izostal sa
Grupa kapitałowa Stalprofil S.A.

HALF-YEAR REPORT FOR H1 OF 2011

prepared in line with
INTERNATIONAL FINANCIAL REPORTING STANDARDS

Table of contents

Introduction to condensed financial statement

Prepared for 6 months closed on June 30, 2011

I. NAME (BUSINESS NAME) AND SEAT, BASIC OBJECTS AND COURT OF REGISTRATION

Izostal Spółka Akcyjna (Izostal S.A.) seated in Zawadzkie was established by notarized deed on July 14, 1993. The company was registered by the Business Court in Opole on August 3, 1993, under the number RHB 1899. On April 23, 2001 the Company was entered into the National Court Register under the number 0000008917 by the District Court, 8th Business Division of the National Court Register in Opole.

Company's objects include production and commercial activity, specifically:

- Processing of metals and coating of metals (25.61.Z.)
- Wholesale of metal products and equipment and additional hydraulic and heating equipment (46.74.Z)
- Production of other plastic products (22.29.Z)
- Production of plastic boards, sheets, pipes and sections (22.21.Z)
- Recycling of sorted materials (38.32.Z)
- Works related to the construction of transmission pipelines and distribution networks (42.21.Z)
- Other financial service activity not classified elsewhere, exclusive of insurance and pension funds (64.99.Z)
- Other business support activity, not classified elsewhere (82.99.Z).
- Other technical research and analyzes (71.20.B)
- Scientific research and development works in biotechnology (72.11.Z)
- Scientific research and development works in other natural and technical sciences (72.19.Z)

Composition of the Supervisory Board as on June 30, 2011:

- Jerzy Bernhard - Supervisory Board President
- Zdzisław Mendelak - Supervisory Board Vice President
- Jan Chebda - Supervisory Board Secretary
- Lech Majchrzak - Supervisory Board Member
- Jan Kruczak - Supervisory Board Member
- Adam Matkowski - Supervisory Board Member

Composition of the Management Board as on June 30, 2011:

- Marek Mazurek - Management Board President, General Director
- Jacek Podwiński - Management Board Vice-President, Commercial Director

II. COMPANY DURATION

The Company was established for an unlimited period.

III. PERIOD COVERED BY THE FINANCIAL STATEMENT

The half-year financial statement shows the data as on 30.06.2011 and for the period from 01.01.2011 to 30.06.2011 including comparative data for the corresponding periods of 2010.

IV. INFORMATION ABOUT THE FINANCIAL STATEMENT COVERING INDIVIDUAL UNITS PREPARING SEPARATE FINANCIAL STATEMENTS

Izostal S.A. does not have any internal organizational units that would prepare standalone financial statements.

V. INFORMATION ABOUT THE FINANCIAL STATEMENT PREPARED ON THE BASIS OF A GOING CONCERN ASSUMPTION WITH INDICATION OF THE CIRCUMSTANCES THAT COULD POSE A SERIOUS RISK TO CONTINUATION OF ACTIVITY

This financial statement was prepared based on a going concern assumption.

VI. INFORMATION ABOUT THE FINANCIAL STATEMENT PREPARED FOR THE PERIOD DURING WHICH THE COMPANIES MERGED

In the reporting period, no merger of the Companies was effected.

VII. DESCRIPTION OF THE MOST IMPORTANT ACCOUNTING PRINCIPLES

The financial statement of Izostal S.A. was prepared in line with the International Financial Reporting Standards (IFRS) adopted by the EU and in the scope required by the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information provided by the issuers of commercial papers (Journal of Laws no. 33 item 259 as amended) and covers the period from January 1, 2011 to June 30, 2011 and the respective period from January 1, 2010 to June 30, 2010.
The presented financial statement meets all the requirements of the IFRS adopted by the EU and reflects reliably the Company financial and material situation as on June 30, 2001 and June 30, 2010, its results and cash flows for the period from 01.01.2011 to 30.06.2011 and from 01.01.2010 to 30.06.2010.

Application of the new and amended IFRS
Standards and interpretations used for the first time in 2011.
In the current year the Company adopted the following new and amended standards and interpretations issued by the Council of International Accounting Standards and Committee for Interpretation of International Accounting Standards and approved by the EU, applicable for the conducted activity and effective in annual reporting periods as of January 1, 2011.

- Amendments to IAS 24 „Related party disclosures" – Simplification of requirements for government related entities and a more precise definition of a related party approved by the EU on July 19, 2010 (effective for annual periods starting from January 1, 2011 or after this date),
- Amendments to IAS 32 „Financial instruments: presentation" – Classification of rights issues approved by the EU on December 23, 2009 (effective for annual periods starting from February 1, 2010 or after this date),
- Amendments to IFRS "First-time adoption of IFRS" – limited exemption for first-time adopters from disclosure of comparative IFRS 7 disclosures, approved by the EU on June 30, 2010 (effective for annual periods starting from July 1, 2010 or after this date),
- Amendments to different standards and interpretations "Amendments to IFRS (2010)" – amendments to the procedure of annual amendments to IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13) directed mainly to solving inconsistencies and specifying vocabulary, approved by the EU on February 18, 2011 (effective for annual periods starting on either July 1, 2010 or January 1, 2011 or after this date, depending on the standard/interpretation).
- Amendments to IFRIC 14 "IAS 19 – Limit on a defined benefit asset, minimum funding requirements and their interaction" – prepayments as part of minimum funding requirements approved by the EU on July 19, 2010 (effective for annual periods starting from February 1, 2011 or after this date),
- Interpretation of IFRIC 19 "Extinguishing Financial Liabilities with Equity" approved by the EU on July 23, 2010 (effective for annual periods starting from July 1, 2010 or after this date).

Adoption of the above standards and interpretations has not caused any significant differences in the accounting policy of the Company or the presentation of the financial statements.

Standards and interpretations that have already been published and approved for application within the EU, but not yet effective

On the day of preparing this statement there were no standards, amendments to the standards or interpretations already published and approved for application in the EU but not yet effective.

Standards and interpretations adopted by the International Accounting Standards Board, not yet approved by the EU

The IFRS in the form approved by the EU do not differ much from the regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, amendments to the standards and interpretations, which, as on August 29, 2011 have not yet been approved for application.

- IFRS 9 "Financial instruments" (effective for annual periods starting on January 1, 2013 or after this date),
- IFRS 10 “Consolidated financial statement” (effective for annual periods starting from January 1, 2013 or after this date),
- IFRS 11 “Joint arrangements” (effective for annual periods starting from January 1, 2013 or after this date),
- IFRS 12 “Disclosure of interests in other entities” (effective for annual periods starting from January 1, 2013 of after this date),
- IFRS 13 “Fair value measurement” (effective for annual periods starting from January 1, 2013 or after this date),
- IAS 27 (amended in 2011) “Separate financial statements” (effective for annual periods starting from January 1, 2013 or after this date),
- IAS 28 (amended in 2011) “Investments in associates and joint ventures” (effective for annual periods starting from January 1, 2013 or after this date),
- Amendments to IFRS 1 “First-time adoption of IFRS” – Heavy hyperinflation and removal of fixed dates for first-time adopters of IFRS” (effective for annual periods starting from July 1, 2011 or after this date),
- Amendments to IFRS 7 "Financial instruments: disclosures" - transfers of financial assets (effective for annual periods starting on July 1, 2011 or after this date),
- Amendments to IAS 1 “Presentation of financial statements” – presentation of items of other comprehensive income (effective for annual periods starting from July 1, 2012 or after this date),
- Amendments to IAS 12 “Income tax – deferred tax – recovery of underlying assets” (effective for annual periods starting January 1, 2012 or after this date),
- Amendments to IAS 19 “Employee benefits” – amendments to accounting of benefits after employment period (effective for annual periods starting from January 1, 2013 or after this date).

According to the Company estimates, the aforementioned standards, interpretations and amendments to the standards would not have had any significant impact on the financial statement, had they been used by the entity as on the balance sheet date.

Description of the adopted accounting principles

Measurement of foreign currency positions

Functional currency and presentation currency

Positions of the financial statement are measured at the functional currency.
The Company's functional currency as well as its presentation currency is PLN.
The amounts in this financial statement are presented in PLN thousand unless stated otherwise.

Transactions and balances

The transactions expressed in foreign currencies are converted into the functional currency according to the exchange rate effective on the transaction day, and the balances of settlements and cash as on the balance sheet day are measured at the closing exchange rate of the leading bank (assets at the purchasing rate, liabilities at the selling rate). Exchange rate differences due to the measurement are recognized in profit and loss.

Tangible fixed assets

Tangible fixed assets are shown at their purchasing price or production costs less aggregate depreciation.

The rights of perpetual usufruct to land are shown as land and are not subject to depreciation.

Fixed assets of the unit value not higher than PLN 3.5 thousand are depreciated one time in the month they are transferred for use.

Fixed assets are capitalized according to the rates that reflect the foreseen period of their use. Linear depreciation method is used for depreciation of fixed assets. Use periods for specific fixed assets are as follows:

Buildings and structures	from 10 to 50 years
Machinery and plant	from 3 to 40 years
Means of transport	from 5 to 14 years
Other fixed assets	from 5 to 40 years

The applied depreciation rates are reviewed every year, as on December 31 of a specific year.

The financial lease agreements are activated as tangible fixed assets as on the day of the lease start.

Intangible assets

Acquired intangible assets are shown at their purchasing price. The use period for intangible assets is from 2 to 5 years.

Intangible assets are capitalized according to the rates that reflect the foreseen period of their use. For depreciation of intangible assets of a specific period of use the linear depreciation method is used.

Leasing

The financial lease agreements, which transfer the entire risk and all the benefits under the lease object, are activated as on the date of the lease start, in the current value of the minimum lease charges.

The lease charges are split in the financing costs and the principal, reducing the lease liabilities balances.

The financial costs are booked based on an accrual basis once they are charged to profit and loss.

Investments

All the investments are originally recognized at their purchasing price corresponding to the fair value of the payment made, covering the costs related to the acquisition of the investment.

After initial recognition, investments classified as "held for trading" and "available for sale" are measured at fair value. Gains or losses on investments held for trading and available for sale are recognized in profit and loss.

Long-term financial assets are recognized at purchasing price corresponding to the fair value of the payment made comprising the costs related to the purchase of the investment less impairment loss.

Inventory

Inventory is measured at purchasing prices or production cost, not higher than net selling prices as on the balance sheet date.

The amount of any inventory write-downs to the level of a net value that can be obtained and any inventory losses are recognized as cost of the period when the write-down or loss took place.

Cost is determined on the basis of the "first in first out" method (FIFO).

Receivables related to deliveries and services and other receivables

Receivables related to deliveries and services with a maturity term of 30 to 120 days as typical in the sector are recognized and shown at the originally invoiced amounts, taking into consideration write-downs for uncertain or uncollectible receivables. Write-downs for uncertain receivables are estimated when it is not likely that the entire receivable amount can be obtained. Uncollectible receivables are written off as losses once they are stated uncollectible.

Cash and cash equivalents

Cash and short-term deposits shown in the balance sheet comprise cash in bank and at hand as well as short-term deposits with the original maturity term not longer than 3 months.

The balance of cash and cash equivalents shown in the cash flow comprises aforesaid cash and cash equivalents less unpaid overdrafts.

An overdraft is shown in the balance sheet as part of short-term credits and loans under short-term liabilities.

Cash shown in the balance sheet and in the cash flow statement does not comprise the funds in the separate account of the Company Social Benefit Fund.

Provisions

Provisions are established when the entity has an obligation (either legal or usually expected) resulting from past events and when it is likely that fulfillment of this obligation will result in the outflow of funds embodying economic benefits and it is possible to estimate the amount of this obligation in a reliable way.

The Company establishes provisions for retirement benefits and service anniversary awards. The amount of the provisions established for this purpose is revalued as on the balance sheet date (December 31 of a given year).

Impairment

On each balance sheet date the Company reviews the balance sheet value of its fixed assets to determine whether or not there are any reasons indicating their possible impairment. When the existence of such reasons is confirmed, the value of an asset that can be recovered is estimated in order to determine a possible write-down on this account. The recoverable value is determined as the higher of fair value less costs of sales or value in use, which corresponds to the current value of the estimate future discounted cash flows, with discount rate allowing for the current market value of cash over time and a specific risk, if any, for a given asset. If recoverable value is lower than the net book value of an asset, then book value is reduced to the recoverable value. Respective loss is recognized as cost in the period when impairment takes place.

For reversed impairment, net value of an asset is increased to the new estimate recoverable value, yet no larger than the net value of this asset that would be determined if impairment had not been recognized in previous periods. Impairment reversal is recognized as adjustment of the costs in the period where the reasons contributing to impairment no longer exist.

Revenues

Sales revenues are recognized at fair value of payments received or due and they represent receivables for products, goods and services delivered within normal business, less discounts, VAT and other sales-related taxes.

Sales revenues are recognized if the following conditions have been met:

- the acquiring party has been transferred significant risk and benefits arising from the title to goods and products,
- the Company stops being permanently engaged in the management of the products sold to the extent this function is usually realized for the goods for which one holds a title, and the Company has no effective control over the goods.
- revenues amount can be measured in a reliable way,
- it is probable that the transaction will bring economic benefits, and the costs already incurred or likely to be incurred in connection with the transaction can be measured in a reliable way.

Revenues are recognized only if economic benefits connected with the transaction are likely to be obtained. Products, goods and materials are sold once the title to them is transferred upon the customer. The services are sold once they are provided and accepted by the customer. If there is any uncertainty as to collectability of an amount due which has already been classified as revenues, then this uncollectible amount, as to which the recovery no longer seems probable, is recognized as costs and not as the adjustment of the originally recognized revenues amount.

The amount of revenues resulting from a transaction is defined by agreement. Its value is defined as per fair value of

the payment, allowing for the amounts of commercial discounts.
Fair value of the payment is defined by discounting of all future inflows based on the calculation percentage.
A difference between the payment's fair value and face value is recognized as revenues from interest. Revenues from interest are recognized year to date in respect to the principal amount due, according to the effective interest rate method.

Dividends
Payments of dividends to Company shareholders are recognized as a liability in the entity's financial statement in the period they are approved by Company shareholders.

Income tax
For financial reporting purposes, provision for income tax is established for all temporary differences as on the balance sheet date between the tax value of assets and liabilities and their balance sheet value shown in the financial statement. Provisions for deferred income tax are established in the income tax amount that is required to be paid in the future in relation with the occurrence of positive temporary differences, that is the differences that will increase the income tax base in the future.
Assets on account of deferred income tax are determined in the amount foreseen in the future as income tax refund due to temporary differences that in the future will reduce the income tax base. The balance sheet value of an asset of account of deferred income tax is reviewed on each balance sheet date and is reduced respectively to the extent it is no longer probable that a taxable income will be generated, sufficient to recover an asset on account of deferred income tax in part or in full. The balance sheet value of an asset of account of deferred income tax is reviewed on each balance sheet date and is reduced respectively to the extent it is no longer probable that a taxable income will be generated, sufficient to recover an asset on account of deferred income tax in part or in full.

External borrowing costs
External borrowing costs that can be assigned directly to acquisition, construction or production of an adapted asset are recognized as part of the purchasing price or production costs in line with the alternative approach under IAS no. 23.

Principles of measuring work in process
Work in process is measured at actual cost of charge material consumption, that is cost of black pipes consumption.

Principles of finished goods measurement
Finished goods are measured at their planned production cost defined for specific product mixes. After end of each month, actual production costs are determined for actual orders. Resultant deviations are booked in separate accounts. Over the month, finished goods on hand are measured at the planned production cost of outgoing material. After the month end, deviations are settled and the value of finished products is adjusted to actual costs.

Equity
Equity is recognized in the breakup into types and according to the principles specified in legal regulations and provisions of Company Articles.
Share capital is shown at its face value, in the amount corresponding to the Company Articles and entry in a relevant Court Register.
Declared but unpaid capital contributions are recognized as prepayments due for capital. Treasury shares and prepayments due for share capital reduce equity's value.
Capital on the issue of shares above their face value is established as the surplus of the shares’ issue price above their face value less the issue's costs.
Costs of shares' issue, incurred while increasing the share capital, decrease the shares issue capital above their face value to the amount of the surplus of the issue’s value above the shares face value.

Reporting for segments

Company does not keep separate detailed reporting for segments of operations. Company's reporting segment is production, sales and services related to anti-corrosion coating for steel pipes and delivery of pipes for gas and oil industries. Internal and external coating is a complementary product. This segment is the strategic object of Company business, other activity is not significant.

The issuer operates in a single geographical segment. Majority of export sales go to the EC countries, that is the countries of the same economic environment and similar political conditions.

Specific types are not assigned any specific elements or resources.

Zawadzkie, August 29, 2011

………………………………	………………………………	………………………………
Chief Accountant	Management Board President	Management Board Vice-President
Marek Matheja	Marek Mazurek	Jacek Podwiński

izostal sa
Grupa kapitałowa Stalprofil S.A.

CONDENSED FINANCIAL STATEMENT

PREPARED FOR THE PERIOD OF 6 MONTHS CLOSED ON JUNE 30, 2011

I. SELECTED FINANCIAL DATA AND CONVERSION INTO EURO

Selected financial data	PLN thousand		EUR thousand	
	For the period from 01.01. to 30.06.2010	For the period from 01.01. to 30.06.2011	For the period from 01.01. to 30.06.2010	For the period from 01.01. to 30.06.2011
Net revenues from sale of products, goods and materials	55 385	122 143	13 832	30 787
Operating profit (loss)	3 749	13 364	936	3 369
Gross profit (loss)	2 484	12 528	620	3 158
Net profit (loss)	2 056	10 119	513	2 551
Cash flow - operating activity	4 651	-17 841	1 162	-4 497
Cash flow - investment activity	-2 743	-11 138	-685	-2 807
Cash flow - financial activity	-3 820	3 631	-954	915
Change in cash and cash equivalents	-1 912	-25 348	-477	-6 389
Number of shares	20 744 000	30 944 000	20 744 000	30 944 000
Profit (loss) per one ordinary share (PLN/EUR)	0,10	0,33	0,02	0,08
Diluted numer of shares	32 744 000	32 744 000	32 744 000	32 744 000
Diluted profit (loss) per one ordinary share (PLN / EUR)	0,06	0,31	0,02	0,08
	As on 31.12.2010	**As on 30.06.2011**	**As on 31.12.2010**	**As on 30.06.2011**
Total assets	203 466	224 931	51 376	56 422
Long-term liabilities	40 793	42 428	10 300	10 643
Short-term liabilities	41 327	51 242	10 435	12 854
Equity	121 346	131 261	30 641	32 926

Selected financial data presented in the financial statement were converted to EUR as follows: items of comprehensive income statement and cash flow statement, profit (loss) per one ordinary share and diluted profit (loss) per one ordinary share for H1 of 2011 (H1 of 2010) were converted according to the exchange rate being an arithmetic mean of two mean exchange rates announced by the National Bank of Poland and effective on the last day of each month of the half-year. This rate was EUR 1 = PLN 3.9673 (EUR 1 = PLN 4.0042). Items of the financial position report were converted based on the mean exchange rate announced by the National Bank of Poland effective on the balance sheet date. As on June 30, 2011 this rate was EUR 1 = PLN 3.9866 (as on December 31, 2010 – EUR 1 = PLN 3.9603).

II. FINANCIAL POSITION REPORT AS ON JUNE 30, 2011

ASSETS	Note	As on 30.06.2010	As on 31.12.2010	As on 30.06.2011
A. Fixed assets (long-term)		**98 828**	**99 568**	**110 649**
1. Tangible fixed assets	1	98 494	98 947	110 073
2. Other intangible assets	2	111	177	172
3. Investments available for sale		0	0	0
4. Long-term financial assets	5	0	0	0
5. Deferred income tax assets	34	180	319	198
6. Long-term receivables and prepayments	7	43	125	206
B. Current assets (short-term)		**61 528**	**103 898**	**114 282**
2. Long-term receivables and prepayments	6	20 665	20 062	36 081
3. Receivables on account of income tax	7	40 518	54 450	74 618
4. Long-term financial assets	8	0	455	0
5. Currency derivatives	9	0	0	0
6. Cash and cash equivalents		0	0	0
2. Long-term receivables and prepayments	38	345	28 931	3 583
Total assets		**160 356**	**203 466**	**224 931**

LIABILITIES	Note	As on 30.06.2010	As on 31.12.2010	As on 30.06.2011
A. Equity		**53 585**	**121 346**	**131 261**
1. Share capital	21	41 488	41 488	65 488
2. Surplus from the sale of shares above their face value	22	0	38 379	38 175
3. Spare and reserve capital	23	10 041	34 041	17 479
4. Retained and current profit/loss		2 056	7 438	10 119
B.Long-term liabilities		**39 251**	**40 793**	**42 428**
1. Provisions	14	114	171	171
2. Provision for deferred income tax	34	247	213	141
3. Long-term bank loans and credits	11	19 016	16 688	19 260
4. Other long-term financial liabilities	12	4 700	4 464	3 904
5. Long-term liabilities and accruals	10	15 174	19 257	18 952
C. Short-term liabilities		**67 520**	**41 327**	**51 242**
1. Provisions	14	9	238	141
2. Short-term bank loans and credits	11	18 598	16	0
3. Short-term part of long-term bank loans and credits	11	4 656	4 656	7 140
4. Other short-term financial liabilities	12	856	962	912
5. Short-term liabilities and accruals	10	43 307	35 455	42 736
6. Liabilities on account of income tax	13	94	0	313
Total liabilities		**160 356**	**203 466**	**224 931**

Zawadzkie, August 29, 2011

………………………………	………………………………	………………………………
Chief Accountant	Management Board President	Management Board Vice-President
Marek Matheja	Marek Mazurek	Jacek Podwiński

III. COMPREHENSIVE INCOME STATEMENT FOR THE PERIOD FROM JANUARY 1, 2011 TO JUNE 30, 2011 (CALCULATION BASIS)

CALCULATION BASIS	Note no.	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
A. Revenues on sale of products, goods and materials	**28**	**55 385**	**122 143**
B. Costs of products, goods and materials sold	**29**	**48 152**	**103 023**
C. Gross sales profit (loss) (A-B)		**7 233**	**19 120**
D. Costs of sales	29	752	1 469
E. Overheads	29	3 975	4 938
F. Other revenues	33	1 345	824
G. Other costs	33	102	173
H. Operating profit (loss) (C-D-E+F-G)		**3 749**	**13 364**
I. Financial income	31	117	490
J. Financial expenses	31	1 382	1 326
K. Gross profit/loss (H+I-J)		**2 484**	**12 528**
L. Income tax	34	428	2 409
M. Net profit/loss on business activity (K-L)		**2 056**	**10 119**
N. 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 in valuation of entities operating abroad		0	0
- Income tax related to the items shown under total other income		0	0
O. Total income (M+N)		**2 056**	**10 119**

Earnings per share		From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
- basic earnings based on financial result of a going concern	37	0,10	0,33
- basic earnings based of the financial result for the business year	37	0,10	0,33
- diluted earnings based on financial result of a going concern (PLN)	37	0,06	0,31
- diluted earnings based of the financial result for the business year (PLN)	37	0,06	0,31

Zawadzkie, August 2009, 2011

………………………………	………………………………	………………………………
Chief Accountant	Management Board President	Management Board Vice-President
Marek Matheja	Marek Mazurek	Jacek Podwiński

IV. STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM JANUARY 1, 2011 TO JUNE 30, 2011

	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 ss on 01.01.2010	**41 488**	**0**	**0**	**4 970**	**0**	**5 071**	**51 529**
Changes in equity in H1 of 2010	**0**	**0**	**0**	**5 071**	**0**	**-3 015**	**2 056**
Appropriation of net profit	0	0	0	5 071	**0**	-5 071	0
Issue of share capital	0	0	0	0	**0**	0	0
Profit/loss for business year	0	0	0	0	**0**	2 056	2 056
Cost of shares issue	0	0	0	0	0	0	0
Registration of share capital	0	0	0	0	0	0	0
Total income and costs recognized in H1 of 2010	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Dividends	0	0	0	0	**0**	0	0
Balance as on 30.06.2010	**41 488**	**0**	**0**	**10 041**	**0**	**2 056**	**53 585**

	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 01.01.2010	**41 488**	**0**	**0**	**4 970**	**0**	**5 071**	**51 529**
Changes in share capital 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
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
Cost of shares issue	0	0	0	0	0	0	0
Registration of share capital	0	0	0	0	0	0	0
Total income and costs recognized 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**

	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 H1 of 2011	**24 000**	**-204**	**0**	**-16 562**	**0**	**2 681**	**9 915**
Appropriation of net profit	0	0	0	7 438	0	-7 438	0
Issue of share capital	0	0	0	0	0	0	0
Profit/loss for business year	0	0	0	0	0	10 119	10 119
Cost of shares issue	0	-204	0	0	0	0	-204
Registration of share capital	24 000	0	0	-24 000	0	0	0
Total income and costs recognized in H1 of 2011	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Dividends	0	0	0	0	0	0	0
Balance as on 30.06.2011	**65 488**	**38 175**	**0**	**17 479**	**0**	**10 119**	**131 261**

Zawadzkie, August 29, 2011

……………………………… ……………………………… ………………………………

Chief Accountant Marek Matheja

Management Board President Marek Mazurek

Management Board Vice-President Jacek Podwiński

V. CASH FLOW STATEMENT FOR THE PERIOD FROM JANUARY 1, 2011 TO JUNE 30, 2011 (INDIRECT METHOD)

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Cash flow from operating activity		
Profit/loss before taxation	**2 363**	**12 481**
Item adjustments:	**2 288**	**-30 322**
Depreciation of fixed assets	1 754	1 717
Depreciation of intangible assets	24	35
Foreign exchange gains/losses	0	0
Interest costs and income	1 295	775
Profit/loss on investment activity	-432	-29
Change in provisions	-253	-169
Change in inventory	2 232	-16 019
Change in receivables and prepayments	-10 205	-20 328
Change in liabilities and accruals	8 164	5 290
Paid/refunded income tax	-291	-1 594
Other adjustments	0	0
Net cash flow from operating activity	**4 651**	**-17 841**
Cash flow from investment activity		
Earnings from the sale of fixed assets and intangible assets	0	247
Earnings from the sale of financial assets	0	0
Earnings from interest	0	0
Other investment earnings - obtained subsidies	0	0
Expenditure on the purchase of tangible fixed assets and intangible assets	2 535	11 419
Net expenditure on the purchase of subsidiaries and associated entities	0	0
Other	208	34
Net cash flow from investment activity	**-2 743**	**-11 138**
Cash flow from financial activity		
Earnings from loans and credits	0	7 362
Net earnings from the issue of shares, bonds, bills of exchange and vouchers	0	0
Repayment of credits and loans	2 328	2 328
Repayments of liabilities under financial lease contracts	405	610
Dividends paid to Company shareholders	0	0
Interest paid	1 087	589
Other	0	-204
Net cash flow from financial activity	**- 3 820**	**3 631**
Increase/reduction in cash and cash equivalents	**-1 912**	**-25 348**
Cash, cash equivalents and overdrafts at the beginning of the period	**-10 298**	**28 931**
Gains/losses on exchange rate differences regarding valuation of cash, cash equivalents and overdrafts	0	0
Cash, cash equivalents and overdrafts at the end of the period	**-12 210**	**3 583**

Zawadzkie, August 29, 2011

………………………………	………………………………	………………………………
Chief Accountant	Management Board President	Management Board Vice-President
Marek Matheja	Marek Mazurek	Jacek Podwiński

VI. NOTES TO FINANCIAL STATEMENT PREPARED AS ON DECEMBER JUNE 30, 2011

1. Tangible fixed assets

Scope of changes to the value of tangible fixed assets at the end of H1 of 2011:

Specification	Land, including perpetual usufruct right to land	Buildings, premises and civil engineering structures	Means of transport	Technical plant and machinery	Other fixed assets	Total
Gross value at the beginning of the period	**1 387**	**60 252**	**1 685**	**56 392**	**3 219**	**122 935**
Increases, incl.:	0	10 316	175	2 214	156	12 861
– acquisition	0	10 316	175	2 214	156	12 861
– internal transfer	0	0	0	0	0	0
– other	0	0	0	0	0	0
Reductions, including: (-)	0	0	-212	-20	-10	-242
– liquidation	0	0	-1	-6	-6	-13
– revaluation	0	0	0	0	0	0
– sale	0	0	-211	-14	-4	-229
– internal transfer	0	0	0	0	0	0
– other	0	0	0	0	0	0
Gross value at the end of the period	**1 387**	**70 568**	**1 648**	**58 586**	**3 365**	**135 554**
Depreciation at the beginning of the period	**0**	**2 589**	**772**	**19 193**	**1 434**	**23 988**
Current depreciation - increases (including amendments to IAS)	0	579	114	938	86	1 717
Reductions, including: (-)	0	0	-194	-21	-9	-224
– liquidation	0	0	-1	-7	-6	-14
– sale	0	0	-193	-14	-3	-210
– internal transfer	0	0	0	0	0	0
– other	0	0	0	0	0	0
Depreciation at the end of the period	**0**	**3 168**	**692**	**20 110**	**1 511**	**25 481**
Net book value at the beginning of the period	1 387	57 663	913	37 199	1 785	98 947
Revaluation at the beginning of the period	0	0	0	0	0	0
Net value at the beginning of the period including revaluation	**1 387**	**57 663**	**913**	**37 199**	**1 785**	**98 947**
Net book value at the end of the period	1 387	67 400	956	38 476	1 854	110 073
Revaluation at the end of the period	0	0	0	0	0	0
Net value at the end of the period including revaluation	**1 387**	**67 400**	**956**	**38 476**	**1 854**	**110 073**

Scope of changes to the value of tangible fixed assets at the end of H1 of 2010:

Specification	Land, including perpetual usufruct right to land	Buildings, premises and civil engineering structures	Means of transport	Technical plant and machinery	Other fixed assets	Land, including perpetual usufruct right to land
Gross value at the beginning of the period	**1 387**	**58 886**	**1 488**	**59 360**	**3 297**	**124 417**
Increases, incl.:	0	274	20	1 745	173	2 211
– acquisition	0	794	20	1 013	163	1 989
– internal transfer	0	-520	0	530	10	20
– other	0	0	0	202	0	202
Reductions, including: (-)	0	578	11	4 716	551	5 855
– liquidation	0	0	0	6	4	10
– revaluation	0	0	0	0	0	0
– sale	0	451	11	4 563	547	5 571
– internal transfer	0	0	0	0	0	0
– other	0	127	0	147	0	274
Gross value at the end of the period	**1 387**	**58 582**	**1 497**	**56 389**	**2 918**	**120 773**
Depreciation at the beginning of the period	**0**	**1 859**	**762**	**21 045**	**1 646**	**25 312**
Current depreciation - increases (including amendments to IAS)	0	419	98	1 112	124	1 753
Reductions, including: (-)	0	256	11	4 075	444	4 786
– liquidation	0	0	1	6	3	11
– sale	0	200	10	4 053	441	4 703
– internal transfer	0	0	0	0	0	0
– other	0	56	0	16	0	72
Depreciation at the end of the period	**0**	**2 022**	**849**	**18 082**	**1 326**	**22 279**
Net book value at the beginning of the period	1 387	57 027	726	38 315	1 651	99 105
Revaluation at the beginning of the period	0	0	0	0	0	0
Net value at the beginning of the period including revaluation	**1 387**	**57 027**	**726**	**38 315**	**1 651**	**99 105**
Net book value at the end of the period	1 387	56 560	648	38 307	1 592	98 494
Revaluation at the end of the period	0	0	0	0	0	0
Net value at the end of the period including revaluation	**1 387**	**56 560**	**648**	**38 307**	**1 592**	**98 494**

The Company does not have any obligations towards the State Treasury on account of the transfer of title to real properties. Land shown under assets comprises perpetual usufruct right to land, which is not capitalized.

Ownership structure of tangible fixed assets:

Specification	As on 30.06.2010	As on 30.06.2011
1. Company's own	90 177	101 953
2. Rented, leased or used under another agreement, including lease agreements	8 317	8 120
Total tangible fixed assets	**98 494**	**110 073**

Tangible fixes assets include fixed assets used by the Company on the basis of the financial leasing agreements. Net value thereof as on June 30, 2011:

- means of transport - PLN 693 thousand
- technical plant, machinery – PLN 7,427 thousand.

Contractual obligations for leasing of fixed assets as on June 30, 2011 - PLN 4,816.

Investment purchasing in H1 of 2011 was focused on the extension of tangible fixed assets and was financed from the Company's own funds and investment loan at BNP Paribas Bank Polska S.A. (described in detail in note 11).

Main investments of the Company in H1 of 2011 (including expenditure on intangible assets):

Specification	From 01.01 to 30.06.2011
- construction of the R&D Center for Steel Technologies and Products	11 179
- construction of the storage yard no. 2	958
- purchase of cranes	182
- purchase of means of transport	174
- purchase of warehouse racks	122
- other	275
Total	**12 890**

Fixed assets under construction as on 30.06.2011 amounted to PLN 12,957 thousand and comprised:

- construction of the Research and Development Center for Steel Technologies and Products - PLN 11.532 thousand,
- extension of the storage yard - PLN 951 thousand,
- sub-pressure beam – PLN 42 thousand,
- intangible assets – PLN 8 thousand,
- other – PLN 424 thousand.

The following fixed assets secured the loans taken by the Company as on 30.06.2011:

- coating line (3LPE for diameters of up to 1220mm), the net value of which as on 30.06.2011 was PLN 18,675 thousand, (pledge)

Moreover due to the investment loan taken at BNP Paribas Bank Polska S.A. the Company is obligated to establish a registered pledge to the Bank onmahinery andequipment financedwith this loan for the value of PLN 9,000 thousand. This machinery and equipment as on 30.06.2011 were not purchased.

Fixed assets securing the repayment of Company obligations:

Specification	As on 30.06.2010	As on 30.06.2011
Security value (amount up to which security was established)		
Mortgage	42 400	60 936
Pledge and transfer of ownership in respect of tangible fixed assets	19 859	18 675
Total	**62 259**	**79 611**
Net balance sheet value		
Land, including perpetual usufruct right to land	1 385	1 330
buildings and structures	54 791	64 267
technical plant and machinery	19 859	18 675
Other fixed assets	0	0
Total	**76 035**	**84 272**

Tangible fixed assets::

Specification	As on 30.06.2010	As on 30.06.2011
Land, including perpetual usufruct right to land	1 387	1 387
Buildings, premises and civil engineering structures	56 560	67 400
Technical plant and machinery	38 307	38 476
Means of transport	648	956
Other fixed assets	1 592	1 854
Total tangible fixed assets	**98 494**	**110 073**

Perpetual usufruct right refers to the land located in:

- Zawadzkie, ul. Polna 3 (KW41822)
- Zawadzkie, ul. Ks. Wajdy 1 (KW48794, KW57525, KW59207)
- Kolonowskie, ul. Opolska (KW40617)

Valuation of perpetual usufruct right to land is at purchasing prices. Land purchased after 1997 (hyperinflation period).

2. Other intangible assets

The following table shows the scope of changes to other tangible fixed assets in H1of 2011:

Specification	Internally produced intangible assets		Other intangible assets			
	Patents, trademarks, development works	Other	Patents, trademarks, development works	Other	Prepayments for fixed assets under construction	Total
Gross value at the beginning of the period	**0**	**0**	**4**	**1 118**	**0**	**1 122**
Amendment to IAS	0	0	0	0	0	0
Increases, incl.:	0	0	0	29	0	29
– acquisition	0	0	0	29	0	29
– internal transfer	0	0	0	0	0	0
– other	0	0	0	0	0	0
Reductions, including: (-)	0	0	0	0	0	0
– liquidation	0	0	0	0	0	0
– revaluation	0	0	0	0	0	0
– sale	0	0	0	0	0	0
– internal transfer	0	0	0	0	0	0
– other	0	0	0	0	0	0
Gross value at the end of the period	**0**	**0**	**4**	**1 147**	**0**	**1 151**
Depreciation at the beginning of the period	**0**	**0**	**0**	**945**	**0**	**945**
Current depreciation - increases (including amendments to IAS)	0	0	0	35	0	35
Reductions, including: (-)	0	0	0	0	0	0
– liquidation	0	0	0	0	0	0
– sale	0	0	0	0	0	0
– internal transfer	0	0	0	0	0	0
– other	0	0	0	0	0	0
Depreciation at the end of the period	**0**	**0**	**0**	**980**	**0**	**980**
Net book value at the beginning of the period	0	0	4	173	0	177
Revaluation at the beginning of the period	0	0	0	0	0	0
Net value at the beginning of the period including revaluation	**0**	**0**	**4**	**173**	**0**	**177**
Net book value at the end of the period	0	0	4	168	0	172
Revaluation at the end of the period	0	0	0	0	0	0
Net value at the end of the period including revaluation	**0**	**0**	**4**	**168**	**0**	**172**

Scope of changes to other tangible fixed assets in H1 of 2010:

Specification	Internally produced intangible assets		Other intangible assets			
	Patents, trademarks, development works	Other	Patents, trademarks, development works	Other	Prepayments for fixed assets under construction	Total
Gross value at the beginning of the period	**0**	**0**	**20**	**1 027**	**0**	**1 047**
Amendment to IAS	0	0	**0**	**0**	**0**	0
Increases, incl.:	0	0	4	0	0	4
− acquisition	0	0	4	0	0	4
− internal transfer	0	0	0	0	0	0
− other	0	0	0	0	0	0
Reductions, including: (-)	0	0	20	2	0	22
− liquidation	0	0	0	2	0	2
− revaluation	0	0	0	0	0	0
− sale	0	0	0	0	0	0
− internal transfer	0	0	20	0	0	20
− other	0	0	0	0	0	0
Gross value at the end of the period	**0**	**0**	**4**	**1 025**	**0**	**1 029**
Depreciation at the beginning of the period	**0**	**0**	**0**	**895**	**0**	**895**
Current depreciation - increases (including amendments to IAS)	0	0	0	24	0	24
Reductions, including: (-)	0	0	0	1	0	1
− liquidation	0	0	0	1	0	1
− sale	0	0	0	0	0	0
− internal transfer	0	0	0	0	0	0
− other	0	0	0	0	0	0
Depreciation at the end of the period	**0**	**0**	**0**	**918**	**0**	**918**
Net book value at the beginning of the period	0	0	20	132	0	152
Revaluation at the beginning of the period	0	0	0	0	0	0
Net value at the beginning of the period including revaluation	**0**	**0**	**20**	**132**	**0**	**152**
Net book value at the end of the period	0	0	4	107	0	111
Revaluation at the end of the period	0	0	0	0	0	0
Net value at the end of the period including revaluation	**0**	**0**	**4**	**107**	**0**	**111**

As on June 30, 2011, the main intangible assets comprised software.

3. Investment real properties

As on June 30, 2011 and June 30, 2010 the Company did not have any investment real properties.

4. Goodwill

Not applicabke.

5. Long-term financial assets

The Company does not have any long-term financial assets.

6. Inventory

List of stocks as on 30.06.2011:

Specification	Valuation based on the purchasing price/ production cost	Valuation based on the net value possible to obtain	Amount of inventory write-downs at the beginning of the period	Costs of inventory revaluation write-downs reversal recognized as write-downs reduction in the period	Amounts of inventory revaluation write-downs recognized as cost in the period	Amount of inventory write-downs at the end of the period	Value of inventory recognized as cost in the period	Balance sheet value at the end of the period	Value of inventory used to secure liabilities
Core materials	25 568	25 568	1	1	0	0	62 242	25 568	20 500
Auxiliary materials	1 341	1 341	0	0	0	0	647	1 341	
Work in process	0	0	0	0	0	0	0	0	
Finished products	8 014	7 987	47	20	0	27	0	7 987	
Goods	1 185	1 185	0	0	0	0	41 092	1 185	
TOTAL	36 108	36 081	48	21	0	27	103 981	36 081	

List of stocks as on 30.06.2010:

Specification	Valuation based on the purchasing price/ production cost	Valuation based on the net value possible to obtain	Amount of inventory write-downs at the beginning of the period	Costs of inventory revaluation write-downs reversal recognized as write-downs reduction in the period	Amounts of inventory revaluation write-downs recognized as cost in the period	Amount of inventory write-downs at the end of the period	Value of inventory recognized as cost in the period	Balance sheet value at the end of the period	Value of inventory used to secure liabilities
Core materials	14 168	14 167	184	183	0	1	21 919	14 167	15 500
Auxiliary materials	6	6	0	0	0	0	433	6	
Work in process	0	0	0	0	0	0	0	0	
Finished products	4 141	4 112	37	8	0	29	0	4 112	
Goods	2 380	2 380	10	10	0	0	22 975	2 380	
TOTAL	20 695	20 665	231	201	0	30	45 327	20 665	

As on June 30, 2011 total inventory of PLN 20,500 thousand secured the credits taken by the Company:

- multi-purpose credit line provided by PKO BP S.A. (pledge on inventory of the value of PLN 16,500 thousand)
- overdraft granted by BRE BANK S.A. (pledge on inventory of the value of PLN 4,000 thousand)

Write-downs are carried to operating costs (finished goods) or other costs (other inventory items). Reversed revaluation write-downs are carried to operating activity costs or other income.

7. Receivables and prepayments

Write-downs apply to receivables from debtors in liquidation or bankruptcy, from the ones that question receivables as well as in other cases where the assessment of economic and financial situation of the entity indicates that payment of receivables by them in the nearest future does not seem probable. Receivables claimed at court are covered by 100% write-down.

As on June 30, 2011, the Company wrote down all the receivables at risk .

As to its receivables, in case the debtor defaults in payment, the Company has the right to charge interest on terms and conditions specified in legal regulations and according to the interest rate specified therein.

For export receivables, the Company applies 30-120-day payment term, and for domestic sales it is 30-90 days. In H1 of 2011 no major deviations from these payment terms occurred.

Details of Company receivables:

Specification	As on 30.06.2010	As on 30.06.2011
Receivables for deliveries and services:	**39 039**	**72 637**
- long-term part	0	0
- short-term part	39 039	72 637
Receivables from subsidiary entities, including:	**0**	**0**
receivables for deliveries and services	**0**	**0**
- long-term part	0	0
- short-term part	0	0
other receivables	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Receivables from affiliated entities, including:	**7 541**	**5 536**
receivables for deliveries and services	**7 541**	**5 536**
- long-term part	0	0
- short-term part	7 541	**5 536**
other receivables	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Prepayments:	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Other receivables:	**1 770**	**1 849**
- long-term part	0	0
- short-term part	1 770	1 849
Prepaid expenses:	**946**	**619**
- long-term part	43	206
- short-term part	903	413
Impairment write-downs at the beginning of the period	**1 740**	**1 355**
Recognition of impairment losses in the period	**4**	**1**
Reversal of impairment losses in the period	**550**	**1 075**
Impairment write-downs at the end of the period	**1 194**	**281**
TOTAL	**40 561**	**74 824**

Receivables and prepayments - currency structure:

Specification	As on 30.06.2010	As on 30.06.2011
a) PLN	35 144	63 458
b) foreign currencies (in currencies and after conversion into PLN)	5 417	11 366
b1.units/EUR	1 345	1 562
after conversion into PLN	5 417	6 076
b2.units/USD	0	1 971
after conversion into PLN	0	5 290
Total short-term receivables	**40 561**	**74 824**

Gross receivables for deliveries and services with repayment term remaining as of the balance sheet date:

Specification	As on 30.06.2010	As on 30.06.2011
a) up to 1 month	9 408	39 452
b) from above 1 month to 3 months	20 975	19 677
c) from above 3 months to 6 months	0	0
d) over 1 year	0	2 772
e) overdue receivables	0	0
f) up to 1 month	8 656	10 736
Total (gross) receivables for deliveries and services	39 039	**72 637**
g) write-down of receivables for deliveries and services	595	250
Total (net) receivables for deliveries and services	38 444	**72 387**

Receivables for deliveries and services, overdue, in the breakup into unpaid receivables in the period:

Specification	As on 30.06.2010	As on 30.06.2011
a) up to 1 month	4 324	7 349
b) from above 1 month to 3 months	3 228	1 245
c) from above 3 months to 6 months	502	1 961
d) from above 3 months to 1 year	210	42
e) over 1 year	392	139
Total (gross) overdue receivables for deliveries and services	**8 656**	**10 736**
f) write-downs of overdue receivables for deliveries and services	595	250
Total (net) overdue receivables for deliveries and services	**8 061**	**10 486**

Long-term prepaid expenses refer to the costs of obtained certificates mainly (PLN 187 thousand) and insurance (PLN 19 thousand).

As on 30.06.2011 and 30.06.2010 there were no long-term receivables.

Short-term prepaid expenses as on 30.06.2011 refer to:

- property tax (PLN 143 thousand),
- insurance (PLN 90 thousand),
- contribution to Company Social Benefit Fund (PLN 67 thousand),
- certificates (PLN 47 thousand),
- other costs (PLN 66 thousand).

The amount of the remaining receivables shown as on 30.06.2011, that is PLN 1,849 thousand converns mainly VAT amounts (PLN 1,671 thousand).

For the other receivables, write-downs were established for the total value of PLN 31 thousand.

8. Income tax receivables

As on June 30, 2011 and June 30, 2010 there were no income tax receivables.

9. Short-term financial assets

As on June 30, 2011 and June 30, 2011 the Company did not have any short-term financial assets.

10. Liabilities and accruals

Entity's liabilities related to deliveries and services bear an interest rate in line with the principles specified in relevant legal regulations. The exception is liabilities related to leasing agreements, where the contracts provide for other interest rates for default. Except for the aforesaid interest rate, there is no interest on liabilities related to deliveries and services. As for foreign liabilities, Company obtains payment terms of 30 to 60 days of the invoice's date. As for domestic liabilities, Company obtains payments terms of 7 to 90 days of the invoice's date. The exceptions comprise prepayments or payments at receipt for new customers.

Company's tax liabilities (if there is a delay in their payment) bear an interest rate as specified in effective tax regulations.

Tax and security liabilities as on na 30.06.2011 and 30.06.2010 amounted to PLN 2,341 thousand and PLN 2,542 thousand respectively.

Salary payment liabilities as on 30.06.2011 and 30.06.2010 amounted to PLN 457 thousand and PLN 300 thousand, respectively.

The details of Company liabilities:

Specification	As on 30.06.2010	As on 30.06.2011
Liabilities related to deliveries and services:	**38 815**	**39 305**
- long-term part	0	0
- short-term part	38 815	39 305
Liabilities towards subsidiary entities, including:	**0**	**0**
liabilities related to deliveries and services	**0**	**0**
- long-term part	0	0
- short-term part	0	0
other liabilities	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Liabilities to affiliated entities, including:	**31 355**	**22 465**
liabilities related to deliveries and services	**31 355**	**22 465**
- long-term part	0	0
- short-term part	31 355	**22 465**
other liabilities	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Prepayments:	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Other liabilities:	**4 158**	**2 872**
- long-term part	0	0
- short-term part	4 158	2 872
Accruals:	**15 602**	**19 563**
- long-term part	15 174	18 952
- short-term part	428	611
Prepayments	**0**	**261**
- long-term part	0	0
- short-term part	0	261
TOTAL	**58 575**	**62 001**

All accruals shown in the above table refer to the subsidy for the purchase of fixed assets settled over time, for activity (New investments of high innovative potential). The subsidy was granted for the establishment of the innovative Anti-Corrosion Coating Center for Steel Pipes".

Short-term liabilities - currency structure:

Specification	As on 30.06.2010	As on 30.06.2011
a) PLN	61 653	39 337
b) foreign currencies (in currencies and converted to PLN)	5 858	11 764
b1. units/EUR	1 384	1 531
after conversion into PLN	5 858	6 259
b2. units/ USD	0	1 951
after conversion into PLN	0	5 505
Total short-term liabilities	67 511	**51 101**

11. Loans and credits

As on June 30, 2011 the Company did not grant any loans to any beneficiaries.

As on June 30, 2011 the Company had the following loans:

- Multi-purpose credit limit at PKO BP S.A. for PLN 22,000 thousand. tys. zł. Valid till September 8, 2013. Interest rate is WIBOR 1M plus bank's margin. The credit is secured by a blank promissory note guaranteed by Stalprofil S.A., registered pledge on inventory of PLN 16,500 thousand with assignment of rights under the insurance policy, and clause for deduction of debt from the accounts managed by PKO BP S.A.
- Investment loan taken at Powszechna Kasa Oszczędności Bank Polski S.A. for the amount of PLN 26,000 thousand. The loan is used for the financing of the construction at the Anti-Corrosion Coating Center for Steel Pipes. The loan granted till July 18, 2015. The loan will be repaid in equal monthly installments, starting from January 2010 till July 2015. The loan's interest rate is WIBOR 3M plus bank's margin. The loan is secured by the blank bill of exchange, cap mortgage of PLN 26,000 thousand and principal mortgage of up to PLN 10,400 thousand on the real properties with land and mortgage registers no. OP1S/00040617/8, KW57525, KW41822, registered pledge on the external coating line for a diameter of up to 1220 with assignment of rights under the insurance policy, assignment of commercial amounts due, assignment of cash receivables under insurance contracts for the property being the security.

- Investment loan taken from BNP PARIBAS BANK POLSKA S.A. for the amount of PLN 12,358 thousand. The purpose of the loan is the funding of the Research and Development Center for Steel Technologies and Products. The loan remains effective till January 3, 2014. The loan will be repaid in equal monthly installments starting from January 2012 to January 2014. The interest rate is WIBOR 3M plus bank's margin. The loan is secured by a blank bill of exchange, genera assignment of receivables from selected debtrs in the amount of PLN 5,000 thousand (it is also a legal security for the loan in the form of a multi-purpose credit line at BNP PARIBAS BANK POLSKA S.A.), casual mortgage up to PLN 18,536 thousand on the real property for which the land and mortgage register no. OP1S/00040617/8 is kept, registered pledge on machinery and equipment and transfer of ownership for machinery and equipment of a total value not lower than PLN 9,000 thousand, assignment of rights under insurance policies against fire and other random incidents on machinery and equipment, loan beneficiary's declaration on accepting enforcement in favor of the bank.
- Overdraft facility with BRE BANK S.A. for PLN 4,000 thousand. The loan has been granted till April 18, 2012. The interest rate is WIBOR O/N plus bank's margin. The loan is secured by a blank promissory note, registered pledge on goods inventory, materials for production and finished products in the form of steel pipes in the amount of PLN 4,000 thousand owned by the loan beneficiary and including assignment of rights under the insurance policy.
- Multi-purpose credit line at BNP PARIBAS BANK POLSKA S.A. for PLN 5,000 thousand, valid till May 24, 2012. Interest rate is WIBOR 1M plus bank's margin. The loan is secured by a blank promissory note with respective agreement and declaration of the drawer, declaration of the loan beneficiary on accepting enforcement in favor of the bank and general assignment from selected debtors in the amount of PLN 5,000 thousand (which is also a legal security for the investment loan taken at BNP PARIBAS BANK POLSKA S.A.)

Credits and loans on 30.06.2011:

Specification	**Repayment term**	**As on 31.12.2010**	**As on 30.06.2011**		
			Total	**short-term**	**long-term**
Multi-purpose credit limit at PKO BP	08.09.2013	16	0	0	0
Investment loan at PKO BP	31.03.2016	21 344	19 016	4 152	14 864
Investment loan at BNP Paribas Bank Polska S.A.	03.01.2014	0	7 384	2 988	4 396
Overdraft at BRE Bank S.A.	18.04.2012	0	0	0	0
Multi-purpose credit line at BNP Paribas Bank Polska S.A.	25.05.2012	0	0	0	0
Total		21 360	**26 400**	**7 140**	**19 260**

12. Other financial liabilities

The amount of other (long and short-term) financial liabilities shown in the balance sheet as on June 30, 2011 concerns leasingliabilities with specific installment payment terms.

13. Income tax liabilities

As on 30.06.2011 the Company's income tax liabilities amounted to PLN 313 thousand. As on 30.06.2010 income tax liabilities amounted to PLN 94 thousand.

14. Provisions

The note includes also a provision for deferred income tax.
At the beginning of the business year, the amount of the established provisions was PLN 622 thousand and comprised:

- provision for retirement severance pays and service anniversary bonuses of PLN 175 thousand, out of which PLN 171 thousand is a long-term provision and PLN 4 thousand is a short-term provision.
- long-term provision for deferred income tax in the amount of PLN 213 thousand.
- short-term provision for salaries in the amount of PLN 234 thousand.

As on 30.06.2011 the amount of the established provisions was PLN 453 thousand and comprised:

- long-term provision for deferred income tax in the amount of PLN 141 thousand,

- provision for retirement severance pays and service anniversary bonuses of PLN 173 thousand, out of which 171 thousand is a long-term provision,
- short-term provision for salaries in the amount of PLN 139 thousand.

Provisions for retirement severance pays and service anniversary bonuses were established in line with IAS 19. At the end of each business year, provisions are revalued.

Provisions as on 30.06.2011:

Specification	Provisions for warranty repairs	Restructuring provisions	Provisions for retirement and similar benefits:	Other provisions	Total
Value at the beginning of the period, including:	**0**	**0**	**409**	**213**	**622**
- short-term at the beginning of the period	0	0	238	0	238
- long-term at the beginning of the period	0	0	171	213	384
Increases	0	0	272	0	272
- established in the period and increase in the existing ones	0	0	272	0	272
-acquired as merger of business entities	0	0	0	0	0
Reductions	0	0	369	72	441
-utilized over the year	0	0	369	72	441
-reversed but non-utilized	0	0	0	0	0
Adjustment by net foreign exchange rate differences after conversion	0	0	0	0	0
Discount rate adjustment	0	0	0	0	0
Value at the end of the period, including:	**0**	**0**	**312**	**141**	**453**
- short-term at the end of the period	0	0	141	0	141
- long-term at the end of the period	0	0	171	141	312

Provisions as on 30.06.2010:

Specification	Provisions for warranty repairs	Restructuring provisions	Provisions for retirement and similar benefits:	Other provisions	Total
Value at the beginning of the period, including:	**0**	**0**	**355**	**268**	**623**
- short-term at the beginning of the period	0	0	241	0	241
- long-term at the beginning of the period	0	0	114	268	382
Increases	0	0	0	84	84
- established in the period and increase in the existing ones	0	0	0	84	84
-acquired as merger of business entities	0	0	0	0	0
Reductions	0	0	232	104	336
-utilized over the year	0	0	227	104	331
-reversed but non-utilized	0	0	5	0	5
Adjustment by net foreign exchange rate differences after conversion	0	0	0	0	0
Discount rate adjustment	0	0	0	0	0
Value at the end of the period, including:	**0**	**0**	**123**	**247**	**370**
- short-term at the end of the period	0	0	9	0	9
- long-term at the end of the period	0	0	114	247	361

15. Provisions for retirement and similar benefits

According to the remuneration principles effective in the Company, employees are entitled to discretionary bonuses, retirement or disability severance pays in the amount of a monthly salary, and service anniversary bonuses.

Provisions for retirement severance pays and service anniversary bonuses are estimated by an actuary.

The results of the estimates have been included in the statement, in the amounts as follows:

Specification	As on 30.06.2010	As on 30.06.2011
Retirement severance pays	17	31
Service anniversary bonuses	106	142
Total	123	**173**

Provisions for retirement severance pays and service anniversary bonuses are revalued at the end of each business year. Over the business year, the value of provisions is reduced by the severances paid.

To estimate the provision as on December 31, 2010, an actuary took the following assumptions:

- pay increase rate - the Company expects pay increases in 2011 to be at the level of the inflation rate.
- probability of employees retiring or receiving disability pension - estimated on the basis of the following metrics for specific employees: sex, age, information on retirement age (age when a Company employee becomes entitled to retirement pension) and information on rotation in the personnel of the Company in at least recent 3 years. The latter includes information on the causes for employees' leaving the Company, including among others natural causes, such as death.
- mobility - relative mobility rates were estimated on the basis of the Company personnel's mobility seen in recent years.
- technical interest rate - as per IAS 19 - the applied discount rate for future payments should be taken at a nominal value (item 76 of IAS 19). In line with IAS 19.78 "the rate to discount post-employment benefit obligations (...) shall be determined by reference to market yields at the end of the reporting period on high-quality corporate bonds. In countries where there is no deep market in such bonds, the market yields on government bonds shall be used". The term of the corporate bonds or government bonds shall be consistent with the estimated term of the post-employment benefit obligation. The obligations analyzed for the estimate cover the period of around 40 years. Yet, the long-time bonds market in the Warsaw Stock exchange is not deep. An actuary took the market yield of multi-year government bonds to discount future payments as on December 31, 2010.
- retirement age - 65 for men, 60 for women (for all of them it was taken that this was the age of them becoming entitled to retire).

The valuation method taken by an actuary is as follows:

- in line with IAS 19, to define the provision the forecast individual entitlements were used. The provision was determined on the basis of the information provided and whether or not it is correct depends on the accuracy of the information,
- for all the benefits the assumption was taken of linear entitlement to benefits starting from the moment of being hired to the moment of benefit award,
- the provision for future obligations was calculated on the basis of the headcount of Company employees as on the balance sheet date. The provision does not include the people to be hired after the balance sheet date or changes to the benefit payment principles that can become effective in the future.

16. Warranties

The Company gives a warranty for its products and services for a limited period specified in the contract (e.g. 24 or 36 months starting from the date on which the customer accepts the goods) or in the building law. Warranty covers:

- use of appropriate materials designed for this purpose,
- delivery of goods characterized by relevant quality and parameters,
- observance of statutory regulations,
- replacement of a batch of goods or provision of a new service in case of default evidence - contractor's default.

In recent years, due to the high quality of the products offered, the Company has not recorded any warranty repairs of its products, therefore the provisions for them have not been established.

17. Off-balance sheet items, including: contingent liabilities

Company's contingent liabilities:

Specification	As on 30.06.2010	As on 30.06.2011
1. Contingent liabilities	**0**	**1 114**
1.1. To affiliates	0	0
- sureties and guarantees provided	0	0
1.2. To other entities	0	1 114
- sureties and guarantees provided	0	1 114

- bills of exchange	0	0
- transfer of receivables under commercial contracts securing the loans	0	0
2. Other	**77 759**	**100 111**
- refused claims for which a contractor has initiated a court proceeding	0	0
- property encumbrances (mortgage, pledge, transfer of ownership as security)	77 759	100 111
including pledge on fixed assets	19 859	18 675
including pledge on inventory	15 500	20 500
including mortgage	42 400	60 936
Total off-balance sheet items	**77 759**	**101 225**

The main items encumbering Company's property is liabilities related to bank credits and loans. The Company does not utilize any discount loans. The Company has not granted any sureties.
The Company has provided the following guarantees:

- **to OGP Gaz - system S.A.**
  - performance bond and rectification guarantee for deliveries of coated pipes. The guarantee has been granted for the amount of up to PLN 129 thousand and remains valid till 28.03.2016,
  - performance bond and rectification guarantee for deliveries of coated pipes. The guarantee has been granted for the amount of up to PLN 159 thousand and remains valid till 1.04.2016.
- **to FX ENERGY POLAND Sp. z o.o. seated in Warsaw**
  - performance bond. The guarantee has been granted for the amount of up to PLN 826 thousand in case of non-performance or undue performance of the contract (till 10.11.2011)

18. Operating lease agreements

On March 1, 1996 the Company concluded the agreement on the lease of the production bay of a total area of 5,400 m², machine house rooms of an area of 429 m² and social facility rooms of an area of 251 m². The agreement was concluded till December 31, 2023. Rent is paid on a monthly basis by the 7th day of each month.
On April 11, 2005 the Company concluded the agreement on the lease of the production bay of a total area of 2,500 m² and some machinery and plant. The agreement was concluded for an unlimited period. Rent is paid on a monthly basis by the 14th day of each month.
On December 1, 2005, the Company concluded the agreement on the lease of electric transmission and switching equipment. The agreement was concluded for an unlimited period. Rent is paid on a monthly basis by the 10th day of each month.
On June 14, 2011, the Company concluded the agreement on the lease of the production bay premises of an area of 1440 m², and the premises beyond the bay of an area of 234.5 m². The agreement was concluded till May 31, 2011. Rent is paid on a monthly basis by the 10th day of invoice's date.

19. Financial lease obligations

As on 30.06.2011 Izostal S.A. was party to 8 financial lease agreements (Company as the beneficiary):

- 3 agreements concluded on July 4, 2008. 3 motor cars are leased. Last installment payment term is July 2011. The lessee has the right to acquire the object of the agreement for the buyback price. The final net monthly installment for each agreement is PLN 0.7 thousand. The agreements provide for the issue of a bill of exchange by the lessee upon lessor's demand, and the lessor may fill in the bill of exchange if the lessee defaults with payment of lease fees or violates the agreement otherwise.
- The agreement concluded on January 6, 2009 on the lease of the internal coating line for steel pipes. Last installment payment term is May 2016. Net monthly installment is PLN 89 thousand. The agreement is secured by the blank bill of exchange and cap mortgageof up to PLN 6 thousand in the land and mortgage register no. KW 40617.
- The agreement concluded on March 26, 2009 on the lease of a forklift truck. Last installment payment term is March 2014. Net monthly installment is PLN 5 thousand. The agreement is secured by 2 blank bills of exchange.
- The agreement concluded on June 22, 2009 on the lease of a lorry. Last installment payment term is June 2013. Net monthly installment is PLN 1.9 thousand. The agreement is secured by a blank bill of exchange.

- 2 agreements concluded on 27.07.2010. 2 motor cars are leased. Last installment payment term is August 2013. Net monthly installment for each agreement is PLN 2.3 thousand. The agreements are secured by blank bills of exchange with the endorsement "without protest" and with the bill of exchange agreement.

Future minimum lease fees and their current value:

Specification	As on 30.06.2010		As on 30.06.2011	
	Current value of minimum fees	Minimum fees	Current value of minimum fees	Minimum fees
in the period of up to 1 year	856	1 225	912	1 224
in the period from 1 year to 5 years	3 692	4 528	3 904	4 474
in the period of over 5 years	1 008	1 046	0	0
Total	**5 556**	**6 799**	**4 816**	**5 698**

20. Bonds convertible to shares

In H1 of 2011 the Company did not issue any bonds convertible to shares.

21. Share capital

Company share capital (in line with the entries in the National Court Register) as June 30, 2011 was PLN 65,488 thousand and comprised 32,744,000 ordinary bearer shares of a face value of PLN 2 per share and comprised the following issues of shares::

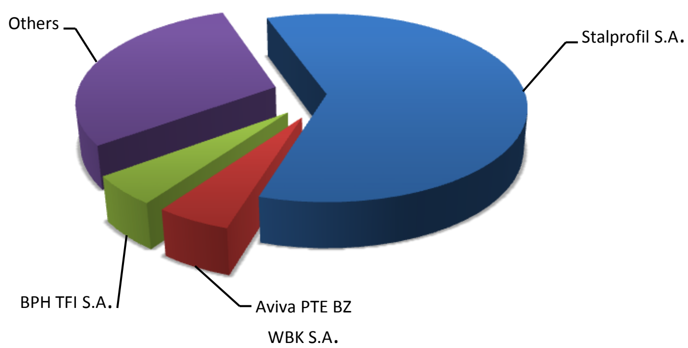
	Type of shares	Type of shares' privilege	Type of limitation on rights to shares	Number of shares	Face value of a single share	Series / issue value as per face value (PLN thousand)	Manner of capital payment	Registration date	Right do dividend (from the date)
A series	bearer shares	none	none	50 000	PLN 2.00	100	cash contributions	1993-08-03	-
B series	bearer shares	none	none	1 150 000	PLN 2.00	2 300	21 850 - cash contributions, 1 150 – non-cash contributions	1994-02-28	1993-11-30
C series	bearer shares	none	none	150 000	PLN 2.00	300	cash contributions	1995-03-07	-
D series	bearer shares	none	none	225 000	PLN 2.00	450	cash contributions	1999-09-19	-
E series	bearer shares	none	none	1 025 000	PLN 2.00	2 050	cash contributions	2003-03-24	2003-03-24
F series	bearer shares	none	none	1 950 000	PLN 2.00	3 900	conversion of bonds to shares	2004-02-19	-
G series	bearer shares	none	none	3 412 500	PLN 2.00	6 825	conversion of bonds to shares	2005-03-21	2005-01-01
H series	bearer shares	none	none	3 281 500	PLN 2.00	6 563	conversion of bonds to shares	2005-03-21	2005-01-01
I series	bearer shares	none	none	3 500 000	PLN 2.00	7 000	cash contributions	2007-08-22	2008-01-01
J series	bearer shares	none	none	6 000 000	PLN 2.00	12 000	cash contributions	2009-12-18	2010-01-01
K series	bearer shares	none	none	12 000 000	PLN 2.00	24 000	cash contributions	2011-01-28	2010-01-01
Total number of shares				**32 744 000**					
Total share capital						**65 488**			

In Q4 of 2010 Izostal made a public offering of 12,000,000 ordinary bearer shares, new issue, K series, of a face value of PLN 2,00 each. Under the public offering, 12,000,000 of shares were subscribed for and paid in, and they were allocated by the Management Board on 29.12.2010. Consequently, the Company's share capital was increased to PLN 65,488 thousand. On 28.01.2011 the increase in the share capital was registered by the District Court in Opole, 8th Business Division of the National Court Register.

January 11, 2011 was the date of the first quotation of the Rights to Shares, series K at the Warsaw Stock Exchange.

Starting on February 16, 2011, the Company shares, series A to K, have been quoted on the Warsaw Stock Exchange.

The Company shareholding structure as on June 30, 2011 (to the knowledge of the Management Board0 is shown in the following table and chart.



Shareholders	Number of shares held	Shareholding [%]
Stalprofil S.A.	19 739 000	60,28%
Aviva PTE BZ WBK S.A.	1 669 877	5,10%
BPH TFI S.A.	1 644 021	5,02%
Pozostali	9 691 102	29,60%
Razem	32 744 000	100,00%

22. Surplus from the share of shares above their face value

Surplus from the sale of shares above their face value at the beginning of the period amounted to PLN 38,379 thousand and was reduced in H1 of 2011 to PLN 38,175 thousand. The reduction resulted from the costs of the issue of series K shares incurred in H1 of 2011 in the amount of PLN 204 thousand.

23. Reserve and spare capital

In H1 of 2011 spare capital was decreased by PLN 16,562 thousand. This reduction resulted from the following:

- appropriation of profit for 2010 – PLN 7,438 thousand (increase),
- registration of spare capital – PLN 24,000 thousand (reduction).

24. Treasury shares

In H1 of 2011 the Company did not hold any treasury shares.

25. Dividends

Payments of dividends to Company shareholders are recognized as a liability in the financial statement in the period they are approved by Company shareholders.
As on June 30, 2011 and June 30, 2010, no dividends from ordinary shares existed (not recognized as liabilities) that would be presented for approval by the General Meeting.
In the period from 01.01.2011 to 30.06.2011 the Company did not pay any dividend.

26. Going concern uncertainty

he Company does not know about any reasons that would indicate any going concern uncertainty.

27. Merger of business entities

In H1 of 2011 no merger of the Companies was effected.

28. Revenues from sale of products, goods and materials

Sales revenues in the breakup into basic product groups:

Specification	For the period from 01.01 to 30.06.2010		For the period from 01.01 to 30.06.2011	
	Amount	Structure	Amount	Structure
Coated pipes	**30 440**	55,0%	69 996	57,3%
including export sales	*9 599*	*82,7%*	*8 049*	*66,6%*
Coating services	**907**	**1,6%**	8 759	7,2%
including export sales	*588*	*5,1%*	*3 417*	*28,3%*
Polyethylene pipes	**680**	1,2%	0	0,0%
including export sales	*0*	*0,0%*	*0*	*0,0%*
Goods, materials	**22 975**	41,5%	43 176	35,3%
including export sales	*1 356*	*11,7%*	*540*	*4,5%*
Other sales	**383**	0,7%	212	0,2%
including export sales	*71*	*0,6%*	*78*	*0,6%*
Total	**55 385**	**100,0%**	**122 143**	**100%**
including: export sales	***11 614***	***100,0%***	***12 084***	***100%***
Specification	**For the period from 01.01 to 30.06.2010**		**For the period from 01.01 to 30.06.2011**	
	Amount	**Structure**	**Amount**	**Struktura**
Sales revenues - products	31 146	56,2%	70 027	57,3%
Sales revenues - services	1 213	2,2%	8 866	7,3%
Sales revenues - materials	3	0,0%	13	0,0%
Sales revenues - goods	22 972	41,5%	43 163	35,3%
Sales revenues - lease services	51	0,1%	74	0,1%
Total	**55 385**	**100,0%**	**122 143**	**100,0%**
including non-cash revenues - barter of goods or services	**0**		**0**	

In H1 of 2011 revenues constituted 9.89% of total revenues of the Commpany.

The main customers for services and goods exported in 2010 were the EU countries. The largest sales values: Romania (27.9% of exports), Slovakia (28.3% of exports) and Hungary (22.5% of exports).

Prices of products and services are covered by the trade secret and are individually agreed with customers (except for small-value orders).

29. Information on prime costs and employment costs

Basic information about prime costs and their comparison to the costs shown on a calculation basis in profit and loss are shown in the following table:

Specification	For the period from 01.01 to 30.06.2010	For the period from 01.01 to 30.06.2011
Depreciation of fixed assets	1 754	1 717
Depreciation of intangible assets	24	35
Costs of employee benefits	3 489	4 626
Raw materials, auxiliary materials and energy consumption	23 303	64 390
Costs of external services	1 805	2 257
Costs of taxes and charges	332	385
Other costs	255	502
Marketing costs	150	73
Change in products portfolio	1 028	-5 650
Own work capitalized	-1	0
Costs of products, goods and materials sold	20 740	41 095
TOTAL	**52 879**	**109 430**
Costs of products, goods and materials sold	48 152	103 023
Costs of goods sold	752	1 469
Overheads	3 975	4 938
TOTAL	**52 879**	**109 430**

Employee costs shown in the above table comprise the following items:

Specification	For the period from 01.01 to 30.06.2010	For the period from 01.01 to 30.06.2011
Salaries costs	2 828	3 816
Social security costs	473	601
Company Social Benefit Fund	123	135
Other	65	74
TOTAL	**3 489**	**4 626**

Costs of salaries cover salaries paid on terms and conditions of contracts of employment concluded with specific employees. Costs of social security cover old age pension, disability pension benefits and contributions to the Guaranteed Employee Benefit Fund and Labor Fund.

The Company is obligated to have the Company Social Benefit Fund (ZFŚS). Contributions to the fund are charged to Company operating costs and require that funds be frozen in a separate bank account. The financial statement shows assets and liabilities of the fund in net values.

Provisions for retirement severance pays and service anniversary bonuses are specified in detail in the item on provisions.

30. Basic employment information

The following table shows the information on average employment during the business year, in the breakup into occupational groups.

Specification	As on 30.06.2010	As on 30.06.2011
Blue-collars	73	74
White-collars	48	50
Including Management Board Members	3	*2*
Students	0	0
Total employment	**121**	**124**

31. Financial costs and income

Main items of financial costs and income:

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Financial costs		
Interest costs , including:	1 259	775
- bank loans	1 044	589
- liabilities	7	0
- loans	0	0
- leasing	208	186
- budgetary liabilities	0	0
Costs of shares' issue - rounded and charged to result	0	0
Costs of sureties obtained	0	0
Costs of bills of exchange discount	0	0
Foreign exchange losses	0	486
Write-downs - impairment of financial assets, including:	0	0
- financial assets and liabilities measured at fair value through profit & loss	0	0
Losses due to revaluation of fair value of financial instruments, including:	0	0
- hedging instruments	0	0
Factoring costs	86	53
Write-downs of interest	4	1
Bank commissions	33	11
Other	0	0
TOTAL	**1 382**	**1 326**
Financial income		
Earnings from interest	4	386
Cancellation of obtained interest	0	0
Bills of exchange discount	0	0
Foreign exchange gains	0	0
Reversal of write-downs - impairment of financial assets, including:	0	0
- financial assets and liabilities measured at fair value through profit & loss	0	0
Gains from change of fair value of financial instruments	0	0
- financial assets and liabilities measured at fair value through profit & loss	0	0
Reversal of write-downs for interest	69	104
Foreign exchange rate differences	44	0
Other	0	0
TOTAL	**117**	490
Financial activity result	**-1 265**	**-836**

Financial income includes income on interest reversal of write-downs for interest and reversal of financial provisions.

Financial costs include costs of external borrowing, interest paid under financial lease agreements, write-downs for interest receivables and foreign exchange losses.
Financial costs under financial lease agreements include interest under the agreement.
Foreign exchange differences are recognized under financial costs or income depending on the balance of foreign exchange gains and losses in a given business year.

32. Government subsidies

On December 30, 2008 the Company concluded the agreement no. UDA-POIG.04.04.00-16-002/08-00 as part of activity 4.4 New investments of high innovative potential. The agreement refers to the subsidy for the project involving the construction of the innovative Anti-Corrosion Coating Center for Steel Pipes. The amount of the subsidy foreseen in the agreement (including the appendices) is PLN 21,258 thousand. The project was completed in December 2009. The Company submitted a final application for payment. The Company obtained the funds of PLN 20,438 thousand.
Accruals for this subsidy as on June 30, 2011 amounted to PLN 19,563 thousand. This value is ssettled under other operating income in proportion to the depreciation of fixed assets covered by the subsidy.
On April 19, 2011 the Company concluded the co-financing agreement with the Minister of Economy in the amount of PLN 7,263 thousand for the construction of the Research and Development Center for Technologies and Steel Products as part of the Operational Program Innovative Economy, 4. priority axis: Investments in innovative undertakings, activity 4.5.: Support for investments of significant importance for economy, sub-activity 4.5.2.: Support for investments in the moder technologies sector. The deadline for project implementation entered into the agreement expires on December 23, 2011. On May 9, 2011 the Company submitted an application for postponing the deadline till February 29, 2012.

33. Other operating costs and income

Main items of other operating costs and income:

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Other operating costs		
Write-downs - impairment of receivables	0	0
Refused claims	57	0
Stock-taking shortages	0	0
Donations	2	9
Court fees	37	11
Costs of remedies in case of acts of God	0	6
Voluntary subscription fees to organizations	0	0
Provision for future operating costs	0	139
Compensations, penalties, fines	0	2
Inventory revaluation write-downs	0	0
Other	6	6
TOTAL	**102**	**173**
Other operating income		
Earnings from the sale of tangible fixed assets	432	29
Reversal of write-downs - impairment of receivables	452	118
Refund of court fees	0	7
Damages and compensations received	65	84
Subsidies	150	306
Reversal of provisions	232	235
Assets received free of charge	0	45
Write-down of overdue liabilities	0	0
Other	14	0
TOTAL	**1 345**	**824**
Other operating result	**1 243**	**651**

Other costs include costs and losses which are not directly related to operating activity. This category comprises mainly provisions established for the costs of operating activity, provisions for the risk of lost court cases, revaluation write-downs in respect of non-financial assets and costs of unpaid compensations.
Other income includes income and gains which are not directly related to operating activity. This category includes mainly revenues from reversal of receivables write-downs, received government subsidies, compensations and liquidated damages and reversed provisions.
.

Write-downs were created once the risk of the contractor's failing to pay the receivables occurred. Reversal of receivables write-downs took place once the customer paid their receivables or by enforcement of receivables by a debt collector.

34. Income tax

Main items of tax burden/benefits in profit and loss:

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Current income tax	**307**	2 361
- current charges on account of income tax	307	2 361
- retained corrections of current income tax	0	0
Deferred income tax	**121**	48
- burden/benefit related to deferred tax - establishment and reversal of temporary differences	121	48
- burden/benefit related to deferred tax – change in tax rates	0	0
Tax burden/benefit shown in profit and loss, including:	**428**	2 409
- assigned to going concern	428	2 409
- assigned to discontinued concern	0	0

Current income tax

Current tax charges are calculated on the basis of effective tax regulations. Application of these regulations differentiates tax profit (loss) from net book profit (loss), exclusive of non-taxable income and tax deductible expenses, as well as costs and items never to be subject to taxation are excluded. Tax charges are calculated on the basis of tax rates effective in a given business year.

The following table shows the settlement of main items that differentiate taxable income (CIT) from gross financial result:

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Gross financial result before going concern taxation	2 484	12 528
Profit/loss before taxation - discontinued concern	0	0
Gross financial result before taxation	2 484	12 528
Non-deductible expenses, including:	**688**	**1 294**
- provisions for future costs	13	152
- receivables write-downs	3	1
- inventories revaluation write-downs	0	0
- PFRON (National Fund for Rehabilitation of the Disabled)	55	60
- interest	49	0
- unpaid social security (ZUS)	132	213
- entertainment costs	44	30
- unpaid salaries	21	181
- depreciation of fixed assets covered by the subsidy	150	306
- stock exchange costs	0	113
- other	221	238
Additions to costs	**709**	**790**
- interest paid in previous years	50	1
- principal lease installments	58	74
- addition of exchange rate differences (change in the CIT law)	0	0
- previous year salaries paid in the period	150	247
- previous year social security contributions paid in the period	198	249
- costs of financial assets sold	0	0
- issue costs	0	126
- other	253	93
Non-taxable expenses	**845**	**755**
- valuation exchange rate differences	0	0
- cancellation of bank interest	0	0
- reversal of provisions	232	235
- unpaid interest	4	1
- reversal of write-downs (previously non-deductible)	452	118
- unpaid liquidated damages	0	0
- subsidies received	0	306
- other	157	95
Additions to income	**0**	**150**
- received interest	0	0
- damages received	0	150
- **exchange rate differences (change in the CIT law)**	0	0
Result after deductions	**1 618**	**12 427**
Retained losses deducted fromincome	0	0
Result after deductions	**1 618**	**12 427**
CIT rate (%)	19	19
Tax burden/benefit shown in profit and loss	**307**	**2 361**

Deferred income tax

Odroczony podatek w deferred tax shown in the financial position report and comprehensive income statement:

Specification	Financial position report as on 30.06.2010	Comprehensive income statement from 01.01. to 30.06.2010	Financial position report as on 30.06.2011	Comprehensive income statement from 01.01. to 30.06.2011
Provision on account of deferred income tax				
Exchange rate differences	0	0	0	0
Valuation of fixed assets	71	-90	68	0
Fixed assets under lease	93	-14	72	-44
Interest not covered by revaluation/penalties	83	84	0	-29
Gross provision - deferred income tax	**247**	**-20**	**140**	**-73**
Deferred income tax assets				
Receivables write-down	41	-2	13	-26
Impairment of financial assets	0	0	0	0
Exchange rate differences	0	0	0	0
Accrued interest	10	2	0	-3
Provisions for employee benefits	23	-44	33	-8
Provision for interest	0	0	0	0
Lease liabilities	68	-12	43	-41
Unpaid salaries	4	-31	34	-13
Un-invoiced costs	0	-3	0	0
Unpaid social security (ZUS)	25	-13	40	-7
Other	9	-38	34	-23
Deductible tax loss	0	0	0	0
Gross assets - deferred income tax	**180**	**-141**	**197**	**-121**
Burden/benefit - deferred income tax	**0**	**121**	**0**	**48**

35. Contracts for construction

The Company does not conduct any activity covered by contracts for construction.

36. Transactions with affiliates

The entity preparing the consolidated financial statement:

Stalprofil S.A.

41-308 Dąbrowa Górnicza; ul. Roździeńskiego 11a

In the period covered by this financial statement, Izostal S.A. did not grant any loans or any similar allowances to Management Board Members or Supervisory Board Members.

Data on the salaries of Management Board Members:

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Short-term employee benefits for this year	502	773
Retained short-term employee benefits paid in the business year	63	263
Provisions for salaries established at the end of the period	0	132
Unpaid salaries	61	46
Other long-term benefits	0	0
Benefits for termination of employment relationship	0	0
Employee benefits in the form of treasury shares	0	0

Data on the salaries of Supervisory Board Members:

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Short term employee benefits for this year and paid this year	104	108
Retained short-term employee benefits paid in the business year	20	21
Provisions for salaries established at the end of the period	0	0
Unpaid salaries	21	22
Other long-term benefits	0	0
Benefits for termination of employment relationship	0	0
Employee benefits in the form of treasury shares	0	0

Basic values of transactions with affiliated entities (net values):

Affiliated entity	Sale to affiliated entities		Purchasing from affiliated entities		Obtained loans/transfer of receivables		Inventory as on	
	From 01.01. to 30.06.2010	From 01.01. to 30.06.2011	From 01.01. to 30.06.2010	From 01.01. to 30.06.2011	From 01.01. to 30.06.2010	From 01.01. to 30.06.2011	From 01.01. to 30.06.2010	From 01.01. to 30.06.2011
Parent entity	0	13	14 800	48 493	0		2 168	1 009
Entities having significant impact	0	0	0	0	0	0	0	0
Subsidiary entities	0	0	0	0	0	0	0	0
Associated entities	7 592	5 089	3 227	3 541	0		2 177	2 427
Other affiliated entities	0	0	0	0	0	0	0	0

Settlements with affiliated entities (gross values):

Affiliated entity	Należności od podmiotów powiązanych na dzień		Liabilities to affiliated entities as on	
	30.06.2010	30.06.2011	30.06.2010	30.06.2011
Parent entity	0	0	27 173	21 370
Entities having significant impact	0	0	0	0
Subsidiary entities	0	0	0	0
Associated entities	7 541	5 536	4 182	1 095
Other affiliated entities	0	0	0	0

Transactions with parent entity

The parent entity is Stalprofil S.A.

The Company purchased mainly steel pipes and steel products from the parent entity.

The Company sold mainly steel pipes.

In H1 of 2011 Izostal S.A. concluded transactions with the parent entity on arm's length conditions.

Associated entities

The information presented under "associated entities" refers to the transactions between the Company and ZRUG Zabrze Sp. z o.o. seated in Zabrze, and KOLB Sp. z o.o. seated in Kolonowskie.

The Company sold to ZRUG Zabrze Sp. z o.o. mainly coated pipes; the Company purchased pipes and extension of the production plant in Kolonowskie.

Izostal S.A. purchased from KOLB Sp. z o.o. the services related to Company's ongoing activity and extension of the production plant in Kolonowskie, and it sold mainly steel products.

Transactions with the other affiliated entities are concluded on arm's length conditions.

37. Earnings per shares

Information necessary to calculate earnings per share and diluted earnings is shown in the tables below.

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Net operating profit/loss - going concern	2 056	10 119
Profit (loss) - discontinued concern	0	0
Net profit/loss	2 056	10 119
Net profit/loss applied for calculation of diluted earnings/losses per share	2 056	10 119

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Weighted average number of ordinary shares issued applied for calculation of basic earnings/losses per share	20 744 000	30 944 000
Dilution effect	12 000 000	1 800 000
Corrected weighted average number of ordinary shares issued applied for calculation of basic earnings/losses per share	32 744 000	32 744 000

Specification	From 01.01 to 30.06.2010	From 01.01 to 30.06.2011
Calculation of basic earnings/losses per share (PLN)	0,10	0,33
Calculation of diluted earnings/losses per share (PLN)	0,06	0,31

Earnings per share are calculated by dividing net profit of a given business year assigned to ordinary shareholders by a weighted average number of ordinary shares issued for a given business year.

Diluted earnings per share are calculated by dividing net profit of a given business year assigned to ordinary shareholders by the total of weighted average number of ordinary shares issued for a given business year and the maximum number of shares offered to the public.

For calculation of basic profit per share, weighted average number of ordinary shares in specific reporting period was taken, allowing for the changes in the number of ordinary shares in specific years.

38. Cash and cash equivalents

The following table shows the data on cash and cash equivalents held by the Company:

Specification	As on 30.06.2010	As on 30.06.2011
Cash at bank and in hand	336	2 043
Short-term deposits	9	1 540
Other	0	0
Total, incl.:	345	3 583
- Cash at bank and in hand assigned to discontinued concern	0	0

The following table shows the data on cash and cash equivalents shown in the cash flow statement:

Specification	As on 30.06.2010	As on 30.06.2011
Cash at bank and in hand	345	3 583
Overdrafts	-12 555	0
Total	- 12 210	3 583

The cash flows shown in this statement do not show the transactions excluded from investment and financial activity.

As on 30.06.2011 no cash was restricted for use.

Cash at bank bears a variable interest rate.

The Company has a multi-purpose credit limit with a sublimit in the form of an overdraft at bank PKO BP S.A. for the amount of PLN 14,000 thou., at BNP PARIBAS BANK POLSKA S.A. for the amount of PLN 5,000 thou., and at BRE BANK S.A. for the amount of PLN 4,000 thou. As on 30.06. 2011 the credit was not utilized at all.

Fair value of cash and cash equivalents is equal to their balance sheet value.

39. Financial instruments

Analysis of financial instruments depending on the interest rate risk:

As on 30.06.2011	Balance sheet value	Increase/ reduction by percentage points	Impact on gross financial result
Financial assets	**1 681**		**385**
Cash	141	0.25%	0
Financial assets available for sale	0		0
Other financial assets	0		0
Short-term deposits	1 540	0.25%	385
Financial liabilities	**31 008**		**78**
Bank credits and loans	26 378	0.25%	66
Lease liabilities	4 630	0.25%	12

As on 30.06.2010	Balance sheet value	Increase/ reduction by percentage points	Impact on gross financial result
Financial assets	**334**		**1**
Cash	334	0.25%	1
Financial assets available for sale	0		0
Other financial assets	0		0
Short-term deposits	0		0
Financial liabilities	**47 486**		**119**
Bank credits and loans	42 227	0.25%	106
Lease liabilities	5 259	0.25%	13

Analysis of financial instruments' sensitivity depending on the interest rate risk:

As on 30.06.2011	Balance sheet value	Increase/ reduction of the rate (per cent)	Impact on gross financial result
Financial assets	**11 379**		**114**
Cash in foreign currency	13	1.00%	0
Receivables related to deliveries and services and other in a foreign currency	11 366	1.00%	114
FORWARD	0		0

Financial liabilities	**11 765**		**118**
Overdrafts in foreign currency	0		0
Short-term loans in foreign currency	0		0
Liabilities related to deliveries and services and other in foreign currency	11 765	1.00%	118

As on 30.06.2010	Balance sheet value	Increase/ reduction of the rate (per cent)	Impact on gross financial result
Financial assets	**5 893**		**57**
Cash in EUR	278	1.00%	3
Receivables related to deliveries and services and other in EUR	5 417	1.00%	54
FORWARD	0		0
Financial liabilities	**5 858**		**59**
Overdrafts in EUR	0		0
Short-term loans in EUR	0		0
Liabilities related to deliveries and services and other in EUR	5 858	1.00%	59

Fair values of financial instruments:

	Category in line with IAS 39	Balance sheet value		Fair value	
		As on 30.06.2010	As on 30.06.2011	As on 30.06.2010	As on 30.06.2011
Financial assets		**39 960**	**77 788**	**39 960**	**77 788**
Cash	Measured at fair value through profit and loss	345	3 583	345	3 583
Receivables related to deliveries and services and other receivables	Loans and receivables	39 615	74 205	39 615	74 205
Receivables on account of loans granted	Loans and receivables	0	0	0	0
Financial assets available for sale	Available for sale	0	0	0	0
Currency derivatives		0	0	0	0
Short-term deposits		0	0	0	0
Financial liabilities		**90 756**	**73 393**	**90 756**	**73 393**
Financial lease obligations	financial liabilities at amortized cost	5 556	4 816	5 556	4 816
Liabilities related to deliveries and services and other liabilities	financial liabilities at amortized cost	42 973	42 177	42 973	42 177
Bank credits and loans	financial liabilities at amortized cost	42 227	26 400	42 227	26 400

Financial instruments - revenues, costs, profits and losses:

For the period from 01.01 to 30.06.2011	Category in line with IAS 39	Interest costs and income	Foreign exchange gains/losses	Reversal/establishment of revaluation write-offs	Profit/loss on sales of financial instruments
Financial assets		**386**	**-524**	**1 074**	**0**
Cash	Measured at fair value through profit and loss	378	1	0	0
Receivables related to deliveries and services and other receivables	Loans and receivables	8	-525	1 074	0
Receivables on account of loans granted	Loans and	0	0	0	0

	receivables				
Financial assets available for sale	Available for sale	0	0	0	0
Currency derivatives		0	0	0	0
Financial liabilities		**-775**	**38**	**0**	**0**
Financial lease obligations	financial liabilities at amortized cost	-186		0	0
Liabilities related to deliveries and services and other liabilities	financial liabilities at amortized cost	0	38	0	0
Bank credits and loans	financial liabilities at amortized cost	-589	0	0	0

For the period from 01.01 to 30.06.2010	**Category in line with IAS 39**	**Interest costs and income**	**Foreign exchange gains/losses**	**Reversal/establishment of revaluation write-offs**	**Profit/loss on sales of financial instruments**
Financial assets		**4**	**-186**	**546**	**0**
Cash	Measured at fair value through profit and loss	0	1	0	0
Receivables related to deliveries and services and other receivables	Loans and receivables	4	-187	546	0
Receivables on account of loans granted	Loans and receivables	0	0	0	0
Financial assets available for sale	Available for sale	0	0	0	0
Currency derivatives		0	0	0	0
Financial liabilities		**-1 259**	**230**	**0**	**0**
Financial lease obligations	financial liabilities at amortized cost	-208	0	0	0
Liabilities related to deliveries and services and other liabilities	financial liabilities at amortized cost	-7	230	0	0
Bank credits and loans	financial liabilities at amortized cost	-1 044	0	0	0

The difference in the values of reversal/establishment of write-downs shown in the tables above and the balance of these write-downs shown in the notes regarding financial costs and income and other operating income and costs results from the cancelled receivables, for which revaluation write-downs were established in the previous period. Their value on 30.06.2011 was PLN 853 thou., and PLN 29 thou. on 30.06.2011.

40. Explanations on the application of International Financial Reporting Standards and information on the comparability of the presented data.

Since 2005, based on the resolution of the General Meeting of Izostal S.A., the Company has kept the books in line with the International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission's directives, and in the scope not regulated by IAS - in line with the relevant provisions of the Accounting Act of September 1994 with executive regulations thereto.

41. Events following the balance sheet date

After the balance sheet date no events took place that could have been reflected in the financial statement for H1 of 2011.

42. Remuneration of the chartered auditor

In the business year, the entity authorized to audit the Company financial statements was the company Kancelaria Porad Finansowo - Księgowych dr Piotr Rojek Sp. z o.o. The contract with this company was concluded on 11.05.2011 and covers the review and audit of the financial statement for 2011 and 2012. The remuneration under the contract in question is PLN 31 thou. for each year.

The remuneration of the entity authorized to audit the financial statements, paid or due for H1 of 2011 amounted to, respectively:

Type of a financial statement	For the period from 01.01 to 30.06.2010	For the period from 01.01 to 30.06.2011
Review of the mid-year financial statement	13	13
Review/audit of the annual financial statement for the previous year	17	18
TOTAL	30	31

43. Approval of the financial statement for publication

This financial statement was approved by the Management Board of Izostal S.A. for publication on August 29, 2011.

Zawadzkie, August 29, 2011

………………………………	………………………………	………………………………
Chief Accountant	Management Board President	Management Board Vice-President
Marek Matheja	Marek Mazurek	Jacek Podwiński

I. ANALYSIS OF THE BASIC ECONOMIC AND FINANCIAL RATIOS DISCLOSED IN THE FINANCIAL STATEMENT

Assessment of factors and extraordinary events influencing financial results of Izostal S.A.

As expected by the Company, in H1 of 2011 there was an increase of the domestic demand for coated pipes used in the gas industry. Company's income increased by 120.5% against the same period of the previous year which made it possible for the Company to generate net profit of PLN 10.119 thou. (increase by 392.2%).
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 securing independence as regards gas supplies from the East. Projects involving replacement of existing gas supply networks affected the economic situation to a lesser extent.

On January 11, 2011 the Rights to Shares of series K were first listed on Giełda Papierów Wartościowych w Warszawie S.A. The opening price on the debut day increased by 23.64% against the issue price. At the closing of the market, the price of shares was PLN 7.07 showing a 28.5% increase against the issue price.
On January 28, 2011 the Court of Registration in Opole registered the increase of the Company's share capital resulting from the issue of 12 million K series shares. The shares of series A to 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.

The construction of the Research and Development Center for Steel Technologies and Products started in February 2011. The Management Board plans to complete works 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 with 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). Furthermore, the purpose of the newly-created R&D Center will be to secure R&D facilities for Stalprofil S.A. Group. The R&D Center will influence the Company's on-going business through optimization of R&D processes in place, provision of research services to third parties, as well as through diversification of production. Diversification will be related to the possibility of conducting research and analyses of resources used for production in order to optimize product parameters, and develop new construction and technological solutions (e.g. products' prototyping). The operation of the newly-created R&D Center will make it possible to launch new products and services which have not been offered by the Company so far (e.g. DFBE coating). Outlays on the completion of this investment incurred by the Company in H1 of 2011 were PLN 11,179 thou.

In January 2011, the Issuer (leader of the consortium), being one of the four contractors, signed a frame agreement with OGP Gaz-System S.A. under which orders for the supply of steel pipes DN700 with internal and external coating will be placed. The value of partial contracts granted under the frame contract will not be higher than PLN 787,042 thou. The Contract was concluded for the period of 24 months.

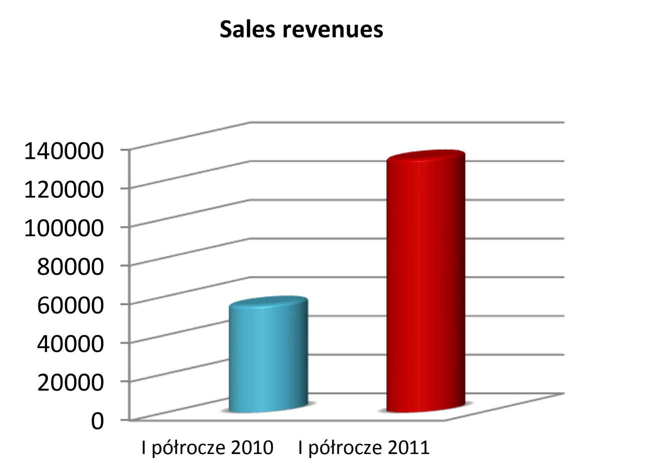
On April 29, 2011 the Company concluded an agreement with the Minister of Economy on subsidy in the amount of PLN 7,263 thou. for the construction of the Research and Development Center for Steel Technologies and Products under the Operational Program Innovative Economy, 4 priority axis: Investments in innovative projects, action 4.5.: Support for investments of significant importance for the economy, sub-action 4.5.2: Support for investments in the modern services sector. The completion date defined in the contract falls on December 23, 2011. On May 9, 2011 the Company filed a request for a change of the investment completion date to February 29, 2012.

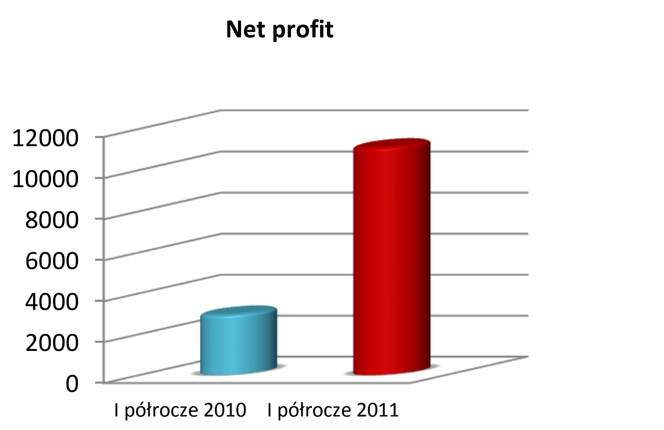
Analysis of the comprehensive income statement

In H1 of 2011 the Company managed to achieve sales revenues in the amount of PLN 122,143 thou. i.e. 121% more than in the corresponding period of 2010. The volume of external coating and internal coating LAYTEC® sold increased significantly (more details in item IV). It is a result of the increased demand for the Company's products. Moreover, the Company fulfilled contracts for the supply of coated pipes concluded in 2010.
Thanks to a modern plant - Anticorrosion Coating Center, the Company is prepared for the increased market demand for its products. The public offering of K series shares held in Q4 2011 provided the Company with funds required to increase the working capital and implement big contracts.
The share of costs of products, goods and materials sold against sales revenues dropped slightly from 86.9% in H1 of 2010 to 84.3% in H1 of 2011. 95.3% increase of the costs of sale was related to the value of sales realized, whereas their share in sales revenues did not change significantly (1.2% in H1 of 2011 against 1.4% in H1 of 2010). The increase of overheads results mainly from costs (depreciation, utilities) related to the handing over for use warehouse infrastructure within the area of Anticorrosion Coating Center (initial costs on that account were incurred in March 2010), costs of employee bonuses, as well as costs related to listing the Company's shares on the Stock Exchange.
In H1 of 2011 the Company generated income from operating activity in the amount of PLN 13.364 thou. i.e. 256.5% more than in the same period of the previous year.

Profit of PLN 651 thou. was generated from other operating activity. It resulted mainly from the subsidy received (under action 4.4. Operational Program Innovative Economy) for the construction of the Anticorrosion Coating Center (PLN 235 thou.) The subsidy received influences other operating income proportionately over the entire period when subsidized fixed assets are capitalized.
As for the financial activity, the Company recorded a loss of PLN (-) 836 thousand, which was mostly influenced by interest on credits (PLN 589 thou.), and negative exchange rate differences (PLN 486 thou.) In H1 of 2011, the Company generated income of PLN 378 thou. based on deposited funds obtained on account of public offering of shares.

In H1 of 2011 the Company generated net profit of PLN 10.119 thou. i.e. by 392.2% more than in H1 of 2010





Analysis of selected items of the financial position statement - assets

In H1 of 2011, the Company assets increased by 11% at the end of 2010 to the level of PLN 224,931 thou.
As for long-term assets, in H1 of 2011 there was an increase by PLN 11,081 thou. (by 11%) against the end of the previous year. The increase was related to the construction of the Research and Development Center for Steel Technologies and Products.
In H1 of 2011 current assets increased by 10% against the end of 2010, due to the following:

- increase in inventory by PLN 16,019 thou. (79.8%) related to the extended business of the Company.
- increase of receivables by PLN 19,713 thou. (35.9%) resulting from sales level higher than in 2010.
- drop in cash by PLN 25,348 thou. at the end of H1 of 2011 against December 2010 related to the utilization of funds obtained in December 2010 from the public offering of shares in line with purpose of the issue.

Analysis of selected items of the financial position statement - liabilities

As for the Company equity, in H1 of 2011 an increase by 8.2% against the end of 2010 was recorded. The above result was related to the net profit of PLN 10,119 thou. generated in H1 of 2011 and the costs of the public offering of shares of series K in the amount of PLN 204 thou. incurred in 2011.
Long-term liabilities increased by PLN 1,635 thou., and this was mainly due to the following:

- change in long-term liabilities on account of an investment loan at PKO BP S.A. for the construction of the Anti-Corrosion Coating Center by PLN 1,824 thou.
- credit at BNP PARIBAS BANK POLSKA S.A. (PLN 4,396 thou. recognized in long-term liabilities)
- repayment of financial liabilities - lease (PLN 560 thou.)
- decrease in accruals related to the subsidy received under program 4.4. Operational Program Innovative Economy (PLN 360 thou.) in connection with its recognition under other operating income.

Short-term liabilities at the end of H1 of 2011 amounted to PLN 51,242 thou. Their level increased against the end of 2010 by PLN 9,915 thou. which is related to a higher level of commercial liabilities (increase by PLN 7,594 thou.), and increase of short-term credits (increase by PLN 2,484 thou.).

II. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND THREATS

1. Risk of getting dependent on customers

Due to the structural characteristics of the Polish gas market, the Issuer indirectly depends on: PGNiG S.A. (prospecting for, extraction, sale and distribution of gas) and OGP Gaz-System S.A. (operator of transmission system), and thus on the investments implemented by these companies. Due to the change in the pipes purchasing policy by the aforementioned entities, the Company sells part of its products directly to these companies. In addition to direct sales, mainly to OGP Gaz-System S.A., the Company provides services to the companies being contractors or subcontractors of investments.
To minimize the risk, the Issuer searches for additional sales markets, both in Poland (growing share of private investors, works on a technology for coating pipes used for gas wells), and abroad.

2. Risk related to assuring the quality of services offered

The customers for the products and services offered by the Issuer are the entities operating in the gas and petroleum sectors, which are characterized by high quality requirements.
The quality of services offered by the Company is assured by the implemented and followed principles underlying the Quality Management System according to ISO 9001-2000 and compliance certificates for the products admitted for use in the construction industry, issued and supervised by authorized certification authorities who confirm the observance of requirements. The Company has also started actions to implement ISO 14001. Furthermore, the Company has the

possibility to offer products which meet the requirements of the new standard ISO/DIS 21809-1 which sets higher technical requirements for external coating 3LPE and 3LPP.

3. Risk of general macroeconomic situation in Poland

Company's financial standing is correlated with the macroeconomic situation in Poland. The financial results recorded by the Issuer are influenced by such general factors as GDP growth rate, investments growth rate, changes in inflation level, changes in exchange rates, unemployment rates and personal income of people, fiscal and monetary policy of the state. There is a risk that in case the economic growth rate goes down in Poland or globally, or some protectionist instruments are used that can have a negative impact on the Issuer's functioning, the financial results obtained by the Issuer may change. What can be especially detrimental to the operations of IZOSTAL S.A. is the reduction in investment expenditure in economy, slowdown in GDP growth dynamics, uncontrolled increase of inflation, more restrictive fiscal and monetary policy of the state.
Yet, this risk is mitigated by the strategy of diversifying gas supply sources adopted by Poland, and by restrictive regulations imposed by the EU regarding environment protection and CO2 emissions. These factors somehow enforce the commencement of large gas and petroleum sector investments in Poland, which make it possible for the Issuer to increase the level of products sold. Additionally, this risk is limited by a necessity to utilize the aid funds timely, said funds coming from different sources, e.g. European Energy Program for Recovery (EEPR, the so-called Recovery Plan), Operational Program: Infrastructure and Environment 2007-2013, Trans-European Networks – Energy (TEN-E) and Operational Program Innovative Economy. Furthermore, the analysis of shale gas deposits conducted in H1 of 2011 increases the probability of their existence within the country's territory which in turn increases the potential of the distribution gas pipelines market.

4. Risk of changeable prices of production resources

Profitability of anti-corrosion coating services provided by the Issuer depends on the changes in the prices of production resources, including mainly parts of chemical components (mainly polyethylene and polypropylene). Share of these resources in the cost structure is around 20%. Prices of chemical resources are highly correlated with oil prices in global markets, which due to the current political and economic situation may be subject to significant fluctuations. Aforesaid cost factors may contribute to periodic deterioration of the Issuer's financial results and profitability levels.
To mitigate the risk of changeable prices of production resources, the Issuer follows the sources diversification strategy by way of cooperation with several entities at each production stage, and building stocks based on favorable price fluctuations of materials.

5. Risk of changeable prices of steel pipes

Steel pipe price in the product "coated steel pipe" is even up to 70% of the product's value. The recent fluctuations in steel pipes market have influence on company margins and income. In order to avoid the risk of changeable prices of steel pipes, the Issuer optimizes its stock levels adapting them to the scope of operations. In special cases, steel pipes are purchased at current prices for restocking purposes in the volumes that let the Company sell goods with profit.
As for the purchasing of pipes for large projects, the Issuer negotiates the prices with customers and concludes contracts that make it possible to maintain the negotiated price irrespective of the situation in the steel market.
Changes in pipes' prices can influence Company's revenues and profitability, both in the core coating segment and in the sale of goods. The Company secures itself against changeable prices in specific contracts, and on a short term, fluctuations in pipes' prices have limited impact on the profitability of specific contracts. Nevertheless, on a long-term basis, it is favorable for the Company to have high pipes' prices (at the income and margins level), and on the other hand, reduction in pipes' prices may lead to lower income and profit on the sale of pipes.

6. Risk of changeable exchange rates

Due to the export and import activity, the Company is exposed to the risk of changeable exchange rates. The second most frequently used currency for settling commercial transactions after PLN is EUR. In H1 of 2011 the Company showed a short currency position EUR of 3,995 thou. euro. The Company concluded agreements on treasury limits which enable it to conduct transactions securing against foreign exchange risk with banks without security. Nevertheless the current tendency observed in EUR/PLN exchange rate is not favorable for importers. The Company settles payments in foreign currency based on short-term price fluctuations and income from export.

III. INFORMATION ON PROCEEDINGS PENDING BEFORE A COURT, A BODY COMPETENT TO CONDUCT ARBITRATION OR A PUBLIC ADMINISTRATION BODY, THE TOTAL VALUE OF WHICH CONSTITUTES AT LEAST 10 % OF THE ISSUER'S EQUITY

The company hereby informs that it is not a party to any proceedings before a court, a body competent to conduct arbitration or a public administration body regarding payables or receivables, the total value of which (unit or aggregate) would exceed 10% of the Company's equity or could have a significant impact on the deterioration of its financial standing.

IV. INFORMATION ON BASIC PRODUCTS, GOODS AND SERVICES, INCLUDING DETAILS ON THEIR VALUE AND QUANTITY

Company's basic products include anticorrosion coating of the following types of steel pipes:

1. external coating:
- three-layer polyethylene coating 3LPP
- three-layer polypropylene coating 3LPP
- single-layer epoxy coating
2. internal coating LAYTEC®

The Company applies said coatings to the purchased pipes and provides the customers with the finished product – coated steel pipe, or provides the service for pipes delivered by the customer.
Moreover, to have the order-book of products, the Company sells steel products.
Table – quantities of anti-corrosion coating sold

	H1 of 2010		H1 of 2011	
	m2	share	m2	Share
external coating	121.166	86.8%	275.668	64.6%
Internal coating	18.412	13.2%	151.066	35.4%
Total	139.578	100,0%	426.734	100,0%

In H1 of 2011 the sale of coating increased significantly against H1 of 2010. The sale of external coating increased by 154.502 m2, i.e. by 128% against H1 of the previous year, whereas the sale of internal coating increased by 132.654 m2, i.e. by 720%. Sales increase is related to the increased demand for the Company's products on the domestic market. Furthermore, the Company successfully marketed its new internal coating LAYTEC® on the domestic market.

Sales revenues in H1 of 2011 reached PLN 122,143 thou. i.e. 121% more than in H1 of 2010. Highest increase of value was recorded in case of the sales of coating (coated pipes and coating services) - by PLN 47,408 thou. (151%) against H1 of 2010. In 2010 sales of coated pipes increased by PLN 10,835 thou. (16.5%) due to the increase in the quantity of coating sold. Increased share of the coating services was related to fulfillment of orders with pipes delivered by the orderer.
Sales revenues increased in H1 of 2011 by PLN 20,201 thou. (by 88%). The increase was related to the realization of orders for the products from outside the Company's product offer and necessary completion of deliveries.
As for the other product groups, the sales level went down by PLN 851 thou.

	H1 of 2010		H1 of 2011	
	value	Share	value	Share
Coated pipes	30 440	55.0%	69 996	57.3%
Coating services	907	1.6%	8 759	7.2%
Goods and materials	22 975	41.5%	43 176	35.3%
Polyethylene pipes	680	1.2%	0	0%
Other sales	383	0.7%	212	0.2%
Total	55 385	100,0%	122 143	100,0%

V. INFORMATION ON SALES MARKETS, ALLOWING FOR THE SPLIT BETWEEN DOMESTIC AND EXPORT MARKETS AND INFORMATION ABOUT PROCUREMENT SOURCES FOR PRODUCTION MATERIALS, GOODS AND SERVICES

The increased sales level recorded in H1 of 2011 was mainly the result of an increased domestic demand. Domestic sales revenues in H1 of 2011 increased by 151.4% against the same period of the previous year (increase by PLN 66,288 thou.)
Company's export revenues in H1 of 2011 were PLN 12,084 thou. and increased against H1 of 2010 by 4%. The Company exported its products to EU states. The main directions were Slovakia (28.3% of exports), Romania (27.9% of exports) and Hungary (22.5% of exports).

Table - Sales revenues in the breakup in domestic and export

	H1 of 2010		H1 of 2011	
	value	share	value	Share
Domestic	43 771	79.0%	110 059	90.1%
Export	11 614	21.0%	12 084	9.9%
Total	55 385	100,0%	122 143	100,0%

Main customers in H1 of 2011 included:

- JT Zakład Budowy Gazociągów Sp. z o.o. (10.2% share in sales)
- Ferrum S.A. (10.2% share in sales)
- ZRUG Sp. z o.o. z siedzibą w Pogórskiej Woli (10.04% share in sales)

The risk of the Company getting dependent on customers is described in sub-item 1 of item II of this report under the respective title.

As for purchasing, the biggest suppliers of the Company are the companies offering steel products. Izostal S.A. purchases steel products from Polish and foreign suppliers. In H1 of 2011, foreign suppliers comprised EU entities.
Main customers in H1 of 2011 included:

- Stalprofil S.A. (36.8% share in sales)
- Ferrum S.A. (13.0% share in sales)
- ArcelorMittal Tubular Products Ostrava a.s. (11.6 share in sales)

Out of the aforesaid suppliers, Izostal S.A. has a capital relationship with Stalprofil S.A. being a parent entity (60.28% share in capital) for Izostal S.A.

VI. INFORMATION ON THE CONCLUDED AGREEMENTS, SIGNIFICANT FOR THE ISSUER'S BUSINESS

Commercial contracts and transactions.

1. Frame contract concluded on 26.01.2011 with OGP Gaz – System S.A. for the supply of steel pipes DN 700 with internal and external coating, 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. Contract was concluded for a period of 24 months.
2. Orders and contracts concluded with Ferrum S.A. for the supply of coated pipes, coating services and steel pipes. Total value of transactions between Izostal S.A. and Ferrum S.A. (purchase and sales transactions) in H1 of 2011 was PLN 29,632 thou. Orders and contracts concluded between the parties do not allow for contractual penalties, and their terms and conditions are no different from terms and conditions commonly used for this type of orders and contracts.
3. Orders signed with Arcelor Mittal Tubular Products Ostrava a.s. for the supply of steel pipes by Arcelor Mittal Tubular Products Ostrava a.s. Total value of purchases in H1 of 2011 was PLN 15,248 thou. Orders and contracts concluded between the parties do not allow for contractual penalties, and their terms and conditions are no different from terms and conditions commonly used for this type of orders and contracts.
4. Contract concluded with Stalprofil S.A. on 21.02.2011 for the supply by Stalprofil S.A. of steel pipes DN 500 for the construction of gas transmission networks and shield pipes DN 700. Total net value of the contract is PLN 13,865 thou. Supplies of pipes were fulfilled in March and April 2011. Contract includes provisions concerning contractual penalties which were described in detail in the regular report no. 21/2011. Furthermore in the period covered by this report, Izostal S.A. placed orders with Stalprofil S.A. for the supply of steel products by Stalprofil S.A. Orders and contracts concluded between the parties do not allow for contractual penalties, and their terms and conditions are no different from terms and conditions commonly used for this type of orders and contracts.
5. Orders and contracts concluded with Impexrur S.A. for the supply of coated pipes, coating services and steel pipes. Total value of transactions between Izostal S.A. and Impexrur S.A. (purchase and sales transactions) in H1 of 2011 was PLN 17,193 thou. Orders and contracts concluded between the parties do not allow for contractual penalties, and their terms and conditions are no different from terms and conditions commonly used for this type of orders and contracts.
6. Orders and contracts concluded with JT Zakład Budowy Gazociągów Sp. z o.o. for the supply of coated pipes, coating services and steel pipes by Izostal S.A. Total value of sales in H1 of 2011 was PLN 12,491 thou. Orders and contracts concluded between the parties do not allow for contractual penalties, except for transactions involving sale of coated steel pipes and bends, fulfilled based on the contract of 07.03.2011 described in detail in the Company's regular report no. 34/2011. Terms and conditions of contracts and orders signed are no different from commonly used terms and conditions.

Financial contracts

1. Investment loan agreement concluded with bank BNP PARIBAS BANK POLSKA S.A. in January 2011. The bank granted the Company an investment loan of PLN 12,358 thou. to be used for financing the construction of the Research and Development Center for Steel Technologies and Products. Credit granted till January 2014. Essential terms and conditions of the contract were described in note no. 11 of Notes to the Financial Statement.
2. Overdraft loan agreement concluded with bank BRE BANK S.A. in April 2011. The bank granted the Company an overdraft of PLN 4,000 thou. to be used for the financing of current operations. Loan granted till April 2012. Essential terms and conditions of the contract were described in note no. 11 of Notes to the Financial Statement.
3. Credit agreement in a form of a multi-purpose credit line concluded with bank BNP PARIBAS BANK POLSKA S.A. in May 2011. The bank granted the Company a multi-purpose credit line of PLN 5,000 thou. to be used as an

overdraft and a guarantee. Credit granted till May 2012. Essential terms and conditions of the contract were described in note no. 11 of Notes to the Financial Statement.

Insurance agreements

The Company is a party to significant insurance agreements concluded with STU Ergo Hestia S.A. covering the property owned and the risk connected with running a business activity.

Policy no.	Subject and scope of insurance	Total amount of insurance
901006405901	Insurance of property against fire and other random events	PLN 150,385,691.42
	Insurance of stationary electronic equipment	PLN 606,639.82
	Insurance of portable electronic equipment	PLN 158,721.43
	Insurance of machines and devices against electrical damage	PLN 5,000,000.00
	Insurance of machines and devices against damage	PLN 39,554,415.77
901006204963	Insurance of cargo in domestic road transport	PLN 200,000.00
901006405905	Liability insurance connected with running a business activity or using property, including liability insurance for a product (Companies co-insured under this agreement: Stalprofil S.A., Izostal S.A., Kolb Sp. z o.o.)	PLN 20,000,000.00
901006405904	Insurance of machines, devices and equipment (including electronics and low-speed vehicles) against burglary and robbery	PLN 200,000.00
	Insurance of working assets (the Company's own and external) against burglary and robbery	PLN 400,000.00
	Insurance of cash against burglary	PLN 50,000.00
	Insurance of cash against robbery at premises	PLN 50,000.00
	Insurance of cash in transit	PLN 50,000.00
	Insurance of data recovery costs	PLN 200,000.00
	Insurance of additional costs incurred in order to avoid or reduce interruption of business activity	PLN 105,000.00
	Insurance of working assets (pipes) stored outdoors (due to specificity and dimensions) against burglary and robbery	PLN 500,000.00

Furthermore, the Company is a party to an agreement on the insurance of receivables. Company sales transactions are insured up to the amounts of credit limits granted by an insurance company to individual customers. Since 01.01.2011 the Company's receivables have been insured by KUKE.

Transactions with affiliated entities were described in note no. 36 of Notes to the Condensed Financial Statement.

VII. INFORMATION ON THE ISSUER'S ORGANIZATIONAL AND CAPITAL RELATIONS WITH OTHER ENTITIES, AND THE ISSUER'S MAIN DOMESTIC AND FOREIGN INVESTMENTS

The Company is a part of Stalprofil S.A. Group which apart from the Issuer also comprises the following companies:

- 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

The dominant entity of the capital group - Stalprofil S.A. - held 60.28% share in the Company's share capital as on 30.06.2011.

In H1 of 2011 the Company did not invest in securities, financial instruments, intangible assets or real property.

VIII. INFORMATION ON SIGNIFICANT TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY ON CONDITIONS OTHER THAN ARM'S LENGHT BASIS

During the period covered by this Report, the Company did not conclude transactions with affiliated entities on conditions other than market conditions.

Information on all transactions concluded with affiliated entities was presented in note 36 of the Notes to the Financial Statement.

IX. INFORMATION ON CREDIT AND LOAN AGREEMENTS CONCLUDED AND TERMINATED

In H1 of 2011 the Company was a party to the following credit and loan agreements:

1. Investment credit of July 10, 2009 at bank PKO BP S.A. in PLN in the amount of PLN 26,000 thou. Credit bearing interest based on WIBOR 3M rate increased with the bank margin. Credit granted till 31.03.2016.
2. Credit of September 8, 2010 in form of a multi-purpose credit limit at bank PKO BP S.A. in PLN, in the amount of PLN 22,000 thou. The following sub-limits function under the limit:
   - PLN 14,000 thou. - overdraft,
   - PLN 13,000 thousand - revolving working capital credit,
   - PLN 13,000 thousand - bank guarantees,
   - PLN 2,000 thousand - documentary letters of credit,

   Credit bearing interest based on WIBOR 1M rate increased with bank margin. Credit granted till 08.09.2013.
3. Investment credit of 04.01.2011 at bank BNP PARIBAS BANK POLSKA S.A. in PLN, in the amount of PLN 12,358 thou. Credit bearing interest based on WIBOR 3M rate increased with the bank margin. Credit granted till 03.01.2014.
4. Overdraft of 28.04.2011 at bank BRE BANK S.A. in PLN, in the amount of PLN 4,000 thou. Credit bearing interest based on WIBOR O/N rate increased with the bank margin. Credit granted till 18.04.2012.
5. Credit of 27.05.2011 in form of a multi-purpose credit limit at bank BNP PARIBAS BANK POLSKA S.A. in PLN, in the amount of PLN 5,000 thou. The following sub-limits function under the limit:
   - PLN 5,000 thou. - overdraft,
   - PLN 5,000 thousand - bank guarantees,

   Credit bearing interest based on WIBOR 1M rate increased with bank margin. Credit granted till 23.05.2012.

Bank credits as on 30.06.2011.

	Credit amount under the agreement	Utilization as on 30.06.2011
Investment credit, PKO BP	26 000	19 016
Credit in form of a multi-purpose credit limit in PKO BP	22 000	0
Investment credit, BNP PARIBAS	12 358	7 384
Overdraft, BRE BANK	4 000	0
Credit in form of a multi-purpose credit line. BNP PARIBAS	5 000	0

Detailed information on credit security as on 30.06.2011 was presented in note 11 of the Notes to the Financial Statement.

X. INFORMATION ON LOANS GRANTED

The Company did not grant any loans in H1 of 2011.

XI. INFORMATION ABOUT SURETIES AND GUARANTIES PROVIDED

The Company granted the following guarantees as on 30.06.2011:

1. performance bond and a guarantee of defects removal granted to OGP Gaz - System S.A. on account of deliveries of coated pipes. Guarantee granted up to the amount of PLN 129 thou. and valid till 28.03.2016.
2. performance bond and a guarantee of defects removal granted to OGP Gaz - System S.A. on account of deliveries of coated pipes. Guarantee granted up to the amount of PLN 159 thou. and valid till 01.04.2016.
3. performance bond granted to FX Energy Poland Sp. z o.o. Guarantee granted up to the amount of PLN 826 thou. in the event of a failure to perform or undue performance of contract, valid till 10.11.2011.

As on 30.06.2011, the Company was not granted guarantees.

As on 30.06.2011, the Company did not grant and was not granted any sureties. Moreover, as on 30.06.2011, no entity grants sureties on the Company's liabilities.

XII. INFORMATION ON THE USE OF FUNDS OBTAINED BY THE ISSUER FROM THE ISSUE OF SHARES TILL THE PREPARATION OF THE FINANCIAL STATEMENT

The Company obtained PLN 66,000 thou. from the issue of 12,000.000 shares of series K in 2010 at the issue price of PLN 5,50 per share. The costs of issue amounted to PLN 3,825 thou. (including PLN 3,621 thou. incurred in 2010). Net income from the issue of shares amounted to PLN 62,175 thou. According to the Prospectus approved by the Financial Supervision Authority on December 8, 2010, the Company intends to allocate the funds obtained for working capital (PLN 50,539 thou.) and for the construction of the Research and Development Center for steel technologies and products (PLN 12,658 thou.). Till the day of preparing this report, the Company used the funds obtained in the following way:

- for the construction of the Research and Development Center for steel technologies and products - PLN 5,976 thou.
- for working capital - PLN 28,858 thou.

Remaining funds will be used on an as-needed basis.
Before the funds obtained are used, they will be invested in safe financial instruments i.e. bank deposits.

XIII. THE MANAGEMENT BOARD'S OPINION ON A POSSIBILITY OF REALIZING THE PREVIOUSLY PUBLISHED RESULTS FORECASTS

The Company presented forecast for 2011 in the prospectus approved by the Financial Supervision Authority on December 8, 2010.
The table below compares the Company's 2011 forecast results with results recorded in H1.

	Forecast 2011	H1 of 2011 actual result	% actual result
Sales revenues	193 028	122 143	63.3
Costs of operating activity*	166 675	109 430	65.7
Gross profit on sales	38 215	19 120	50.0
Depreciation	3 540	1 752	49.5
EBITDA	30 467	15 116	49.6
Operating profit	26 927	13 364	49.6
Net profit	19 003	10 119	53.2

* - includes costs of products, goods and materials sold, costs of sale and overheads

The Management Board maintains the forecast set forth in the Prospectus approved and deems it feasible.

XIV. ASSESSMENT OF THE MANAGEMENT OF FINANCIAL MEANS, AND ITS JUSTIFICATION

Debt ratios

Specification	2010	H1 of 2011
Total debt ratio	30.6%	32.8%
Long-term debt	10.4%	10.3%
Debt to equity ratio	67.7%	71.4%
Equity to total assets ratio	59.6%	58.4%

Rules for calculating ratios:

- total debt ratio - the ratio of short and long-term liabilities (without accruals) plus provisions for liabilities to total assets,
- Long-term debt – ratio of long-term liabilities (without accruals) to total assets,
- debt to equity ratio – ratio of total liabilities (including provisions for liabilities and accruals) to equity,
- equity to total assets ratio - ratio of equity to total assets.

Company's debt ratios at the end of H1 of 2011 did not change significantly as compared to the end of 2010. Company's debt ratios improved considerably in 2010 in connection with the public offering of shares of series K and obtaining capital in the amount of PLN 66,000 thou. gross.
Total debt ratio at the end of H1 of 2011 increased to 32.8% from 30.6% at the end of 2010. Long-term assets increased by PLN 11,081 thou., working assets increased by PLN 10,384 thou. whereas liabilities (accruals not included) at the end of H1 of 2011 increased by PLN 11,635 thou. In H1 of 2011 a credit in the amount of PLN 7,362 thou. was taken out to finance the construction of the Research and Development Center for Steel Technologies and Products.
Long-term debt ratio did not change significantly.
Debt to equity ratio reached 71.4% at the end of H1 of 2011 and increased from 67.7% at the end of 2010. The ratio was considerably influenced by the increase of the level of credits taken by PLN 5,040 thou. (mainly in connection with the investment credit taken out), increase in the level of liabilities on account of deliveries and services by PLN 8,667 thou., as well as the increase of equity by PLN 9,915 thou.
Equity to total assets ratio dropped from 59.6% at the end of the last year to 58.4% at the end of H1 of 2011 mainly as a result of the investment in progress (Research and Development Center for Steel Technologies and Products), partly financed with a credit at BNP PARIBAS BANK POLSKA S.A.

Liquidity ratios

Specification	2010	H1 of 2011
Current ratio	2.57	2.28
Quick liquidity ratio	2.07	1.56

Rules for calculating ratios:

- current liquidity – ratio of working assets to total current liabilities at the end of a given period; shows a company's ability to settle current liabilities based on current assets,
- quick liquidity ratio – ratio of working assets less inventory to current liabilities at the end of the period; shows the ability to accumulate cash in a short time to settle short-term obligations as and when they become due.

At the end of H1 of 2011 current liquidity ratio was 2.28 against 2.57 at the end of 2010. Its slight decrease resulted from a faster increase of working assets against short-term liabilities (by PLN 592 thou.).
Lower value of the quick liquidity ratio at the end of H1 of 2011 (1.56) against the end of the previous year (2.07) results from the use of cash to build stocks.

Working capital management efficiency

Specification	2010	H1 of 2011
DIO	52.2	53.2
DSO - supplies and services	137.6	106.7
DPO - supplies and services	79.7	57.9
Operating cycle	189.8	159.9
Cash conversion cycle	110.1	102.0

Rules for calculating ratios:

- DIO - ratio of inventory at the end of a given period to net income from sales for a given period multiplied by a number of days in a period,
- DSO - ratio of receivables on account of supplies and services at the end of a given period to net income from sales for a given period multiplied by a number of days in a period,
- DPO - ratio of short-term liabilities on account of supplies and services at the end of a given period to net income from sales for a given period multiplied by a number of days in a period,
- operating cycle – the total of DIO and DSO,
- cash conversion cycle – difference between operating cycle and DPO on account of supplies and services.

DIO did not change significantly and is adequate to the generated turnover.

DSO at the end of H1 of 2011 was 106.7 days and decreased by 30.9 days against 2010. DSO was similar to 2009. Receivables from the previous year were paid in H1 of 2011, no disproportion in sales was observed in the last months of the period presented. DSO above 100 days is typical for the sector in which the Company operates and is related to lead time, collection and payment by the investor for the section of the gas pipeline constructed by the Company's customers. The Company allows for high DSO in working capital requirement. Furthermore, the majority of Company's receivables are insured by KUKE.

DPO on account of supplies and services dropped from 79.7 days in 2010 to 57.9 days in H1 of 2011. The share of purchases increased (in particular the purchases of steel pipes) from suppliers who offer shorter payment dates, however the price level is more favorable for the Company.

Operating cycle was slightly reduced from 189.8 days in 2010 to 159.9 days in H1 of 2011. Cash conversion cycle was reduced against 2010 (110.1 days) to 102 days in H1 of 2011.

XV. EVALUATION OF INVESTMENT PROJECTS FEASIBILITY

The Company does not plan any capital investments.

As for investments in tangible assets, the Company's plan for the second half of 2011 quotes the amount of PLN 22,338 thou. The main item is the construction of the Research and Development Center for Steel Technologies and Products, and the Company intends to spent PLN 15,731 thou. for that purpose in H2 of 2011. The Company plans to complete works related to the investment in February 2012. Moreover in H2 of 2011 the Management Board plans to spend PLN 5,680 thou. for the development of storage space for pipes.

On April 29, 2011 the Company concluded an agreement with the Minister of Economy on subsidy in the amount of PLN 7,263 thou. for the construction of the Research and Development Center for Steel Technologies and Products under the Operational Program Innovative Economy. Furthermore a credit in the amount of PLN 12,358 thou. for the completion of this investment was taken out at BNP PARIBAS BANK POLSKA S.A.

Considering the above, as well as the funds obtained from the public offering of shares held in Q4 of 2010, and funds on account of the profit made, it may be stated that the completion of the investment plan is not threatened.

XVI. CHARACTERISTICS OF EXTERNAL AND INTERNAL FACTORS IMPORTANT FOR THE DEVELOPMENT OF THE ISSUER'S ENTERPRISE, AND A DESCRIPTION OF DEVELOPMENT PROSPECTS FOR THE ISSUER'S ENTERPRISE

An important factor for the development of Izostal S.A. at the turn of 2010 and 2011 was the successful public offering of 12 million shares of series K. The Company obtained PLN 62,175 thou. net on that account. The Company's debut on the Warsaw Stock Exchange took place on January 11, 2011. Funds obtained from the issue of shares will be allocated for working capital and for the construction of the Research and Development Center for Steel Technologies and Products.

As the Company expected, gas infrastructure market recovered in H1 of 2011. Increased domestic demand for the Company's products is related to projects involving development of infrastructure for the transmission, storing and extraction of gas. Domestic investments are driven by the strategy adopted by Poland which assumes independence from gas supplies from the East, and the necessity to increase the share of gas in the production of energy which results from restrictions on CO2 emission imposed on Poland. Gas companies plan to implement projects involving the renewal of existing transmission networks. Moreover, the gas transmission infrastructure under construction must be extended with a network of distribution gas pipelines.
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. The development of gas pipelines network may be an important

element of the North-South Gas Corridor connecting LNG terminal in Świnoujście with the planned Adria LNG terminal based on internal transmission infrastructure of Central European states.
The market share of small investors who specialize in distribution gas pipelines (EWE Energia, G.EN. Gaz Energia, CP Energia) , and operate in locations where the presence of the biggest market players is weaker, is growing.
In view of the required reduction of CO2 emission, the discussion on the plans of constructing gas-fueled power plants is getting more and more intense. The construction time of that type of power plants is relatively short (up to 36 months), and 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.
It is also confirmed by the forecast of the International Energy Agency. The Agency defines gas as a "strategic fuel" with its golden age before us. According to the studies conducted by the Agency, the global consumption of gas will increase by 50% by 2035. On the other hand, PGNIG estimates that gas consumption in Poland at the end of the decade will reach 18 billion m3 per year which is a 29% increase as compared to current consumption of 14 billion m3.
Another factor influencing the development of the gas infrastructure is the deposits of shale gas. Works aimed at estimating the volume and trial extraction of deposits are in progress. Based on the current knowledge, forecasts concerning the size of deposits are promising. It is worth mentioning that the possibility of extracting only 1% of the resources estimated by the American Energy Information Administration would make it possible for Poland to stop importing gas for 5 years (it is estimated that the size of deposits is 5.3 billion m3 of gas). Analyses made by the National Geological Institute, in co-operation with American entities, will be concluded in September with a report on the size of shale gas deposits.

The Management Board is of the opinion that those factors will in the foreseeable future secure a good situation on the gas market. The Company is prepared both technically and financially to respond to the demand for pipes required for the construction of gas pipelines.

However, attention must be paid to the economic situation of Poland, EU and the US economy which has a considerable impact on EU markets. Financial problems experienced by some EU states, economic slowdown in Germany and increased debt in the US may be a sign of another wave of the global crisis which may also affect Polish economy which has been in a good shape lately. The above may in turn lead to delays in the completion of some investments in the gas sector.

As for investments, in H2 of 2011 the Company will continue construction of the Research and Development Center for Steel Technologies and Products. The aim of the project is to create the Company's own Research and Development Center which will perform works which are now ordered with 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). The Company plans to complete this investment in February 2012.

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 projects", Operational Program Innovative Economy 2007-2013. The amount of subsidy granted is PLN 7,262,5 thou.

Moreover, the Company made a decision to further develop storage space for pipes. The Company plans to spend PLN 5,680 thou. for that purpose in H2 of 2011. The decision was made in connection with pipes storing period which is longer than expected.

XVII. CHANGES IN THE BASIC PRINCIPLES OF MANAGING THE ISSUER'S ENTERPRISE

No significant changes were recorded in the basic management principles in the period covered by the present report. The Company runs a production activity in the Coating Department in Zawadzkie and in the Anticorrosion Coating Center in Kolonowskie. The Company's Management Board is seated in Zawadzkie.
Company's organizational structure is based on organizational divisions grouping Company's organizational units as per their scope of activity. Organizational divisions are managed by Directors, including Management Board members holding positions of operations directors who, based on the Management Board regulations, report directly to the President of the Management Board, General Director. Based on the internal division of duties, Company Directors manage and exercise direct supervision over the functioning of individual divisions.
The following report to the General Director:

- division of the Production and Technical Director
- Management Board Plenipotentiary for the Integrated Management System
- R&D Center
- Management Board and Personnel Office
- Quality Assurance Office
- Health and Safety Inspector

The following report to the Financial Director:

- Financial Accounting Office
- Analyses and Settlements Office

The following report to the Commercial Director:

- Domestic Sales Office
- Export Sales Office
- Logistics Office
- Marketing.

126 people were employed in the Company as on 30.06.2011.
Employment structure based on organizational divisions:

Specification	Status as on 30.06.2011	
	Number of employees	Percentage
Management Board	2	2%
General Director's Division	13	10%
Financial Director's Division	8	6%
Commercial Director's Division	11	9%
Production and Technical Director's Division	92	73%
TOTAL	126	100%

Employment structure based on the type of work performed:

Specification	Status as on 30.06.2011	
	Number of employees	Percentage
White-collar employees	51	40%
Blue-collar employees	75	60%
Total	126	100%

XVIII. ALL AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND MANAGERS PROVIDING FOR COMPENSATION IN CASE OF THEIR RESIGNATION OR DISMISSAL FROM THE POSITION HELD

The Company is a party to agreements on the prohibition of competitive activity with Marek Mazurek and Jacek Podwiński, Management Board Members, valid during and after the expiry of the employment relationship. The agreements stipulate that Management Board members may not during their employment relationship with the Company, and within 6 months after its expiry, conduct competitive activity towards IZOSTAL S.A., or work under an employment relationship or any other legal relationship for an entity operating in the same sector or conducting activity similar to the Issuer's activity. Management Board members are entitled to a monthly compensation related to the ban on competitive activity in the contractual period following termination of employment relation (6 months), to be paid by the Company in the amount of 50% of the last lump sum monthly remuneration (gross).

XIX. VALUE SALARIES, AWARDS OR BENEFITS FOR MEMBERS OF THE ISSUER'S MANAGING AND SUPERVISORY BODIES,

Total salaries paid to members of the Supervisory Board and the Management Board of IZOSTAL S.A.

Remuneration	H1 of 2010	H1 of 2011
Remuneration paid to Management Board Members	565	1 036
Remuneration paid to Supervisory Board Members	124	129
TOTAL	**689**	**1 165**

There are no incentive or bonus programs in the Company based on the issuer's capital, including programs based on bonds with a priority right, convertible bonds and subscription warrants (in cash, in-kind or in any other form).
In the reporting period, the Company did not grant any loans or any other sureties or guarantees to management or supervisory board members.

XX. INFORMATION ON THE TOTAL NUMBER AND NOMINAL VALUE OF ALL ISSUER'S SHARES HELD BY PERSONS BEING MEMBERS OF THE ISSUER'S MANAGING AND SUPERVISORY BODIES

Information on the ownership of the issuer's shares or rights to the shares by persons managing and supervising the issuer as on the day of presenting the report for H1 of 2011 is shown in the following table:

Management Board	Total number of all shares of Izostal S.A. held by persons responsible for supervision or management	Face value of all shares of Izostal S.A. held by persons responsible for supervision or management (in PLN)
Marek Mazurek	5 314	10 628,00
Jacek Podwiński	738	1 476,00
Supervisory Board		
Zdzisław Mendelak	3 489	6 978,00

Furthermore, the Management Board states that 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.

XXI. LIST OF SHAREHOLDERS HOLDING AT LEAST 5% VOTES AT GENERAL SHAREHOLDERS' MEETING

As on the day of presenting the report for H1 of 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 considerable blocks of shares since the presentation of the previous quarterly report of Izostal S.A.

XXII. INFORMATION ON CONTRACTS, WHICH THE ISSUER IS AWARE OF, WHICH MAY IN FUTURE RESULT IN CHANGES IN THE PROPORTION OF SHARES HELD BY CURRENT SHAREHOLDERS

As on the day of preparing this annual report, the Company did not have information on other agreements which may in future result in changes in the proportion of shares held.
The main shareholder of the Company – Stalprofil S.A. undertook under the "lock-up" agreement not to sell the Company's shares within 12 months from the day on which Issuer's shares were first listed.

XXIII. INFORMATION ON THE CONTROL SYSTEM OF EMPLOYEE SHARE SCHEMES

The Company did not implement an employee share scheme, thus there is no control system in place.

XXIV. INFORMATION ON AN AGREEMENT WITH AN ENTITY ENTITLED TO EXAMINE FINANCIAL STATEMENTS

Information on the agreement concluded with an entity entitled to examine financial statements is presented in note 42 of the Notes to the Financial Statement.

Zawadzkie, August 29, 2011

………………………………	………………………………
Management Board President	Management Board Vice-President
Marek Mazurek	Jacek Podwiński

XXV. MANAGEMENT BOARD'S DECLARATION CONCERNING FINANCIAL STATEMENTS

(submitted as per §89 clause 1 item 4 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information submitted by issuers of securities, and conditions of recognizing information required by law of a non-EU state as equivalent)

The Management Board of Izostal S.A. declares that to the best of its knowledge, the condensed half-yearly financial statement of Izostal S.A. for H1 of 2011 and comparative data were prepared in line with effective accounting regulations and truly, reliably and clearly present the Company's property and financial situation, and its financial results, it also declares that the half-yearly Management Board's report on the issuer's activity reliably reflects the issuer's business development, achievements and situation, including basic risks and threats.

Zawadzkie, August 29, 2011

……………………………… ………………………………

Management Board President Management Board Vice-President

Marek Mazurek Jacek Podwiński

XXVI. MANAGEMENT BOARD'S DECLARATION CONCERNING THE CHARTERED AUDITOR

(submitted as per §89 clause 1 item 5 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information submitted by issuers of securities, and conditions of recognizing information required by law of a non-EU state as equivalent)

The Management Board of Izostal S.A. declares that the entity authorized to examine financial statements i.e. Kancelaria Porad Finansowo – Księgowych dr. Piotr Rojek Sp. z o.o, which examined this half-yearly condensed financial statement of Izostal S.A. for H1 of 2011, was selected in line with legal regulations and that both the entity and the auditors, who performed the audit, met the conditions necessary to prepare an independent report from the audit in line with relevant professional regulations.

Zawadzkie, August 29, 2011

……………………………… ………………………………

Management Board President Management Board Vice-President

Marek Mazurek Jacek Podwiński

Zawadzkie, 29.08.2011

izostal sa
Grupa kapitałowa Stalprofil S.A.

Izostal S.A.
ul. Polna 3,
47-120 Zawadzkie

tel.: +48 77 40 56 500
fax: +48 77 40 56 501
gielda@izostal.com.pl
www.izostal.com.pl

Tax Identification No. 756-00-10-641
SHARE CAPITAL 65.488.000 PLN
NATIONAL COURT REGISTER 0000008917- District Court in Opole, 8th Business Division of the National Court Register