	62 379
Profit/loss for business year	0	0	0	0	0	7 438	7 438
Total revenues and costs shown in 2010	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0
Balance as on 31.12.2010	41 488	38 379	0	34 041	0	7 438	121 346
Balance as on 01.01.2010	41 488	0	0	4 970	0	5 071	51 529
Changes in equity in Q1 of 2010	0	0	0	0	0	718	718
Appropriation of net profit	0	0	0	0	0	0	0
Costs of shares issue	0	0	0	0	0	0	0
Registration of share capital	0	0	0	0	0	0	0
Issue of share capital	0	0	0	0	0	0	0
Profit/loss for business year	0	0	0	0	0	718	718
Total revenues and costs shown in Q1 2010	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	0
As on 31.03.2010	41 488	0	0	4 970	0	5 789	52 247

VI. Notes to quarterly condensed financial statement for Q1 2011

1. Information on accounting principles adopted for the preparation of the report, including information on modifications of principles applied.

The report was prepared in a manner that ensures comparability of financial data. Accounting principles followed by the Company were not changed in the reporting period. Accounting principles were described in periodic report for 2010.

2. Information on significant changes in estimated values.

Table of changes in the estimated value of provisions (in PLN thou.):

	Status as on 31.03.2011	Status as on 01.01.2011	Change
Provision on account of deferred income tax	146	213	-67
Provision for retirement benefits and similar benefits	307	409	-102
Other provisions	0	0	0

Table of changes in the estimated value of assets on account of deferred income tax (in PLN thou.):

	Status as on 31.03.2011	Status as on 01.01.2011	Change
Deferred income tax assets	267	319	-52

Table of changes in the estimated value of revaluation write-offs (in PLN thou.):

	Status as on 31.03.2011	Status as on 01.01.2011	Change
Revaluation write-offs of principal receivables	737	737	0
Revaluation write-offs of inventories	26	48	-22

3. Brief description of achievements or failures in Q1 2011, including information on the most important events related thereto.

The Company's financial results for Q1 are much better than in the corresponding quarter of the previous year. The Company takes advantage of the expected improvement of the economic situation on the insulated steel pipes market. Sales income increased against Q1 2010 by 165%, and net profit increased by 458%. The volume of external and internal insulation sold had the biggest impact on such a significant increase of net profit.

The table below shows the sale of insulation services.

	Q1 of 2011	Q1 of 2010	Change (%)
External insulation (m2)	137 695	62 115	221,7%
Internal insulation (m2)	91 020	15 978	569,7%
Total	228 715	78 093	292,9%

The Company's debut on the Stock Exchange was another important event in Q1 of 2011. Rights to shares of series K were first listed at Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) on January 11, 2011.

The price of rights to shares at the opening of the market on the debut day increased by 23.64% against the issue price. At the closing of the market the price of shares increased by PLN 7.07 showing a 28.5% increase against the issue price.

On January 28, 2011 the District Court in Opole registered the increase of the Company's share capital resulting from the issue of 12 million shares of series K.

The Company's shares series A, B, C, D, E, F, G, H, I, J and K were first listed on Giełda Papierów Wartościowych w Warszawie S.A. on February 16, 2011.

As a result of the public offering of 12 million shares of series K at the issue price of PLN 5.50, the Company obtained PLN 66.000 thou. The funds were received by the Company in 2010. Total costs related to the issue of shares amounted to PLN 3.825 thou. Net income from the issue of shares amounted to PLN 62.175 thou. and will be allocated by the Company for the working capital and the construction of the Research and Development Center for steel technologies and products.

Thanks to the public offering of shares, the Company has the capital required to achieve the assumed financial results.

On January 26, 2011 the Company (being the leader of the Consortium), signed a frame contract with OGP Gaz – System S.A. for the supply of steel transmission pipes DN 700 with internal and external insulation, for flammable utilities. The Contract stipulates that the Company being one of the contractors, will receive partial orders for the supply of pipes. Total amount for the performance of partial contracts will not be higher than PLN 787.042 thou. net. The contract was concluded for a period of 24 months.

The construction of the Research and Development Center for steel technologies and projects started in February 2011. Works are to be completed in February 2012. The aim of the project is to create the Company's own Research and Development Center which will perform works which are now ordered from external entities. The project will lead to the commencement of formalized and centralized R&D activities in the Company (quality tests were earlier performed in laboratories). Moreover, the newly created R&D Center will perform functions connected with securing R&D services for Stalprofil S.A. Group.

4. Description of factors and events, in particular the untypical ones with significant impact on the financial results achieved.

A considerable increase in the demand for the Company's products was observed in Q1 of 2011 (as compared to the corresponding quarter of 2010). This enabled the Company to achieve income from sales in the amount of PLN 55.226 thou. i.e. 165% more than in Q1 of 2010, and net profit of PLN 4.010 thou., i.e. 458% more than in the corresponding quarter of the previous year.

Improvement of the situation in the sector is related to the launch of projects involving the development of transmission and warehouse infrastructure in Poland aimed at achieving independence from gas supplies from the East. Projects involving replacement of existing gas supply system affected the economic situation in a lesser degree.

Thanks to a modern plant - Anticorrosion Insulation Center, the Company is prepared for the increased market demand for its products. The public offering of shares of series K held in Q4 2011 provided the Company with funds required to increase the working capital and implement big contracts.

In Q1 2011, the Company delivered the total of 15.000 m of steel pipes Ø508W with internal and external insulation to OGP Gaz – System S.A. Deliveries were made under a frame contract of August 17, 2010.

The volume of the Company's inventory increased as a result of the improvement of the economic situation and orders held. At the end of Q1 2011 their value was PLN 39.690 thou. i.e. 97.8% more than at the end of 2010. Inventory increased mainly in case of steel pipes intended for the performance of successive contracts.

Furthermore, the increase of income from sale led to the increase of short-term receivables. Their value together with short-term prepayments at the end of Q1 2011 was PLN 65.919 thou. DSO on account of deliveries and services in Q1 2011 improved against 2010 and dropped from 137,6 days to 100,2 days. Company's receivables have been insured with KUKI since January 1, 2011 (previously insured with Coface).

5. Explanations concerning the seasonal and cyclical character of business activity in the period presented.

Similarly to most entities acting as suppliers and service providers on the investment goods market, the Company showed seasonality of sales characterized by generating bigger part of income in Q2, Q3 and Q4. Seasonal character arises from weather conditions and works schedules of particular contracts based on technological conditions which are a reason why most customers of Izostal S.A. perform their investment tasks in the period from April to December.

Due to the seasonal character of the business activity run by Izostal S.A., the correct assessment of the Company's financial situation is possible only if the analysis of financial data covers an entire accounting year.

Situation in Q1 of 2011 is different as a result of plans involving the fulfillment of large-scale projects adopted earlier by the Company's customers, and relatively mild winter. The volume of income from sales recorded in Q1 of 2011 makes up for 28.6% of income planned for the entire year, thus the seasonality observed in the previous years may not be significant in 2011.

6. Information on the issue, buyout and repayment of non-equity and equity securities

The public offering held in Q4 of 2011 was concluded with the subscription and payment for 12 million ordinary bearer shares of series K, of the face value of PLN 2,00 each, as a result the Company's share capital was increased up to the amount of PLN 65.488 thou. Capital increase was registered by the District Court in Opole, 8th Business Division of the

National Court Register on January 28, 2011 (relevant information was provided by the Issuer in regular report no. 11/2011).

On January 11, 2011, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A., based on resolution no. 24/2011, introduced for trade, under an ordinary procedure, 12 million rights to ordinary bearer shares of series K of the nominal value of PLN 2 (two zloty) each.

Resolution no. 196/2011 of February 14, 2011 passed by the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. set February 15, 2011 as the last quoting day of 12 million rights to ordinary bearer shares of series K, whereas by virtue of resolution no. 197/2011 of February 14, 2011 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. it was resolved that all shares of Izostal S.A. series A,B,C,D,E,F,G,H,I,J,K of the face value of PLN 2,00 each will be introduced for trade on the basic market on February 16, 2011 under an ordinary procedure.

7. Information on dividend paid (or declared).

In the reporting period, the Company did not pay nor did it declare to pay dividend.

8. List of events that followed the day as on which the quarterly condensed financial statement was prepared, not included in this report, which may have a considerable influence on future financial results.

Izostal S.A. did not record any events after the day as on which the quarterly financial statement was prepared, which could have a considerable influence on future financial results of the Company.

9. Information on changes in contingent liabilities or assets since the closing of the previous business year.

Change in off-balance liabilities in the period from 01.01.2011 to 31.03.2011 are as follows:

1. Change in guarantees (PLN thousand):

Beneficiary	Guarantee type	Validity date	Status as on 31.03.2011	Status as on 01.01.2011	Change
OGP Gaz-System S.A.	bid guarantee	28.02.2011	0	10.000	-10.000
OGP Gaz-System S.A.	service performance	01.04.2011	530	530	0
	removal of defects	01.04.2016	159	159	0
OGP Gaz-System S.A.	service performance	28.03.2011	0	431	-431
	removal of defects	28.03.2016	129	129	0
ZRUG Sp. z o.o.	service performance	31.05.2011	1.097	1.097	0

2. Change in security established on the Company's fixed and working assets (PLN thousand):

Type	Status as on 31.03.2011	Status as on 01.01.2011	Change
Pledge on fixed assets	18.872	19.069	-197
Pledge on inventory	16.500	16.500	0
Mortgages	42.400	59.400	-17.000

Apart from the aforementioned pledges on fixed assets, in connection with the credit agreement of PLN 4.357,5 thou. for financing the construction of the Research and Development Center for steel technologies and projects, the Company undertook to establish a pledge of the value of PLN 9.000 thou. on machines and equipment to be purchased in connection with the financed investment.

10. Description of the Issuer's capital group, with information on entities subject to consolidation.

Izostal S.A. does not form a capital group nor does it prepare consolidated statements.

The Company is a part of Stalprofil S.A. Group which also comprises:

- Stalprofil S.A. seated in Dąbrowa Górnicza – dominant entity
- Kolb Sp. z o.o. seated in Kolonowskie
- ZRUG Zabrze Sp. z o.o. seated in Zabrze

11. Information on the consequences of changes in the structure of a business entity, including those resulting from a merger of business entities, takeover or sale of entities belonging to the Issuer's capital group, long-term investments, division, restructuring and termination of business activity.

No significant changes occurred in the structure of Izostal S.A. in the reporting period.

12. The Management Board's opinion on a possibility of realizing the previously published results forecasts.

The Company presented forecast for 2010 and 2011 in the prospectus approved by the Financial Supervision Authority on December 8, 2010.

As for 2011 results, the Management Board supports the forecast set forth in the Prospectus approved and deems it feasible.

The table below compares the Company's 2011 forecast results with results recorded in Q1.

	Forecast 2011	Q1 of 2011	% performance
Income from sales (PLN thou.)	193.028	55.226	28,6
Costs of operating activity (PLN thou.)*	166.675	50.076	30,0
Gross profit from sales (PLN thou.)	38.215	8.245	21,6
Depreciation (PLN thousand)	3.540	881	24,9
EBITDA (PLN thousand)	30.467	6.320	20,7
Operating profit (PLN thou.)	26.927	5.439	20,2

Net profit (PLN thou.)	19.003	4.010	21,1
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* - includes costs of products, goods and materials sold, costs of sale and overheads

13. Information on shareholders holding at least 5% of the total number of votes at the general meeting, directly or indirectly through subsidiaries, as on the day of presenting the quarterly report.

As on the day of presenting the report for Q1 2011 the Company had the following shareholders holding at least 5% of the total number of votes at the general meeting, directly or indirectly through subsidiaries:

Shareholder	No. of shares held	Share in the initial capital (%)	Number of votes at the general meeting	Share in the general number of votes at a general meeting (%)
Stalprofil S.A.	19 739 000	60,28 %	19 739 000	60,28 %
Aviva OFE Aviva BZ WBK	1 669 877	5,10 %	1 669 877	5,10 %
BPH TFI S.A.	1 644 021	5,02 %	1 644 021	5,02 %
OTHER	9 691 102	29,60 %	9 691 102	29,60 %
TOTAL	32 744 000	100 %	32 744 000	100 %

No changes occurred in the ownership structure of major blocks of shares since the presentation of the previous quarterly report of Izostal S.A.

14. Information on the ownership of the issuer's shares or rights to shares by persons managing and supervising the issuer as on the day of presenting the quarterly effort.

According to the Company, the ownership of Izostal S.A. shares by Management Board and Supervisory Board members as on the day of presenting the report for Q1 of 2011 is as follows:

Management Board	Total number of shares held
Marek Mazurek	5 314
Jacek Podwiński	738
Supervisory Board	Total number of shares held
Zdzisław Mendelak	3 489

No changes occurred in the ownership of IZOSTAL S.A. shares or rights to those shares by members of managing and supervisory bodies since the presentation of the previous quarterly report.

15. Information on proceedings pending before a court, body competent to conduct arbitration proceedings or a public administration body, the total value of which made for at least 10% of the issuer's equity

In the reporting period Izostal S.A. did not initiate nor were proceedings initiated against it before a court, body competent to conduct arbitration or a public administration body, the total value of which made for at least 10% of the issuer's equity.

16. Information on one or a number of transactions concluded by the issuer or its subsidiary with affiliated entities if they are significant, either individually or jointly, and were concluded on conditions other than arm's length basis.

Transactions concluded by the Company with affiliated entities were concluded on conditions similar to arm's length conditions.

Transactions between Stalprofil S.A., ZRUG Zabrze Sp. z o.o. and KOLB Sp. z o.o. involved mainly the supply of steel products and the Company's products. Izostal S.A. also purchased services from affiliated entities involved in investments. Transactions were of typical and routine character.

17. Information on guarantees on a credit or a loan granted by the issuer or its subsidiary, or guarantees granted jointly to one entity or a subsidiary of that entity, being the equivalent of at least 10% of the issuer's equity.

Izostal S.A. did not grant any guarantee on a credit or loan.

The value of guarantees granted by the Company to one entity, or its subsidiary as on March 31, 2011 did not exceed 10% of the equity value.

18. Other information which the issuer deems important for the assessment of their HR, property and financial situation, financial result and changes in those areas, as well as information important for the assessment of the issuer's ability to fulfill their obligations.

The public offering of 12 million shares of K series held in 2010 provided the Company with funds in the amount of PLN 62.175 thou. (net – with the costs of issue deducted). According to the Prospectus approved by the Financial Supervision Authority on December 8, 2010, the funds were allocated for the construction of the Research and Development Center for steel technologies and projects. Funds from the issue of shares are invested in safe financial instruments before they are utilized.

As for the transition period (after receipt of IPO funds) the company repaid the overdraft of PLN 14.000 thou. in bank PKO BP S.A. The Company plans to use the credit for capital on an as-needed basis. Moreover, the Company has a limit of PLN 8.000 thou. with bank PKO BP S.A. for bid guarantees, guarantees of service performance and rectification of defects. Such guarantees are granted by the Company in connection with participation in public tenders for the supply of pipes.

In 2011 the Company changed the entity insuring its receivables. Company's receivables have been insured with KUKI (previously with Coface), since January 1, 2011.

The Management Board is of the opinion that the Company's ability to fulfill its obligations is not threatened.

19. Factors which, according to the issuer, will influence their results in the time horizon of at least one coming quarter.

Situation on the transmission networks market has the most impact on the results achieved just as it did in the previous periods. The situation will be shaped by:

- projects involving the development of transmission, warehouse and gas extraction infrastructure connected with the strategy adopted by Poland which assumes independence from gas supplies from the East.
- necessity to increase the share of gas in the production of energy that arises from CO2 emission limits imposed on Poland
- projects involving the renewal of existing transmission networks.

As expected the situation improved and the demand for the Company's products increased in Q1 of 2011. The Company expects that the coming years will be good for the sector in which it operates.

OGP Gaz – System S.A. plans to construct over 1000km of new transmission pipelines by the end of 2014. The most important networks will be constructed in north-western and central Poland and in Lower Silesia. The following gas pipelines should be mentioned: Szczecin-Lwówek, Świnoujście - Szczecin, Szczecin – Gdańsk, Włocławek – Gdynia, Rembelszczyzna – Gustorzyn, Gustorzyn – Odolanów. There are plans to construct a number of other gas pipelines for which the design documentation is being developed and construction permits are pending. The design documentation is expected to be complete in 2011.

The market share of small investors, specializing in distribution gas pipelines (EWE Energia, G.EN. Gaz Energia, CP Energia), operating in locations where the presence of the biggest market players is weaker, is growing.

In view of the required reduction of CO2 emission, information has been published on the construction of gas-fueled power plants. The construction time of that type of power plants is relatively short (up to 36 months), they will be an additional optimum source of energy for the planned nuclear plants.

It should be noted that as compared to other EU states, the share of gas as a source of energy is only 3% in Poland, whereas in Germany it is 12%, 37% in Hungary and 60% in the Netherlands. Considering the advantages of this source of energy and the political and business circumstances, the share must increase.

Because of the frame contract concluded by the Company (being a leader of the Consortium) on January 26, 2011 with Operator Gazociągów Przesyłowych Gaz-System S.A. for the supply of steel pipes DN700 with internal and external insulation, for the value not higher than PLN 787.042 thou. net, the scope of partial contracts under the frame contract, and lead time will be important factors that will influence the results achieved. OGP Gaz – System S.A. concluded similar contract with 3 other

entities/consortia. Those entities will compete against each other as far as prices for pipes deliveries are concerned.

Thanks to a successful public offering of 12 million shares of K series, the Company has the capital required to perform big contracts planned for nearest future.

Moreover, the Company started the construction of the Research and Development Center for steel technologies and projects in February. The completion of the investment will have impact on the Company's day-to-day business by optimizing Research and Development processes and diversifying production. Company's potential will be increased with research and analyses of raw materials used for production, development of new construction and technological solutions, and introduction of new products and services outside the Company's offer so far (e.g. DFBE coating).

On April 29, 2011 the Company signed an agreement with the Minister of Economy on subsidizing the construction of Research and Development Center for steel technologies and products under sub-action 4.5.2 "Support for investments in the modern services sector", action 4.5, priority axis 4 "Investments in innovative undertakings" of the Operational Program Innovative Economy 2007-2013. The amount of subsidy granted is PLN 7.262,5 thou.

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