
izostal sa
Grupa kapitałowa Stalprofil S.A.

# ANNUAL REPORT OF IZOSTAL S.A. FOR 2011

prepared in line with
INTERNATIONAL FINANCIAL REPORTING STANDARDS

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# INTRODUCTION TO FINANCIAL STATEMENT

## 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 December 31, 2011:

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

Composition of the Supervisory Board as on December 31, 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 annual financial statement covers the period from 01.01.2011 to 31.12.2011 and in its significant items it presents comparative data for the period from 01.01.2010 to 31.12.2011

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

Izostal S.A. does not comprise 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 CIRCUMSTANCES THATCOULD POSE A SERIOUS RISK TO CONTINUATION OF ACTIVITY

This financial statement has been prepared on the basis of a  going concern assumption.

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

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

## VII. DESCRIPTION OF THE MOST IMPORTANT ACCOUNTING POLICY 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 December 31, 2011 and the respective period from January 1, 2010 to December 31, 2010 used for comparison.
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 December 31, 2011 and December 31, 2010, its results and cash flow closed on December 31, 2011 and December 31, 2010.

**Application of the new and reviewed IFRS**
**Standards and interpretations used for the first time in 2011.**
In the current year the Company adopted the following new and reviewed 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 regarding disclosures by state-related parties and specification of the definition of the term related parties, 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 1 "First-time Adoption of International Financial Reporting Standards" - limited exception to first-time IFRS adopters as to disclosure of comparative information in line with IFRS 7, 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 effected as a result of annual amendments to IFRS, published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 7, IAS 27, IAS 34 and IFRIC 13) oriented mainly towards clarification of inconsistencies and specification of terminology, approved by the EU on February 18, 2011 (effective as to annual periods starting on July 1, 2010 or after January 1, 2011 – depending on the standard/interpretation),
- Amendments to IFRIC 14 "IAS 19 - Limit on a defined benefit asset, minimum funding requirements and their interaction" - prepayments under minimum funding requirements, approved by the EU on July 19, 2010 (effective for annual periods starting January 1, 2011 or after this date).
- Interpretation of IFRIC 19 "Extinguishing financial liabilities with equity instruments" approved by the EU on July 23, 2010 (effective for annual periods starting from July 01, 2010 or after this date),

Adoption of the above standards and interpretations did not cause 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 financial statement, the Company did not follow the following standards, amendments to the standards or interpretations, already published and approved for application within the EU but not yet effective:

- Amendments to IFRS 7 "Financial instruments: Disclosure of information" - transfer of financial assets, approved by the EU on November 22, 2011 (effective for annual periods starting from July 1, 2011 or after this date),

The Company decided not to apply the amendments to the standard at an earlier.

**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 December 31, 2011, were not yet approved for application:

- IFRS 9 "Financial instruments" (effective for the annual periods starting on January 1, 2015 or after this date),
- IFRS 10 "Consolidated financial statements" (effective for the annual periods starting on January 1, 2013 or after this date),

- IFRS 11 "Joint arrangements" (effective for the annual periods starting on January 1, 2013 or after this date),
- IFRS 12 "Disclosures to interest in other entities" (effective for the annual periods starting on January 1, 2013 or after this date),
- IFRS 13 "Fair value measurement" (effective for the annual periods starting on January 1, 2013 or after this date),
- IAS 27 (amended in 2011) "Separate financial statements" (effective for the annual periods starting on January 1, 2013 or after this date),
- IAS 28 (amended in 2011) "Investments in associates and joint ventures" (effective for the annual periods starting on January 1, 2013 or after this date),
- Amendments to IFRS 1 "First-time adoption of IFRS" - Severe hyper-inflation and removal of fixed terms for first-time adopters of IFRS (effective for the annual periods starting on July 1, 2011 or after this date),
- Amendments to IFRS 7 "Financial instruments: disclosures" – offsetting financial assets and financial liabilities (effective for the annual periods starting on July 1, 2013 or after this date),
- Amendments to IAS 1 “Presentation of financial statements" – presentation of other comprehensive income (effective for the annual periods starting on July 1, 2012 or after this date),
- Amendments to IAS 12 "Income taxes" - Deferred taxes:  recovery of underlying assets (effective for the annual periods starting on January 1, 2012 or after this date),
- Amendments to IAS 19 “Employee benefits" – amendments to post-employment benefits accounting (effective for the annual periods starting on July 1, 2013 or after this date),
- Amendments to IFRS 9 “Financial instruments” and IFRS 7 "Financial instruments:  disclosures" - mandatory effective date and transition regulations;
- Amendments to IAS 32 "Financial instruments: presentation" – offsetting financial assets and financial liabilities (effective for the annual periods starting on July 1, 2014 or after this date),
- IFRIC interpretation 20 "Settlement of stripping costs in open-pit mining" (effective for the annual periods starting on January 1, 2013 or after this date),

According to the Company estimates, the following 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 months 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 4 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 lease liabilities balances.

The financial costs are booked based on an accrual basis on the moment 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-offs to the level of a net value that can be obtained as well as any inventory losses are recognized as cost of the period when the write-off or loss took place.

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

**Receivables for deliveries and services and other receivables**

Receivables for 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-offs for uncertain or uncollectible receivables. Write-offs 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 when 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 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-off on this account. The recoverable value is determined as the higher of the two values, namely: 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 the 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 has 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 subsist.

**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 estimated 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. The moment of the products, goods and materials sale is the moment when the title to them is transferred upon the customer. The moment of the service sale is when it is 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, it 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 per cent rate.
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 amount of 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 realize 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 realize 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 valued 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. During the months, finished products are measured at out-flows based on the planned production cost. 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 show 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 issues value above the shares face value.

**Reporting for segments**

Company does not have 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 a strategic object of Company business, other activity is not significant.

The issuer operates in a single geographical segment. Majority of export sales goes 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, March 30, 2012

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

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Grupa kapitałowa Stalprofil S.A.

# FINANCIAL STATEMENT FOR THE BUSINESS YEAR 2011

## I. SELECTED FINANCIAL DATA AND CONVERSION INTO EURO

| Selected financial data | (PLN thousand) | | (EUR thousand) | |
|---|---|---|---|---|
| | For the period from 01.01 to 31.12.2010 | For the period from 01.01 to 31.12.2011 | For the period from 01.01 to 31.12.2010 | For the period from 01.01 to 31.12.2011 |
| **Net revenues from sale of products, goods and materials** | 138 329 | **259 732** | 34 544 | 62 735 |
| Operating profit/loss | 11 131 | 25 666 | 2 780 | 6 199 |
| Gross profit/loss | 8 538 | 23 773 | 2 132 | 5 742 |
| Net profit (loss) | 7 438 | 19 134 | 1 857 | 4 622 |
| Operating cash flow | -9 332 | 19 029 | -2 330 | 4 596 |
| Investment cash flow | -479 | -27 620 | -120 | -6 671 |
| Financial activity cash flow | 49 040 | 12 101 | 12 247 | 2 923 |
| Change in cash and cash equivalents | 39 229 | 3 510 | 9 797 | 848 |
| Number of shares | 20 744 000 | 31 856 329 | 20 744 000 | 31 856 329 |
| Profit (loss) per one ordinary share (PLN / EUR) | 0,36 | 0,60 | 0,09 | 0,15 |
| Diluted number of shares | 32 744 000 | 32 744 000 | 32 744 000 | 32 744 000 |
| Diluted profit (loss) per one ordinary share (PLN / EUR) | 0,23 | 0,58 | 0,06 | 0,14 |
| | **As on 31.12.2010** | **As on 31.12.2011** | **As on 31.12.2010** | **As on 31.12.2011** |
| **Total assets** | 203 466 | 272 426 | 51 376 | 61 679 |
| Long-term liabilities | 40 793 | 46 292 | 10 300 | 10 481 |
| Short-term liabilities | 41 327 | 85 858 | 10 435 | 19 439 |
| Equity | 121 346 | 140 276 | 30 641 | 31 760 |

Selected financial data presented in the financial statement were converted to EUR as follows: items of comprehensive income statement, cash flow statement, profit (loss) per one ordinary share and diluted profit (loss) per one ordinary share for 2011 (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 year. This rate was EUR 1 = PLN 4.1401 (EUR 1 = PLN 4.0044). Items of the financial position report were converted on the mean exchange rate announced by the National Bank of Poland effective on the balance sheet date. This rate as on 31.12.2011 was EUR 1 = PLN 4.4168 (as on December 31, 2010 - EUR 1 = PLN 3.9603 ).

## II. FINANCIAL POSITION REPORT AS ON 31.12.2011.

| ASSETS | Note | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|---|
| **A. Fixed assets (long-term)** | | **99 568** | **132 200** |
| 1. Tangible fixed assets | 1 | 98 947 | 131 407 |
| 2. Other intangible assets | 2 | 177 | 199 |
| 3. Investments available for sale | | 0 | 0 |
| 4. Long-term financial assets | 5 | 0 | 0 |
| 5. Deferred income tax assets | 35 | 319 | 345 |
| 6. Long-term receivables and prepayments | | 125 | 249 |
| **B. Current assets (short-term)** | | **103 898** | **140 226** |
| 1. Inventory | 6 | 20 062 | 45 909 |
| 2. Long-term receivables and prepayments | 7 | 54 450 | 57 757 |
| including for deliveries and services: | 7 | 52 868 | 53 725 |
| 3. Receivables on account of income tax | | 455 | 336 |
| 4. Long-term financial assets | | 0 | 0 |
| 5. Currency derivatives | | 0 | 541 |
| 6. Cash and cash equivalents | 39 | 28 931 | 35 683 |
| **Total assets** | | **203 466** | **272 426** |

| LIABILITIES | Note | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|---|
| **A. Equity** | | **121 346** | **140 276** |
| 1. Share capital | 21 | 41 488 | 65 488 |
| 2. Surplus from the sale of shares above their face value | | 38 379 | 38 175 |
| 3. Spare and reserve capital | 23 | 34 041 | 17 479 |
| 4. Retained and current profit/loss | | 7 438 | 19 134 |
| **B. Long-term liabilities** | | **40 793** | **46 292** |
| 1. Provisions | 14 | 171 | 224 |
| 2. Provision on account of deferred income tax | 35 | 213 | 128 |
| 3. Long-term bank loans and credits | 11 | 16 688 | 19 214 |
| 4. Other long-term financial liabilities | | 4 464 | 3 425 |
| 5. Long-term liabilities and accruals | 24 | 19 257 | 23 301 |
| **C. Short-term liabilities** | | **41 327** | **85 858** |
| 1. Provisions | 14 | 238 | 181 |
| 2. Short-term bank loans and credits | 11 | 16 | 9 389 |
| 3. Short-term part of long-term bank loans and credits | 11 | 4 656 | 10 212 |
| 4. Other short-term financial liabilities | 12 | 962 | 942 |
| 5. Short-term liabilities and accruals | 10 | 35 455 | 65 134 |
| including for deliveries and services: | 10 | 30 638 | 60 540 |
| 6. Liabilities on account of income tax | | 0 | 0 |
| **Total liabilities** | | **203 466** | **272 426** |

Zawadzkie, March 30, 2012

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

## III. COMPREHENSIVE INCOME STATEMENT FOR THE PERIOD FROM 1.01.2011 TO 31.12.2011 (CALCULATION BASIS)

| CALCULATION TABLE | Note | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|---|
| **A. Revenues from sale of products, goods and materials** | **29** | **138 329** | **259 732** |
| **B. Costs of products, goods and materials sold** | **30** | **117 810** | **220 946** |
| **C. Gross sales profit/loss (A-B)** | | **20 519** | **38 786** |
| D. Costs of sales | 30 | 1 791 | 3 477 |
| E. Overheads | 30 | 8 953 | 10 180 |
| F. Other revenues | 34 | 1 787 | 1 402 |
| G. Other costs | 34 | 431 | 865 |
| **H. Operating profit/loss (C-D-E+F-G)** | | **11 131** | **25 666** |
| I. Financial income | 32 | 684 | 1 777 |
| J. Financial expenses | 32 | 3 277 | 3 670 |
| **K. Gross profit/loss (H+I-J)** | | **8 538** | **23 773** |
| L. Income tax | 35 | 1 100 | 4 639 |
| **M. Net profit/loss on business activity (K-L)** | | **7 438** | **19 134** |
| 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)** | | **7 438** | **19 134** |

| Earnings per share: | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| - basic earnings based on financial result of a going concern | 0,36 | 0,60 |
| - basic earnings based of the financial result for the business year | 0,36 | 0,60 |
| - diluted earnings based on financial result of a going concern (PLN) | 0,23 | 0,58 |
| - diluted earnings based of the financial result for the business year (PLN) | 0,23 | 0,58 |

Zawadzkie, March 30, 2012

| ……………………………… | ……………………………… | ……………………………… |
|---|---|---|
| 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 DECEMBER 31, 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 |
|---|---|---|---|---|---|---|---|
| **As on 01.01.2011** | **41 488** | **38 379** | **0** | **34 041** | **0** | **7 438** | **121 346** |
| **Changes in equity in 2011** | **24 000** | **-204** | **0** | **-16 562** | **0** | **11 696** | **18 930** |
| 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 | 19 134 | 19 134 |
| 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 revenues and costs shown in 2011** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **As on 31.12.2011** | **65 488** | **38 175** | **0** | **17 479** | **0** | **19 134** | **140 276** |

| | 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 |
|---|---|---|---|---|---|---|---|
| **As on 01.07.2010** | **41 488** | **0** | **0** | **4 970** | **0** | **5 071** | **51 529** |
| **Changes in equity in 2010** | **0** | **38 379** | **0** | **29 071** | **0** | **2 367** | **69 817** |
| Appropriation of net profit | 0 | 0 | 0 | 5 071 | 0 | -5 071 | **0** |
| 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 revenues and costs shown in 2010** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Dividends | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **As on 31.12.2010** | **41 488** | **38 379** | **0** | **34 041** | **0** | **7 438** | **121 346** |

Zawadzkie, March 30, 2012

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Chief Accountant
Marek Matheja

Management Board President
Marek Mazurek

Management Board Vice-President
Jacek Podwiński

## V. CASH FLOW STATEMENT FOR THE PERIOD FROM 1.01.2011 TO 31.12.2011 (INDIRECT METHOD)

| Specification | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| **Cash flow from operating activity** | | |
| **Profit/loss before taxation** | **8 590** | **23 884** |
| **Item adjustments:** | **-17 922** | **-4 855** |
| Depreciation of fixed assets | 3 656 | 3 479 |
| Depreciation of intangible assets | 50 | 71 |
| Foreign exchange gains/losses | 0 | -635 |
| Interest costs and income | 2 762 | 1 186 |
| Profit/loss on investment activity | -470 | -164 |
| Change in provisions | -1 | -88 |
| Change in inventory | 2 835 | -25 847 |
| Change in receivables and prepayments | -24 360 | -3 657 |
| Change in liabilities and accruals | 4 504 | 30 093 |
| Paid/refunded income tax | -1 687 | -4 632 |
| Other adjustments | -5 211 | -4 661 |
| **Net cash flow - operating activity** | **-9 332** | **19 029** |
| **Cash flow - investment activity** | | |
| Earnings from the sale of fixed assets and intangible assets | 40 | 398 |
| Earnings from the sale of financial assets | 0 | 0 |
| Earnings from interest | 0 | 0 |
| Other investment earnings - obtained subsidies | 4 668 | 4 661 |
| Expenditure on the purchase of tangible fixed assets and intangible assets | 4 783 | 32 754 |
| Net expenditure on the purchase of subsidiaries and associated entities | 0 | 0 |
| Other | -404 | 75 |
| **Net cash flow - investment activity** | **-479** | **-27 620** |
| **Cash flow - financial activity** | | |
| Earnings from loans and credits | 8 000 | 18 590 |
| Net earnings from the issue of shares, bonds, bills of exchange and vouchers | 66 000 | 0 |
| Repayment of credits and loans | 18 656 | 4 404 |
| Repayments of liabilities under financial lease contracts | 868 | 1 059 |
| Dividends paid to Company shareholders | 0 | 0 |
| Interest paid | 2 358 | 822 |
| Other | -3 078 | -204 |
| **Net cash flow - financial activity** | **49 040** | **12 101** |
| **Increase/decrease in cash and cash equivalents** | **39 229** | **3 510** |
| **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 credit lines in the current account | 0 | 22 |
| **Cash, cash equivalents and overdrafts at the end of the period** | **28 931** | **32 441** |

Zawadzkie, March 30, 2012

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

## VI. NOTES TO FINANCIAL STATEMENT PREPARED AS ON DECEMBER 31, 2011

### 1. Tangible fixed assets

Change in the value of tangible fixed assets in 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, including: | 0 | 25 138 | 228 | 8 797 | 1 810 | **35 973** |
| – acquisition | 0 | 25 138 | 228 | 8 797 | 1 810 | **35 973** |
| – internal transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| – other | 0 | 0 | 0 | 0 | 0 | 0 |
| Decreases, including: (-) | 0 | 0 | -214 | -6 226 | -24 | -6 464 |
| – liquidation | 0 | 0 | -3 | -6 204 | -20 | -6 227 |
| – revaluation | 0 | 0 | 0 | 0 | 0 | 0 |
| – sale | 0 | 0 | -211 | -22 | -4 | -237 |
| – 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** | **85 390** | **1 699** | **58 963** | **5 005** | **152 444** |
| **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 | 1 168 | 236 | 1 903 | 173 | 3 480 |
| Decreases, including: (-) | 0 | 0 | -196 | -6 211 | -24 | -6 431 |
| – liquidation | 0 | 0 | -3 | -6 189 | -20 | -6 212 |
| – sale | 0 | 0 | -193 | -22 | -4 | -219 |
| – internal transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| – other | 0 | 0 | 0 | 0 | 0 | 0 |
| **Depreciation at the end of the period** | **0** | **3 757** | **812** | **14 885** | **1 583** | **21 037** |
| 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** | **57 662** | **913** | **37 198** | **1 786** | **98 946** |
| Net book value at the end of the period | 1 387 | 81 633 | 887 | 44 078 | 3 422 | 131 407 |
| 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** | **81 633** | **887** | **44 078** | **3 422** | **131 407** |

Change in the value of tangible fixed assets in 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 | Total |
|---|---|---|---|---|---|---|
| **Gross value at the beginning of the period** | **1 387** | **58 886** | **1 488** | **59 360** | **3 296** | **124 417** |
| Increases, including: | 0 | 1 944 | 380 | 1 768 | 475 | 4 567 |
| – acquisition | 0 | 2 464 | 19 | 1 036 | 465 | 3 984 |
| – internal transfer | 0 | -520 | 0 | 530 | 10 | 20 |
| – other | 0 | 0 | 361 | 202 | 0 | 563 |
| Decreases, including: (-) | **0** | -578 | -183 | -4 736 | -552 | -6 049 |
| – liquidation | 0 | 0 | -1 | -17 | -5 | -23 |
| – revaluation | 0 | 0 | 0 | 0 | 0 | 0 |
| – sale | 0 | -451 | -182 | -4 572 | -547 | -5 752 |
| – 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** | **60 252** | **1 685** | **56 392** | **3 219** | **122 935** |
| **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 | 987 | 193 | 2 242 | 234 | 3 656 |
| Decreases, including: (-) | 0 | -257 | -183 | -4 094 | -446 | -4 980 |
| – liquidation | 0 | 0 | -1 | -17 | -5 | -23 |
| – sale | 0 | -201 | -182 | -4 061 | -441 | -4 885 |
| – internal transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| – other | 0 | -56 | 0 | -16 | 0 | -72 |
| **Depreciation at the end of the period** | **0** | **2 589** | **772** | **19 193** | **1 434** | **23 988** |
| Net book value at the beginning of the period | 1 387 | 57 027 | 726 | 38 315 | 1 650 | 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** | **1 650** | **99 105** |
| Net book value at the end of the period | 1 387 | 57 663 | 913 | 37 199 | 1 785 | 98 947 |
| 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** | **57 663** | **913** | **37 199** | **1 785** | **98 947** |

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

Ownership structure of tangible fixed assets:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| 1. Own | 90 531 | 123 729 |
| 2. Rented, leased or used under another agreement, including leasing agreement | 8 416 | 7 678 |
| **Total tangible fixed assets** | **98 947** | **131 407** |

Tangible fixes assets include fixed assets used by the Company on the basis of the financial leasing agreements. Net value thereof as on December 31, 2011 was:

- means of transport - PLN 459 thousand.
- technical plant, machinery- PLN 7,219 thousand

Contractual obligations for leasing fixed assets as on December 31, 2011 - PLN 4,367 thousand.

Investment purchasing in 2011 was mainly supposed to increase tangible fixed assets and was financed from the Company's own funds, investment loan at BNP Paribas Bank Polska S.A. (described in detail in note 11) and EU subsidy under Operating Program Innovative Economy, 4 priority axis: Investments in innovative projects, activity 4.5.: Support for investments of significant importance for economy, sub-activity 4.5.2.: Support for the investment in the modern services sector - construction of the Research and Development Center for Steel Technologies and Products.

The main investments of the Company in 2011 (including expenditure on intangible assets):

| Specification | From 01.01 to 31.12.2011 |
|---|---|
| - construction of the Research and Development Center | 27 773 |
| - construction of storage yards no. 2 and no. 3 | 2 514 |
| - construction of a small-diameter pipes warehouse | 2 539 |
| - purchase of warehouse shelves | 1 402 |
| - purchase of cranes with traverse beams | 837 |
| - purchase of preliminary pipe surface cleaning device | 352 |
| - purchase of computer hardware | 87 |
| - other purchasing | 562 |
| **Total** | **36 066** |

In 2010, the investment expenditure amounted to PLN 4,441 thousand.

Fixed assets under construction as on 31.12.2011 amounted to PLN 33,113 thousand and comprised:

- construction of the Research and Development Center for Steel Technologies and Products – PLN 26,582 thousand,
- small-diameter pipes warehouse – PLN 4,226 thousand,
- extension of the production plant in Kolonowskie - PLN 1,160 thousand
- warehouse shelves – PLN 1,013 thousand,
- intangible assets – PLN 5 thousand,
- other – PLN 127 thousand,

The following fixed assets hedged the credits taken by the Company as on 31.12.2011:

- coating production line (large diameters), of a net value as on 31.12.2011 of PLN 18,280 thousand (pledge)

Moreover, the investment loan taken from BNP Paribas Bank Polska S.A. requires that the Company establish registered pledge on machinery and plant financed with the loan, of the value of PLN 9,000 thousand, with said bank as the beneficiary. As on 30.09.2011 the machinery and plant had not been purchased yet.

Fixed assets securing the repayment of Company liabilities:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| **Security value (amount up to which security was established)** | | |
| Mortgage | 59 400 | 60 936 |
| Pledge and transfer of ownership in respect of tangible fixed assets | 19 069 | 18 280 |
| **Total** | **78 469** | **79 216** |
| **Net balance sheet value** | **0** | **0** |
| Land, including perpetual usufruct right to land | 1 385 | 1 330 |
| buildings and structures | 55 893 | 78 538 |
| technical plant and machinery | 19 069 | 18 280 |
| Other fixed assets | 0 | 0 |
| **Total** | **76 347** | **98 148** |

Tangible fixed assets:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| Land, including perpetual usufruct right to land | 1 387 | 1 387 |
| Buildings, premises and civil engineering structures | 57 663 | 81 633 |
| Technical plant and machinery | 37 199 | 44 078 |
| Means of transport | 913 | 887 |
| Other fixed assets | 1 785 | 3 422 |
| **Total tangible fixed assets** | **98 947** | **131 407** |

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 (OP1S/00040617/8, KW41688)

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

## 2. Other intangible assets

Changes in other intangible assets in 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, including: | 58 | 0 | 0 | 35 | 0 | 93 |
| – acquisition | 58 | 0 | 0 | 35 | 0 | 93 |
| – internal transfer | 0 | 0 | 0 | 0 | 0 | 0 |
| – other | 0 | 0 | 0 | 0 | 0 | 0 |
| Decreases, 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** | **58** | **0** | **4** | **1 153** | **0** | **1 215** |
| Depreciation at the beginning of the period | **0** | **0** | **0** | **945** | **0** | **945** |
| Current depreciation - increases (including amendments to IAS) | **1** | **0** | 0 | 70 | 0 | 71 |
| Decreases, 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** | **1** | **0** | **0** | **1 015** | **0** | **1 016** |
| 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 | 57 | 0 | 4 | 138 | 0 | 199 |
| Revaluation at the end of the period | | | | | 0 | 0 |
| **Net value at the end of the period including revaluation** | **57** | **0** | **4** | **138** | **0** | **199** |

Changes in other intangible assets in 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, including: | 0 | 0 | 4 | 92 | 0 | **96** |
| − acquisition | 0 | 0 | 4 | 92 | 0 | **96** |
| − internal transfer | 0 | 0 | 0 | 0 | 0 | **0** |
| − other | 0 | 0 | 0 | 0 | 0 | **0** |
| Decreases, including: (-) | 0 | 0 | -20 | -1 | 0 | **-21** |
| − liquidation | 0 | 0 | 0 | -1 | 0 | **-1** |
| − 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** | **1 118** | **0** | **1 122** |
| **Depreciation at the beginning of the period** | **0** | | **0** | **895** | **0** | **895** |
| Current depreciation - increases (including amendments to IAS) | 0 | 0 | 0 | 51 | 0 | **51** |
| Decreases, 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** | **945** | **0** | **945** |
| 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 | 173 | 0 | **177** |
| 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** | **173** | **0** | **177** |

As on December 31, 2011, the main intangible assets comprised:

- computer software – of a total value of PLN 138 thousand,
- development works involving elaboration of the process for the coating of drilling pipes with 3LPP tri-layer film – for the value of PLN 57 thousand.

### 3. Investment real properties

As on December 31, 2011, the Company did not have any investment real properties.

### 4. Goodwill

Not applicable.

### 5. Long-term financial assets

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

## 6. Inventory

Inventory as on 31.12.2011:

| Specification | Valuation based on the purchasing price/production cost | Valuation based on the net value possible to obtain | Amount of inventory write-offs at the beginning of the period | Costs of inventory revaluation write-offs reversal recognized as write-offs reduction in the period | Amounts of inventory revaluation write-offs recognized as cost in the period | Amount of inventory write-offs 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 obligations securing inventory |
|---|---|---|---|---|---|---|---|---|---|
| Core materials | 16 948 | 0 | 1 | 1 | 400 | 400 | 145 236 | 16 548 | |
| Auxiliary materials | 4 658 | 0 | 0 | 0 | 0 | 0 | 1 564 | 4 658 | |
| Work in process | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 26 500 |
| Finished products | 20 541 | 0 | 47 | 47 | 2 | 2 | 0 | 20 539 | |
| Goods | 4 313 | 0 | 0 | 0 | 149 | 149 | 83 697 | 4 164 | |
| TOTAL | 46 460 | 0 | 48 | 48 | 551 | 551 | 230 497 | 45 909 | |

Inventory as on 31.12.2010:

| Specification | Valuation based on the purchasing price/production cost | Valuation based on the net value possible to obtain | Amount of inventory write-offs at the beginning of the period | Costs of inventory revaluation write-offs reversal recognized as write-offs reduction in the period | Amounts of inventory revaluation write-offs recognized as cost in the period | Amount of inventory write-offs 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 obligations securing inventory |
|---|---|---|---|---|---|---|---|---|---|
| Core materials | 12 391 | 0 | 184 | 183 | 0 | 1 | 56 240 | 12 390 | |
| Auxiliary materials | 1 064 | 0 | 0 | 0 | 0 | 0 | 1 036 | 1 064 | |
| Work in process | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Finished products | 2 828 | 0 | 37 | 36 | 46 | 47 | 0 | 2 781 | 16 500 |
| Goods | 3 827 | 0 | 10 | 10 | 0 | 0 | 49 919 | 3 827 | |
| TOTAL | 20 110 | 0 | 231 | 229 | 46 | 48 | 107 195 | 20 062 | |

As on December 31, 2011, inventory of a total amount of PLN 26,500 thousand secured the loans taken by the Company:

- multi-purpose credit loan granted by PKO BP S.A. (pledge on inventory of a value of PLN 16,500 thousand)
- overdraft facility granted by BRE BANK SA (pledge on inventory of a value of PLN 10,000 thousand).

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

## 7. Receivables and prepayments

Revaluation write-offs 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-off.

As of December 31, 2011, the Company revalued 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 2011 no major deviations from these payment terms occurred.

Detailed structure of Company receivables:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| **Receivables for deliveries and services:** | **53 535** | **54 897** |
| - long-term part | 0 | 0 |
| - short-term part | 53 535 | 54 897 |
| **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:** | **4 618** | **928** |
| **receivables for deliveries and services** | **4 618** | **928** |
| - long-term part | 0 | 0 |
| - short-term part | 4 618 | **928** |
| 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:** | **2 621** | **4 231** |
| - long-term part | 0 | 0 |
| - short-term part | 2 621 | 4 231 |
| **Prepaid expenses:** | **229** | **413** |
| - long-term part | 125 | 249 |
| - short-term part | 104 | 164 |
| **Impairment write-offs at the beginning of the period** | **1 740** | **1 355** |
| **Recognition in the period of impairment losses** | **308** | **1 040** |
| **Reversal in the period of impairment losses** | **693** | **1 196** |
| **Impairment write-offs at the end of the period** | **1 355** | **1 199** |
| **TOTAL** | **55 030** | **58 342** |

Receivables and prepaid expenses - currency structure

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| a) PLN | 53 780 | 34 093 |
| b) foreign currencies (in currencies and converted in PLN) | 1 250 | 24 249 |
| b1. unit/EUR | 324 | 5 365 |
| converted in PLN | 1 250 | 23 341 |
| b2. unit/USD | 0 | 270 |
| converted in PLN | 0 | 908 |
| **Total short-term receivables** | **55 030** | **58 342** |

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

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| a) up to 1 month | 17 473 | 29 408 |
| b) from above 1 month to 3 months | 24 687 | 14 738 |
| c) from above 3 months to 6 months | 244 | 76 |
| d) over 6 months to 12 months | 0 | 0 |
| e) over 1 year | 0 | 0 |
| f) overdue receivables | 11 131 | 10 675 |
| **Total (gross) receivables for deliveries and services** | **53 535** | **54 897** |
| g) revaluation write-offs of receivables for deliveries and services | 667 | 1 172 |
| **Total (net) receivables for deliveries and services** | **52 868** | **53 725** |

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

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| a) up to 1 month | 1 832 | 5 815 |
| b) from above 1 month to 3 months | 8 759 | 2 831 |
| c) from above 3 months to 6 months | 55 | 227 |
| d) over 6 months to 1 year | 212 | 1 723 |
| e) over 1 year | 273 | 79 |
| **Total (gross) overdue receivables for deliveries and services** | **11 131** | **10 675** |
| f) revaluation write-off of receivables for deliveries and services, overdue | 667 | 1 172 |
| **Total (net) overdue receivables for deliveries and services** | **10 464** | **9 503** |

Long-term prepaid expenses refer to costs of obtained certificates (PLN 232 thousand) and insurance (PLN 17 thousand).

As on 31.12.2011 and 31.12.2010 there were no long-term receivables.
Short-term prepaid expenses as on 31.12.2011 refer to;

- costs of obtained certificates (PLN 83 thousand),
- insurance (PLN 28 thousand),
- costs of participation in fairs (PLN 36 thousand)
- other costs (PLN 17 thousand),

The amount of the other receivables shown as on 31.12.2011, that is PLN 4,231 thousand concerns mainly VAT and CIT amounts receivable (P(PLN 3,919 thousand). For the other receivables, revaluation write-offs were established for the total value of PLN 27 thousand.

**8. Receivables on account of income tax**

As on December 31, 2010, receivables on account of income tax amounted to PLN 336 thousand. As on December 31, 2010 income tax receivables amounted to PLN 455 thousand.

**9. Long-term financial assets**

As on December 31, 2011 and December 31, 2010 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 exceptions is liabilities related to leasing agreements, where the contracts provide for other interest rates for delay. Except for the aforesaid interest rate, there is no interest on liabilities related to deliveries and services. As for foreign liabilities, Company obtains payments 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's for new contractors.
Company's tax liabilities (if there is a delay in their payment) bear an interest rate as specified in tax regulations.
Tax and insurance liabilities as on 31.12.2011 and 31.12.2010 amounted to PLN 3,967 thousand and PLN 3,618 thousand, respectively.
Salary payment liabilities as on 31.12.2011 and 31.12.2010 amounted to PLN 505 thousand.

Detailed structure of Company liabilities:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| **Liabilities related to deliveries and services:** | **30 638** | **60 540** |
| - long-term part | 0 | 0 |
| - short-term part | 30 638 | 60 540 |
| **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:** | **19 483** | **6 844** |
| **liabilities related to deliveries and services** | **19 483** | **6 844** |
| - long-term part | 0 | 0 |
| - short-term part | 19 483 | **6 844** |
| 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:** | **4 165** | **3 500** |
| - long-term part | 0 | 0 |
| - short-term part | 4 165 | 3 500 |
| **Accruals:** | **0** | **0** |
| - long-term part | 0 | 0 |
| - short-term part | 0 | 0 |
| **Deferred income:** | **19 909** | **24 395** |
| - long-term part | 19 257 | 23 301 |
| - short-term part | 652 | 1 094 |
| **TOTAL** | **54 712** | **88 435** |

Deferred income as on 31.12.2011 shown in the above table refers to:

- subsidy for the purchase of fixed assets settled over time, said subsidy received under activity 4.4. (New investments of highly innovative potential) – PLN 19,257 thousand.
- subsidy for the purchase of fixed assets settled over time, said subsidy received under activity 4.5. (Support for investments of significant importance for economy). – PLN 4,658 thousand.
- received prepayments for deliveries – PLN 480 thousand.

Short-term liabilities - currency structure:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| a) PLN | 38 146 | 42 306 |
| b) foreign currencies (in currencies and converted in PLN) | 2 943 | 43 371 |
| b1. unit/EUR | 726 | 9 308 |
| converted in PLN | 2 943 | 42 577 |
| b2. unit/USD | 0 | 225 |
| converted in PLN | 0 | 794 |
| **Total short-term liabilities** | **41 089** | **85 677** |

### 11. Loans and credits

As on December 31, 2011, the Company did not grant any loans.

As on December 31, 2011, the Company had the following credits:

- Multi-purpose credit limit at PKO BP S.A. for PLN 22,000 thousand. Valid till September 8, 2013. The interest rate is WIBOR 1M plus bank's margin. The loan can be utilized in PLN and in EUR. The credit is secured by the blank promissory note, registered pledge on inventory of PLN 16,500 thousand with assignment of rights under the insurance policy, clause for deduction of debt from the accounts managed by PKO BP S.A.
- Investment loan taken at PKO BP 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 was granted till March 31, 2016. The loan will be repaid in equal monthly installments, starting from January 2010 till March

31, 2016. The loan's interest rate is WIBOR 3M plus bank's margin. The loan is secured by the blank bill of exchange, principal mortgage of PLN 26,000 thousand and cap 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 at BNP PARIBAS BANK POLSKA S.A. for the amount of PLN 12,358 thousand. The loan is used for the financing of the construction at the Research and Development Center for Steel Products and Technologies. The loan was granted till January 3, 2014. The loan will be repaid in equal monthly installments, starting from January 2012 till January 2014. The loan's interest rate is WIBOR 3M plus bank's margin. The loan is secured by blank promissory note, general assignment of receivables from selected debtors in the amount of PLN 5,000 thousand (it is also a legal security for the multi-purpose credit line at BNP PARIBAS BANK POLSKA S.A.), contractual mortgage up to PLN 18,536 thousand on the property for which the land and mortgage register no. OP1S/00040617/8 is kept, registered pledge on machinery and plant and ownership transfer for machinery and plant of a total value not lower than PLN 9,000 thousand, assignment of rights under fire and perils insurance, borrower's enforcement statement for a bank.
- Multi-purpose credit limit at BNP PARIBAS BANK POLSKA S.A. for PLN 5,000 thousand. Valid till May 24, 2012. The loan's interest rate is WIBOR 1M plus bank's margin. The loan is secured by a blank promissory note and a promissory note agreement and drawer's statement, borrower's enforcement statement, general assignment of trade receivables from selected debtors in the amount of PLN 5,000 thousand (it is also a legal security for the investment loan at BNP PARIBAS BANK POLSKA S.A.).
- Multi-currency overdraft facility at BRE Bank S.A. for PLN 10,000 thousand. Valid till April 18, 2012. The loan's interest rate is WIBOR O/N plus bank's margin for the part utilized in PLN and LIBOR O/N plus bank's margin for the part utilized in EUR. The loan is secured with a blank promissory note and registered pledge on inventory of goods, materials for production and finished products in the form of coated steel pipes in the amount of PLN 10,000 thousand being owner's property plus assignment of rights under the insurance policy.
- Working capital loan in EUR taken at BRE Bank S.A. in the amount of EUR 5,000 thousand. The loan is to be used for the financing of the contracts with O.G.P. Gaz-System S.A. The loan was granted till June 29, 2012. The loan's interest rate is EURIBOR 1M plus bank's margin. The loan is secured by the assignment of receivables from O.G.P. Gaz- System S.A. for the implementation of the partial contracts.

Loans and credit as on 31.12.2011:

| Specification | Date of repayment | As on 31.12.2010 | As on 31.12.2011 | | |
|---|---|---|---|---|---|
| | | | Total | including short-term | including 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 | 17 027 | 4 239 | 12 788 |
| Investment loan at BNP Paribas Bank Polska SA | 03.01.2014 | 0 | 12 407 | 5 981 | 6 426 |
| Multi-currency overdraft at BRE Bank SA | 18.04.2012 | 0 | 3 222 | 3 222 | 0 |
| Multi-purpose credit line at BNP Paribas Bank Polska SA | 25.05.2012 | 0 | 0 | 0 | 0 |
| Working capital loan at BRE Bank SA | 29.06.2012 | 0 | 6 159 | 6 159 | 0 |
| **Total** | | **21 360** | **38 815** | **19 601** | **19 214** |

### 12. Other financial liabilities

The other financial liabilities (long-term and short-term) shown in the balance sheet as on 31.12.2011 refers to long-term leasing liabilities.

### 13. Liabilities on account of income tax

As on 31.12.2010 and 31.12.2010 the Company did not have any income tax liabilities.

### 14. Provisions

The note included 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 old-age severance pays and service anniversary awards in the Mount of PLN 175 thousand, out of which PLN 171 thousand is a long-term provision, and PLN 4 thousand is a short-term provision.
- short-term provision for salaries in the amount of PLN 234 thousand
- long-term provision for deferred income tax in the amount of PLN 213 thousand.

As on 31.12.2011 the amount of the established provisions was PLN 533 thousand and comprised:

- provision for old-age severance pays and service anniversary awards in the Mount of PLN 239 thousand, out of which PLN 224 thousand is a long-term provision, and PLN 15 thousand is a short-term provision.
- long-term provision for deferred income tax in the amount of PLN 128 thousand.
- short-term provision for salaries in the amount of PLN 166 thousand

Provisions as on 31.12.2011:

| **Specification** | **Provisions for warranty repairs** | **Restructuring provisions** | **Provisions for employee 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 | 654 | 0 | 654 |
| - established in the period and increase in the existing ones | 0 | 0 | 654 | 0 | 654 |
| -acquired as merger of business entities | 0 | 0 | 0 | 0 | 0 |
| Reductions | 0 | 0 | 658 | 85 | 743 |
| -utilized over the year | 0 | 0 | 658 | 85 | 743 |
| -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** | **405** | **128** | **533** |
| - short-term at the end of the period | 0 | 0 | 181 | 0 | 181 |
| - long-term at the end of the period | 0 | 0 | 224 | 128 | 352 |

Provisions as on 31.12.2010:

| **Specification** | **Provisions for warranty repairs** | **Restructuring provisions** | **Provisions for employee 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 | 473 | 106 | 579 |
| - established in the period and increase in the existing ones | 0 | 0 | 473 | 106 | 579 |
| -acquired as merger of business entities | 0 | 0 | 0 | 0 | 0 |
| Reductions | 0 | 0 | 419 | 161 | 580 |
| -utilized over the year | 0 | 0 | 419 | 161 | 580 |
| -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** | **409** | **213** | **622** |
| - short-term at the end of the period | 0 | 0 | 238 | 0 | 238 |
| - long-term at the end of the period | 0 | 0 | 171 | 213 | 384 |

## 15. Provisions for retirement and similar benefits

According to the remuneration principles effective in the Company, employees are entitled to discretionary bonuses, retirement or old age severance pays 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 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| Retirement severance pays | 31 | 29 |
| Service anniversary bonuses | 144 | 210 |
| **Total** | **175** | **239** |

Provisions for retirement severance pays and service anniversary bonuses are revalued at the end of each calendar year. Over the business year, the value of provisions is reduced by the paid ones.
To estimate the provision as on December 31, 2011, an actuary took the following assumptions:

- pay increase rate - the Company expects pay increases in 2012 to be at the nominal level of 4.9%, and in the following years 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 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 recommended by IAS19, technical interest rate used for discounting his type of liability should be agreed at the level of rate of return on good companies' bonds with a buyback term corresponding to the expected benefit term. In case respective data is not available in the market, market rates of return for treasury bonds are applied. An actuary took the rate of return at the level of interest rate for long-term State Treasury Bonds of the end of 2011 (5.31%).
- 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 defined on the basis of the information provided and whether or not it is correct depends on the correctness of this information,
- for all the benefits the assumption 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 the period specified in the contract (e.g. 24 or36 months starting from the date on which the customer accepts the goods) or in the building law (24 months). 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 - faults in workmanship.

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:

Contingent liabilities of the Company:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| **1. Contingent liabilities** | **12 058** | **10 053** |
| 1.1. To affiliated entities (grounds) | 0 | 0 |
| - sureties and guarantees provided | 0 | 0 |
| 1.2. To other entities (grounds) | 12 058 | 10 053 |
| - sureties and guarantees provided | 12 058 | 10 053 |
| - bills of exchange | 0 | 0 |
| - transfer of receivables under commercial contracts securing the loans | 0 | 0 |
| **2. Other** | **94 969** | **105 716** |
| - refused claims for which a contractor has initiated a court proceeding | 0 | 0 |
| - property encumbrances (mortgage, pledge, transfer of ownership as security) | 94 969 | 105 716 |
| including pledge on fixed assets | 19 069 | 18 280 |
| including pledge on inventory | 16 500 | 26 500 |
| including mortgage | 59 400 | 60 936 |
| **Total off-balance sheet items** | **107 027** | **115 769** |

The main items encumbering Company's property are 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.**

- defects and failures removal guarantee in respect of coated pipes deliveries. The guarantee is up to the amount of PLN 129 thousand and remains valid till 28.03.2016,
- defects and failures removal guarantee in respect of coated pipes deliveries. The guarantee is up to the amount of PLN 159 thousand and remains valid till 01.04.2016,
- performance bond and defects and failures removal guarantee in respect of coated pipes deliveries. The guarantee has been granted up to PLN 4,157 thousand for non-performance or undue performance of the contract (till 03.02.2012 including up to PLN 1,247 thousand for failure to repair or undue repair of defects and failures (till 03.02.2012),
- performance bond and defects and failures removal guarantee in respect of coated pipes deliveries. The guarantee has been granted up to PLN 4,688 thousand for non-performance or undue performance of the contract (till 10.05.2012 including up to PLN 1,407 thousand for failure to repair or undue repair of defects and failures (till 10.05.2015),

**- to Polskie Górnictwo Naftowe i Gazownictwo S.A.**

- bid bond guarantees for the total amount of PLN 920 thousand in relation to the announcement on an unlimited tender for the delivery of extraction pipes. Said bid bond guarantees expired totally 09.01.2012 after signing the sales contract.

### 18. Operating leasing 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. The agreement was terminated by Izostal S.A. on 30.12.2011 by 2-month notice.

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.

## 19. Financial lease obligations

As on 31.12.2011 Izostal S.A. is party to 5 financial lease agreements (Company as the beneficiary of the lease):

- the agreement concluded on January 6, 2009 on the lease of the internal coating line for steel pipes. Last installment payment term is June 2016. Net monthly installment is PLN 89 thousand. The agreement is secured by a blank promissory note and cap mortgage up to PLN 6,000 thousand in the land and mortgage register no. OP1S/00040617/8.
- 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 blank bill of exchange.
- 2 agreements concluded on July 27, 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 payments and their current value:

| Specification | As on 31.12.2010 | | As on 31.12.2011 | |
|---|---|---|---|---|
| | Current value of minimum fees | Minimum fees | Current value of minimum fees | Minimum fees |
| in the period of up to 1 year | 962 | 1 312 | 942 | 1 222 |
| in the period from 1 year to 5 years | 3 962 | 4 675 | 3 425 | 3 864 |
| in the period of over 5 years | 502 | 512 | 0 | 0 |
| **Total** | **5 426** | **6 499** | **4 367** | **5 086** |

## 20. Bonds convertible to shares

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

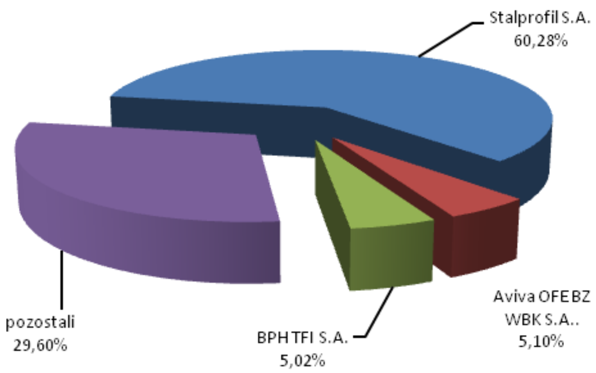
## 21. Share capital

Company share Capital (in line with the entries in the National Court Register) as on December 31, 2011 was PLN 65,488 thousand and comprised 32,744,000 ordinary bearer shares of a face value of PLN 2 per share. It comprises the following issues:

| | 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 according to 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 contribution | 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 contribution | 1995-03-07 | - |
| **D series** | bearer shares | none | none | 225 000 | PLN 2.00 | 450 | cash contribution | 1999-09-19 | - |
| **E series** | bearer shares | none | none | 1 025 000 | PLN 2.00 | 2 050 | cash contribution | 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 contribution | 2007-08-22 | 2008-01-01 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **J series** | bearer shares | none | none | 6 000 000 | PLN 2.00 | 12 000 | cash contribution | 2009-12-18 | 2010-01-01 |
| **Series K** | bearer shares | none | none | 12 000 000 | PLN 2.00 | 24 000 | cash contribution | 2011-01-28 | 2010-01-01 |
| **Total number of shares:** | | | | **32 744 000** | | | | | |
| **Total share capital** | | | | | | **65 488** | | | |

The Company shareholding structure as on December 31, 2011 to the knowledge of the Management Board 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% |
| Others | 9 691 102 | 29,60% |
| **Total** | **32 744 000** | 100,00% |

### 22. Surplus from the sale of shares above their face value

Cash flow from the sale of shares over their face value at the beginning of the period was PLN 38,379 thousand and was reduced to PLN 38,175 thousand at the end of the period. The reduction results from the costs of K series shares issue in 2011 in the amount of PLN 204 thousand.

### 23. Reserve and spare capital

In 2011 spare capital was decreased by PLN 16,562 thousand due to the following:

- appropriation of profit for the business year 2010 - PLN 7,438 thousand (increase),
- registration of share capital - PLN 24,000 thousand (decrease)

### 24. Treasury shares

In 2011 the Company did not hold any treasury shares.

### 25. Proposals regarding appropriation of profit for the business year

In the period from January 1, 2011 to December 31, 2011 the Company generated a net profit of PLN 19,134 thousand. The Management's Board proposal regarding profit appropriation:

- payment of dividend to Company shareholders in the amount of PLN 5,567 thousand, i.e. PLN 0,17 per share. It is proposed that divided be paid for all shares issued by the company in the number of 32,744,000 shares.
- spare capital: PLN 13,567 thousand,

### 26. 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 December 31, 2011 and December 31, 2010 there were no dividends for ordinary shares submitted for approval by the General Shareholders' Meeting that would not be recognized as liabilities.

In 2010-2011 the Company did not pay any dividend.

The dividend proposed for 2011 is described in note 25.

### 27. Going concern uncertainty

The Company is not aware of any reasons that would indicate any going concern risk.

### 28. Merger of business entities

In 2011, no merger of the Companies was effected.

Zawadzkie, 30.03.2012

### 29. Revenues from sale of products, goods and materials

Sales revenues in the breakdown into basic product groups:

| Specification | From 01.01 to 31.12.2010 | | From 01.01 to 31.12.2011 | |
|---|---|---|---|---|
| | Amount | Structure | Amount | Structure |
| | | | | |
| Coated pipes | 76 517 | 55,3% | 158 447 | 61,0% |
| including export sales | 13 076 | *73,5%* | 19 175 | *68,9%* |
| Coating services | 5 204 | 3,8% | 11 710 | 4,5% |
| including export sales | 2 618 | *14,7%* | 5 997 | *21,5%* |
| Polyethylene pipes | 1 611 | 1,2% | 0 | 0,0% |
| including export sales | 0 | *0,0%* | 0 | *0,0%* |
| Goods, materials | 54 157 | 39,2% | 89 037 | 34,3% |
| including export sales | 1 901 | *10,7%* | 2 441 | *8,8%* |
| Other sales | 840 | 0,6% | 538 | 0,2% |
| including export sales | 206 | *1,2%* | 222 | *0,8%* |
| | 0 | | | |
| Total | 138 329 | 100,0% | 259 732 | 100,0% |
| including export sales | 17 801 | 100,0% | 27 835 | 100,0% |

| **Specification** | **From 01.01 to 31.12.2010** | | **From 01.01 to 31.12.2011** | |
|---|---|---|---|---|
| | | | **Amount** | **Structure** |
| | | | | |
| Sales revenues - products | 78 172 | 56,5% | 158 505 | 61,0% |
| Sales revenues - services | 5 879 | 4,2% | 12 030 | 4,6% |
| Sales revenues - materials | 6 | 0,0% | 351 | 0,2% |
| Sales revenues - goods | 54 151 | 39,1% | 88 686 | 34,1% |
| Sales revenues - lease services | 121 | 0,1% | 160 | 0,1% |
| | 0 | | | |
| **Total** | **138 329** | **100,0%** | 259 732 | 100,0% |
| including non-cash revenues - barter of goods or services | 0 | | | |

In 2011 export revenues constituted 10.72% of total revenues of the Company.

The main customers for services and goods exported in 2011 were the EU countries. The largest sales value: Slovakia (26.85% of exports), Hungary (20.71% of exports), Romania (19.56% of exports) and Germany (19.36% of exports).

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

### 30. 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** | **From 01.01 to 31.12.2010** | **From 01.01 to 31.12.2011** |
|---|---|---|
| Depreciation of fixed assets | 3 656 | 3 479 |
| Depreciation of intangible assets | 50 | 71 |
| Costs of employee benefits | 8 009 | 8 912 |
| Raw materials, auxiliary materials and energy consumption | 59 487 | 149 610 |
| Costs of external services | 3 626 | 4 996 |
| Costs of taxes and charges | 419 | 478 |
| Other costs | 526 | 1 022 |
| Marketing costs | 279 | 150 |
| Change in products portfolio | 2 584 | -17 918 |
| Own work capitalized | -1 | -58 |
| Costs of products, goods and materials sold | 49 919 | 83 861 |
| **TOTAL** | **128 554** | **234 603** |
| Costs of products, goods and materials sold | 117 810 | 220 946 |
| Costs of goods sold | 1 791 | 3 477 |
| Overheads | 8 953 | 10 180 |
| **TOTAL** | **128 554** | **234 603** |

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

| **Specification** | **From 01.01 to 31.12.2010** | **From 01.01 to 31.12.2011** |
|---|---|---|
| Salaries costs | 6 703 | 7 501 |
| Social security costs | 1 066 | 1 161 |
| Company Social Benefit Fund | 122 | 135 |

| | | |
|---|---|---|
| Other | 118 | 115 |
| **TOTAL** | **8 009** | **8 912** |

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.

### 31. Basic employment information

Average employment during the business year, in the breakup into occupational groups.

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| Blue-collars | 69 | 82 |
| White-collars | 51 | 49 |
| including Management Board Members | 3 | 2 |
| Students | 0 | 0 |
| **Total employment** | **120** | **131** |

### 32. Financial costs and income

Main financial costs and income items:

| Specification | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| **Financial costs** | | |
| Interest costs , including: | 2 642 | 1 437 |
| - bank loans | 2 184 | 831 |
| - liabilities | 37 | 242 |
| - loans | 17 | 0 |
| - leasing | 404 | 364 |
| - liabilities to State Treasury | 0 | 0 |
| Costs of shares' issue - rounded and charged to result | 0 | 0 |
| Costs of sureties obtained | 116 | 57 |
| Costs of bills of exchange discount | 0 | 0 |
| Foreign exchange gains/losses | 0 | 1 027 |
| Revaluation write-offs - 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 | 173 | 53 |
| Revaluation write-offs of interest | 295 | 991 |
| Bank commissions | 44 | 52 |
| Other | 7 | 53 |
| **TOTAL** | **3 277** | **3 670** |
| **Financial income** | | |
| Earnings from interest | 304 | 1 638 |
| Cancellation of obtained interest | 4 | 0 |
| Bills of exchange discount | 0 | 0 |
| Foreign exchange gains | 210 | 0 |
| Reversal of revaluation write-offs - 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 revaluation write-offs for interest | 166 | 135 |
| Other | 0 | 4 |
| **TOTAL** | **684** | **1 777** |
| | 0 | |
| **Financial activity result** | **-2 593** | **-1 893** |

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

Financial costs include costs of external borrowing, interest paid under financial lease agreements, revaluation write-offs 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.

### 33. Government subsidies

On December 30, 2008 the Company concluded the agreement no. UDA-POIG.04.04.00-16-002/08-00 with Polish Agency for Enterprise Development 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 subsidy agreement was concluded between Polish Agency for Enterprise Development and Izostal S.A. Project implementation was completed in December 2009. The Company obtained the funds of PLN 20,438 thousand.

As on 31.12.2011 deferred income of this subsidy amounted to 19,257 thousand.

On April 29, 2011, the Company concluded the subsidy agreement with the Ministry of Economy in the amount of PLN 7,263 thousand for the construction of the Research and Development Center for Steel technologies and Products, as part of the Operational Program Innovative Economy, 4. Priority Axis: Investments in innovative projects, activity 4.5.: Support for investments of significant importance for economy, sub-activity 4.5.2.: Support for investments in modern services sector. The project completion deadline is February 29, 2011.

As on 31.12.2011 deferred income of this subsidy amounted to 4,658 thousand.

Accruals related to the subsidy are recognized under other operating income, in proportion to depreciation period of the fixed assets covered by the subsidy.

### 34. Other operating costs and income

Main operating costs and income items:

| Specification | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| **Other operating costs** | | |
| Revaluation write-offs - impairment of receivables | 4 | 13 |
| Refused claims | 67 | 0 |
| Stock-taking shortages | 0 | 0 |
| Donations | 4 | 14 |
| Court fees | 38 | 15 |
| Costs of remedies in case of acts of God | 8 | 24 |
| Voluntary subscription fees to organizations | 3 | 3 |
| Provision for future operating costs | 294 | 235 |
| Compensations, penalties, fines | 12 | 2 |
| Inventory revaluation write-offs | 0 | 548 |
| Other | 1 | 11 |
| **TOTAL** | **431** | **865** |
| **Other operating income** | | |
| Earnings from the sale of tangible fixed assets | 470 | 164 |
| Reversal of revaluation write-offs - impairment of receivables | 373 | 119 |
| Refund of court fees | 3 | 8 |
| Damages and compensations received | 83 | 108 |
| Subsidies | 551 | 614 |
| Reversal of provisions | 241 | 238 |
| Assets received free of charge | 49 | 47 |
| Write-off of overdue liabilities | 0 | 0 |
| Other | 17 | 104 |
| **TOTAL** | **1 787** | **1 402** |
| **Other operating result** | **1 356** | **537** |

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-offs 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.

Tis category includes mainly revenues from reversal of revaluation write-offs in respect of receivables, received government subsidies, compensations and liquidated damages and reversed provisions.

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

### 35. Income tax

Tax debits/credits shown in profit & loss:

| Specification | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| **Current income tax** | **1 152** | 4 751 |
| - current charges on account of income tax | 1 152 | 4 751 |
| - retained corrections of current income tax | 0 | 0 |
| **Deferred income tax** | **-52** | **-112** |

| | | |
|---|---|---|
| - debits/credit due to deferred tax for establishment and reversal of temporary differences | -52 | -112 |
| - debits/credit due to deferred tax related to a change in tax rates | 0 | 0 |
| **Tax debits/credits shown in profit and loss, including:** | **1 100** | **4 639** |
| - assigned to going concern | 1 100 | 4 639 |
| - 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), as 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 main items that differentiate taxable income (CIT) from gross financial result:

| Specification | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| Gross financial result before going concern taxation | 8 538 | 23 773 |
| Profit/loss before taxation - discontinued concern | 0 | 0 |
| Gross financial result before taxation | 8 538 | 23 773 |
| **Non-deductible expenses, including:** | **2 383** | **4 053** |
| - provisions for future costs | 350 | 295 |
| - receivables write-offs | 299 | 1 006 |
| - inventories revaluation write-offs | 33 | 548 |
| - PFRON (National Fund for Rehabilitation of the Disabled) | 110 | 122 |
| - interest | 16 | 255 |
| - unpaid social security (ZUS) | 263 | 246 |
| - entertainment costs | 128 | 83 |
| - unpaid salaries | 247 | 52 |
| - depreciation of fixed assets covered by the subsidy | 551 | 614 |
| - costs of stock exchange service | 0 | 136 |
| - other | 386 | 696 |
| **Additions to costs** | **3 573** | **857** |
| - interest paid in previous years | 50 | 1 |
| - principal lease installments | 144 | 116 |
| - inclusion 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 | 197 | 249 |
| - costs of financial assets sold | 0 | 0 |
| - issue costs | 2 763 | 126 |
| - other | 269 | 118 |
| **Non-taxable income** | **1 484** | **2 115** |
| - valuation exchange rate differences | 0 | 0 |
| - cancellation of bank interest | 0 | 0 |
| - reversal of provisions | 242 | 238 |
| - unpaid interest | 295 | 993 |
| - reversal of revaluation write-offs (previously non-deductible) | 373 | 123 |
| - unpaid liquidated damages | 0 | 0 |
| - subsidies received | 551 | 614 |
| - other | 23 | 147 |
| **Additions to income** | **200** | **150** |
| - interest | 0 | 0 |
| - damages received | 200 | 150 |
| - exchange rate differences (change in the CIT law) | 0 | 0 |
| Result after deductions | **6 064** | **25 004** |
| Income deductions - retained losses | 0 | 0 |
| Result after deductions | **6 064** | **25 004** |
| CIT rate (%) | 19 | 19 |
| **Tax debit/credit shown in profit & loss** | **1 152** | **4 751** |

### Deferred income tax

Deferred tax shown in the balance sheet and in profit and loss:

| **Specification** | **Financial position report as on 31.12.2010.** | **Comprehensive income statement for the period from 01.01.2010 to 31.12.2010.** | **Financial position report as on 31.12.2011.** | **Comprehensive income statement for the period from 01.01.2011 to 31.12.2011.** |
|---|---|---|---|---|
| Provision on account of deferred income tax | | | | |
| Exchange rate differences | 0 | **0** | 0 | 0 |
| Valuation of fixed assets | 68 | -93 | 66 | -2 |
| Fixed assets under lease | 117 | 10 | 62 | -55 |
| Interest not covered by revaluation/penalties | 28 | 28 | 0 | -28 |
| Gross provision - deferred income tax | **213** | **-55** | **128** | **-85** |
| Deferred income tax assets | | | | |

| | | | | |
|---|---|---|---|---|
| Receivables write-off | 39 | **-5** | 12 | -27 |
| Impairment of financial assets | 0 | **0** | 0 | 0 |
| Exchange rate differences | 0 | **0** | 0 | 0 |
| Accrued interest | 3 | **-5** | 49 | 46 |
| Provisions for employee benefits | 41 | **-27** | 85 | 44 |
| Provision for interest | 0 | **0** | 0 | 0 |
| Lease liabilities | 85 | **5** | 35 | -50 |
| Unpaid salaries | 47 | **12** | 10 | -37 |
| Uninvoiced costs | 0 | **-3** | 0 | 0 |
| Unpaid social security (ZUS) | 48 | **10** | 47 | -1 |
| Other | 56 | **10** | 108 | 52 |
| Deductible tax loss | 0 | **0** | 0 | 0 |
| Gross assets - deferred income tax | **319** | **-3** | **346** | **27** |
| Debit/credit - deferred income tax | | -52 | 0 | -112 |

### 36. Contracts for construction

The company does not run any activity involving contracts for construction.

### 37. 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.

Information about salaries of Management Board Members:

| **Specification** | **From 01.01 to 31.12.2010** | **From 01.01 to 31.12.2011** |
|---|---|---|
| Short-term employee benefits paid in the business year in this year | 1 385 | 1 336 |
| Retained short-term employee benefits paid in the business year | 63 | 263 |
| Provisions for salaries established at the end of the period | 195 | 139 |
| Unpaid salaries | 263 | 49 |
| Other long-term benefits | 0 | 0 |
| Benefits for termination of employment relationship | 0 | 0 |
| Employee benefits in the form of treasury shares | 0 | 0 |

Information about salaries of Supervisory Board Members:

| **Specification** | **From 01.01 to 31.12.2010** | **From 01.01 to 31.12.2011** |
|---|---|---|
| Short-term employee benefits paid in the business year in this year | 234 | 238 |
| 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 31.12.2010 | From 01.01 to 31.12.2011 | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
| Parent entity | 114 | 13 | 41 805 | 67 502 | 3 000 | 0 | 2 662 | 377 |
| Entities having significant impact | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subsidiary entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Associated entities | 10 275 | 6 126 | 6 405 | 11 241 | 0 | 0 | 1 567 | 1 496 |
| Other affiliated entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Settlements with affiliated entities (gross values)

| Affiliated entity | Receivables from affiliated entities as on | | Liabilities to affiliated | |
|---|---|---|---|---|
| | 31.12.2010 | 31.12.2011 | 31.12.2010 | 31.12.2011 |
| Parent entity | 0 | 0 | 19 476 | 4 799 |
| Entities having significant impact | 0 | 0 | 0 | 0 |
| Subsidiary entities | 0 | 0 | 0 | 0 |
| Associated entities | 4 618 | 928 | 7 | 2 045 |
| 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.

Products sold were steel pipes.

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

**Associated entities**

The information presented under "Affiliated 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 construction services.

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

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

## 38. Earnings per share

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

| Specification | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| Net operating profit/loss - going concern | 7 438 | 19 134 |
| Profit (loss) - discontinued concern | 0 | 0 |
| Net profit/loss | 7 438 | 19 134 |
| Net profit/loss applied for calculation of diluted earnings/losses per share | 7 438 | 19 134 |

| Specification | From 01.01 to 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| Weighted average number of ordinary shares issued applied for calculation of basic earnings/losses per share | 20 744 000 | 31 856 329 |
| Dilution effect | 12 000 000 | 887 671 |
| 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 31.12.2010 | From 01.01 to 31.12.2011 |
|---|---|---|
| Calculation of basic earnings/losses per share (PLN) | 0,36 | 0,60 |
| Calculation of diluted earnings/losses per share (PLN) | 0,23 | 0,58 |

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

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

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.

### 39. Cash and cash equivalents

Data on cash and cash equivalents held by the Company:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| Cash at bank and in hand | 2 922 | 1 355 |
| Short-term deposits | 26 009 | 34 328 |
| Other | 0 | 0 |
| Total, including: | 28 931 | 35 683 |
| - cash at bank and in hand assigned to discontinued concern | 0 | 0 |

Information about cash and cash equivalents shown in the cash flow statement:

| Specification | As on 31.12.2010 | As on 31.12.2011 |
|---|---|---|
| Cash at bank and in hand | 28 931 | 35 683 |
| Overdrafts | 0 | -3 220 |
| Gains/losses on exchange rate differences regarding valuation of cash, cash equivalents and overdrafts | 0 | -22 |
| Total | 28 931 | 32 441 |

The cash flows shown in this statement do not show the transactions excluded from investment and financial activity.
As on 31.12.2011 no cash was restricted for use.
Cash at bank bears a variable interest rate.
The Company has a multi-purpose overdraft with an overdraft sub-limit at Powszechna Kasa Oszczędności Bank Polski S.A. for the amount of PLN 22,000 thousand (as on 31.12.2011 the company did not utilize any part of the overdraft), at BRE Bank S.A. for the amount of PLN 10,000 thousand (as on 31.12.2011 the still available amount was PLN 6,940 thousand) and at BNP PARIBAS BANK POLSKA S.A. in the amount of PLN 5,000 thousand (as on 31.12.2011 the company did not use any part of the overdraft).
Fair value of cash and cash equivalents is equal to their balance sheet value.

### 40. Risk management policy

Risk management policy was described in the Management Board's report on the activity of Izostal S.A. for 2011.

### 41. Financial instruments

**Forex risk hedging instruments:**

The Company secures its Cash flow resulting from the purchasing in EUR against EUR/PLN rate fluctuation for the open position (surplus over earnings). FORWARD-like instruments and PUT options are used to secure the company against PLN appreciation.
As on 31.12.2011 the following transactions were open:

| Bank | Hedging type | Transaction value | Weighted average rate | Last contract's closing date | Valuation as on 31.12.2011 |
|---|---|---|---|---|---|
| BRE Bank S.A. | FORWARD | 4.534 | 4,4295 | 16.04.2012 | 241 |
| BNP Paribas Bank Polska S.A. | FORWARD | 6.731 | 4,4581 | 05.04.2012 | 261 |
| BNP Paribas Bank Polska S.A. | PUT OPTION | 2.992 | 4,2000 | 03.04.2012 | 39 |

Analysis of financial instruments vulnerability to interest rate risk:

| As on 31.12.2011 | Balance sheet value | Increase/ reduction by percentage points | Impact on gross financial result |
|---|---|---|---|
| **Financial assets** | **35 607** | | **89** |
| Cash | 35 607 | 0,25% | 89 |
| Financial assets available for sale | 0 | 0 | 0 |
| Other financial assets | 0 | 0 | 0 |
| Short-term deposits | 0 | 0 | 0 |
| **Financial liabilities** | **42 892** | | **108** |
| Bank loans and credits | 38 678 | 0,25% | 97 |
| Lease liabilities | 4 214 | 0,25% | 11 |

| As on 31.12.2010 | Balance sheet value | Increase/ reduction by percentage points | Impact on gross financial result |
|---|---|---|---|
| **Financial assets** | **28 414** | | **71** |
| Cash | 28 414 | 0,25% | 71 |
| Financial assets available for sale | 0 | 0 | **0** |
| Other financial assets | 0 | 0 | **0** |
| Short-term deposits | 0 | 0 | **0** |
| **Financial liabilities** | **26 238** | | **65** |
| Bank loans and credits | 21 344 | 0,25% | 53 |
| Lease liabilities | 4 894 | 0,25% | 12 |

Analysis of financial instruments vulnerability to forex risk:

| As on 31.12.2011 | Balance sheet value | Increase/ reduction of the rate (per cent) | Impact on gross financial result |
|---|---|---|---|
| **Financial assets** | **25 879** | | **258** |
| Cash | 1 089 | | 11 |
| Cash in EUR | 1 089 | 1,00% | 11 |
| Cash in USD | 0 | 0 | 0 |
| Receivables related to deliveries and services and other in EUR | 23 341 | 1,00% | 233 |
| Receivables related to deliveries and services and other in USD | 908 | 1,00% | 9 |
| FORWARD | 541 | 1,00% | 5 |
| **Financial liabilities** | **52 751** | | **528** |
| Overdrafts in EUR | 3 221 | 1,00% | 32 |
| Short-term loans in EUR | 6 159 | 1,00% | 62 |
| Liabilities related to deliveries and services and other in EUR | 42 577 | 1,00% | 426 |
| Liabilities related to deliveries and services and other in USD | 794 | 1,00% | 8 |

| As on 31.12.2010 | Balance sheet value | Increase/ reduction of the rate (per cent) | Impact on gross financial result |
|---|---|---|---|
| **Financial assets** | **1 509** | | **15** |
| Cash | **259** | | **3** |
| Cash in EUR | 259 | 1,00% | 3 |
| Cash in USD | 0 | 0 | 0 |
| Receivables related to deliveries and services and other in EUR | 1 250 | 1,00% | 12 |
| Receivables related to deliveries and services and other in USD | **0** | 0 | **0** |
| FORWARD | **0** | 0 | **0** |
| **Financial liabilities** | **2 943** | | **29** |
| Overdrafts in EUR | **0** | 0 | **0** |
| Short-term loans in EUR | **0** | 0 | **0** |
| Liabilities related to deliveries and services in EUR | 2 943 | 1,00% | 29 |
| Liabilities related to deliveries and services in USD | 0 | 0 | 0 |

Fair values of financial instruments:

| | Category in line with IAS 39 | Balance sheet value | | Fair value | |
|---|---|---|---|---|---|
| | | As on 31.12.2010 | As on 31.12.2011 | As on 31.12.2010 | As on 31.12.2011 |
| **Financial assets** | | **83 732** | **94 153** | **83 732** | **94 153** |
| Cash | Measured at fair value through profit and loss | 28 931 | 35 683 | 28 931 | 35 683 |
| Receivables related to deliveries and services and other receivables | Loans and receivables | 54 801 | 57 929 | 54 801 | 57 929 |
| 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 | 541 | 0 | 541 |
| Financial liabilities | | **61 573** | **107 085** | **61 573** | **107 085** |
| Financial lease obligations | financial liabilities at amortized cost | 5 426 | 4 367 | 5 426 | 4 367 |
| Liabilities related to deliveries and services and other liabilities | financial liabilities at amortized cost | 34 803 | 64 040 | 34 803 | 64 040 |
| Bank loans and credits | financial liabilities at amortized cost | 21 344 | 38 678 | 21 344 | 38 678 |

Financial instruments - income, costs, gains and losses:

| **From 01.01 to 31.12.2011** | **Category in line with IAS 39** | **Gains/losses on interest** | **Foreign exchange gains/losses** | **Reversal/establishment of revaluation write-offs** | **Gains/losses on the sale of financial instruments** |
|---|---|---|---|---|---|
| Financial assets | | **786** | **523** | **156** | **0** |
| Cash | Measured at fair value through profit and loss | 619 | 529 | 0 | 0 |
| Receivables related to deliveries and services and other receivables | Loans and receivables | 167 | -6 | 156 | 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 | | **-1 437** | **-1 550** | **0** | **0** |
| Financial lease obligations | financial liabilities at amortized cost | -364 | 0 | 0 | 0 |
| Liabilities related to deliveries and services and other liabilities | financial liabilities at amortized cost | -242 | -1 657 | 0 | 0 |
| Bank loans and credits | financial liabilities at amortized cost | -831 | 107 | 0 | 0 |

| **From 01.01 to 31.12.2010** | **Category in line with IAS 39** | **Gains/losses on interest** | **Foreign exchange gains/losses** | **Reversal/establishment of revaluation write-offs** | **Gains/losses on the sale of financial instruments** |
|---|---|---|---|---|---|
| **Financial assets** | | **175** | **-411** | **385** | **0** |

| | | | | | |
|---|---|---|---|---|---|
| Cash | Measured at fair value through profit and loss | 0 | 0 | 0 | 0 |
| Receivables related to deliveries and services and other receivables | Loans and receivables | 175 | -411 | 385 | 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** | | **-2 642** | **621** | **0** | **0** |
| Financial lease obligations | financial liabilities at amortized cost | -404 | 0 | 0 | 0 |
| Liabilities related to deliveries and services and other liabilities | financial liabilities at amortized cost | -37 | 621 | 0 | 0 |
| Bank loans and credits | financial liabilities at amortized cost | -2 201 | 0 | 0 | 0 |

The difference in the values of reversal/establishment of revaluation write-offs shown in the tables above and the balance of these write-offs shown in the notes regarding financial costs and income and other operating income and costs results from the cancelled receivables, for which revaluation write-offs were established in the previous period. Their value as on 31.12.2011 was PLN 904 thousand, and PLN 145 thousand as on 31.12.2010.

### 42. 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.

### 43. Events following the balance sheet date

After the balance sheet date no events took place that could be reflected in the financial statement for 2011.

### 44. 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 covered the audit of the financial statement for 2011 and 2012. The total amount under this contract is PLN 31 thousand for each year.

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

| Type of a financial statement | For the period from 01.01 to 31.12.2010 | For the period from 01.01 to 31.12.2011 |
|---|---|---|
| review of the annual standalone financial statement of Stalprofil S.A. | 13 | 13 |
| Review of the annual financial statement of IZOSTAL S.A. | 18 | 18 |
| TOTAL | 31 | 31 |

### 45. Approval of the financial statement for publications

Zawadzkie, 30.03.2012

This financial statement was approved for publication by the Management Board of Izostal S.A. on March 30, 2012.

Zawadzkie, March 30, 2012

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

# Management Board's report on the activity of Izostal S.A. in 2011.

## I. OVERVIEW OF KEY BUSINESS AND FINANCIAL VALUES SHOWN IN THE ANNUAL FINANCIAL STATEMENT

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

Results recorded by the Company in 2011 confirm a significant increase in the demand for materials for the construction of gas infrastructure and show that the Company holds a significant share of this market. Izostal S.A. is the only producer in Poland that has the possibility to offer internal insulation of steel pipes for the construction of gas pipelines on an industrial scale which is a significant competitive advantage.

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 shares of series K. 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 per share, the Company obtained PLN 66.000 thou. The funds were received by the Company in 2010. Total cost related to the offering was PLN 3.825 thou. Net income from the offering was PLN 62.175 thou.

In January 2011, the Issuer (leader of the consortium), being one of the four contractors, signed a frame agreement with O.G.P. Gaz-System S.A. on placing orders for the supply of steel pipes DN700 with internal and external coating. 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.
In September 2011 a bid submitted by Izostal S.A., leader of the Consortium, was selected by O.G.P. Gaz-System S.A. as the most favorable one for the supply of coated steel pipes DN700 for the construction of pipelines Rembelszczyzna – Gustorzyn and Gustorzyn – Odolanów. On September 21 the Company signed partial supply contracts with the Investor. The contracts provide that Izostal S.A. will deliver 89 km of pipes of the total value of PLN 88,457.7 thousand. The deliveries of pipes will be effected from November 7, 2011 to May 10, 2012. Offer was selected based on the afore-mentioned frame contract.

The construction of the Research and Development Center for Steel Technologies and Products started in February 2011. The investment was completed in February 2012. The aim of the project is to create the Company's own Research and Development Center which will perform works which used to be ordered with external entities. The project will effect in starting a formal and centralized R&D activity in the Company (so far laboratory quality testing was done). Furthermore, the purpose of the newly-created R&D Center will be to provide services 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, and diversification of production. Diversification will enable the Company to conduct research and perform analyses of raw materials used for production, in order to optimize product parameters and to develop new constructional and operational solutions (a.o. product prototypes). A new R&D Center will allow the Company to launch new products and services, which have not been offered so far (e.g. DFBE coating).

In April 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, activity 4.5.: Support for investments of significant importance for economy, sub-activity 4.5.2.: Support for investments in modern services sector. The completion date defined in the contract expired on February 29, 2012. In 2011 the Company received a subsidy of PLN 4,661 thou.

The Company consistently fulfills its targets. One of them is the launch of its products on the pipes and gas well fittings market. On November 21, 2011 the offer made by Izostal S.A. was selected as the best one in the public procurement procedure conducted by Polskie Górnictwo Naftowe i Gazownictwo S.A. for the supplies of pipes and accessories for extraction drillings in the years 2011 and 2012. The value of Izostal S.A. offers selected by the orderer is PLN 50.232 thou. The Company concluded supply contracts on January 9, 2012 and included relevant information in its regular report no. 1/2012.

As for other investment activities in 2011, the Company extended its Anticorrosion Insulation Center with additional space for storing steel pipes which now covers 13.4 thou. m2 in total. The necessity to provide additional storage space was a consequence of an increase in steel pipes sales, and warehousing period longer than expected, which is due to the structure of orders placed by the main customers of the Company.

As for research and technology development, the company, together with industry experts, among others from Polskie Górnictwo i Gazownictwo S.A. developed a technology for the coating of drill pipes (pipes used for gas mining), which will make it possible to save money while drilling.

**Analysis of the comprehensive income statement**

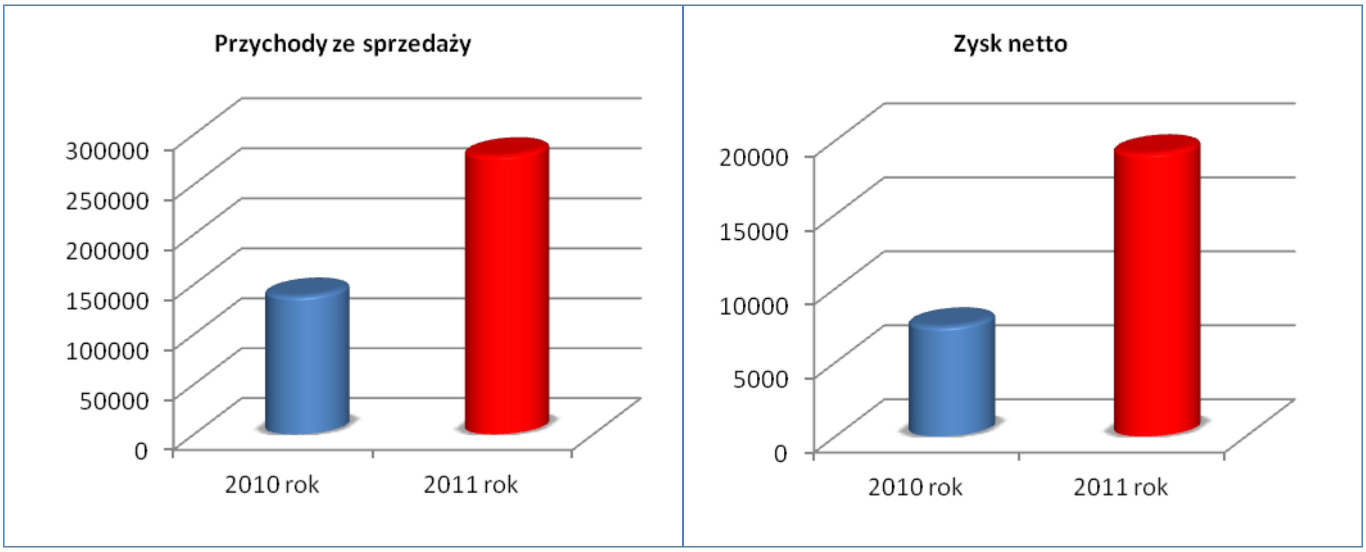
In 2011 the Company recorded the highest income from the sales of products, goods and materials in its history i.e. PLN 259,732 thou. that is 187.8% of the amount recorded in 2010. The income level recorded mostly resulted from the fact that sales of anticorrosion coating increased by 104.8% against 2010. Total sales of coating in 2011 amounted to 880 thou. m2.
Costs of products, goods and materials sold increased by 87.5%, i.e. proportionally to the increase of income from sales.
Increase of the costs of sales by 94.1% is connected with growing value of sales income.
Overheads increased by 13.7% against 2010 mainly due to higher costs of maintaining warehouse infrastructure.

Profit of PLN 537 thou. was generated from other operating activity; in 2010 it was PLN 1.356 thou. Lower operating profit was the consequence of:

- lower profit from the sale of tangible fixed assets (by PLN 306 thou. against 2010)
- inventory revaluation write-offs created in 2011 (other operating costs increased in 2011 by PLN 548 thou.)
- lower income on account of releasing revaluation write-offs of receivables (PLN 254 thou. less in 2011) which was related mainly to contractual penalties imposed in 2010.

In 2011 the Company recorded a loss of (-) 1,893 thou. on financial activity against the 2010 loss of PLN 2,593 thou. In 2011 costs of interest (related mainly to bank credits) were by PLN 1,205 thou. lower than in 2010 due to funds obtained from the public offering of shares. Since the Company did not immediately use all the funds from the public offering of shares, it also recorded income on interest on deposits in the amount of PLN 619 thou. Weaker PLN against EUR in H2 of 2011 resulted in negative exchange rate differences of PLN 1,027 thou. As far as exchange rate differences are concerned, the Company secures its currency position mainly through FORWARD contracts.

As a result of the above-mentioned factors, the Company generated net profit of PLN 19,134 thou. in 2011 i.e. by 157.2% higher than in 2010.




**Analysis of selected items of the financial position statement - assets**

In 2011, the Company's assets increased by 68,960 thou. (33.9%) to the level of PLN 272,426 thou.

The value of long-term assets increased by 32.8% mainly due to the construction of the Research and Development Center for Steel Technologies and Products on which the Company spent PLN 27.773 thou. in 2011.

In 2011 working assets increased by 35% to PLN 140.226 thou. mainly as a result of inventory increase (increase by PLN 25,847 thou.). The Company maintains higher level of stocks than in the previous year due to the fulfillment of important contracts for the supply of coated pipes.

**Analysis of selected items of the financial position statement - liabilities**

In 2011 equity increased by PLN 18,930 thou. as a result of profit recorded at PLN 19.134 thou. and costs incurred in 2011 (PLN 204 thou.) in connection with the public offering of shares of series K.

Short-term liabilities increased in 2011 by 107.8% up to PLN 85,858 thou. The increase was the consequence of:

- increase in short-term credits by PLN 14.929 thou. The Company took short-term credits in EUR to settle its currency liabilities towards suppliers in connection with weaker EUR/PLN exchange rate in H2 of 2011. The Company paid off its credits in 2012 taking advantage of stronger Polish zloty against EUR.
- Increase of liabilities on account of supplies and services by PLN 29,902 thou. due to increased scope of the Company's activity.

## II. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND THREATS

1. Risk of getting dependent on customers

Due to structural characteristics of the Polish gas market, there's a threat that the Issuer will become indirectly dependent on: PGNiG S.A. (prospecting for, extraction, sale and distribution of gas) and OGP Gaz-System S.A. (operator of transmission system), as well as on the investments planned and implemented by these companies. Due to the change in the pipes purchasing policy by selected 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 companies being contractors or subcontractors of investments.
To minimize the risk, Izostal S.A. searches for additional sales markets, both in Poland (private gas companies) and abroad. As an example one may use the petroleum market and cooperation with Euroflow Zrt. seated in Erd (Hungary).

2. Risk related to assuring quality of services offered

The customers for the products and services offered by the Issuer are 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 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 implemented ISO 14001 standard. Coating produced by the Company meets the highest requirements of quality standards.

3. Risk of general macroeconomic situation in Poland

Company's financial standing is correlated with the macroeconomic situation of Poland. The financial results obtained 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 negative impact on the Company'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 inflation increase, and more restrictive fiscal and monetary policy of the state.
This risk is mitigated by the strategy of diversifying gas supply sources adopted by Poland and by restrictive regulations imposed by the EU in scope of environment protection and CO2 emissions. These factors somehow enforce the commencement of large gas and petroleum sector investments in Poland, which makes 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. Exploration of slate gas deposits in Poland also confirms the high potential of the gas industry in Poland.

4. Risk of changeable prices of production resources

Profitability of anti-corrosion coating services provided by the Company depends on the changes in the prices of production resources, including mainly prices of chemical components, mainly polyethylene and polypropylene. Share of these resources in the cost structure is around 20%. Prices of chemical raw materials 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 through cooperation with several entities at each production stage.

5. Risk of changeable prices of steel pipes

Steel pipe price in the product "coated steel pipe" is around 70% of the product's value. The recent fluctuations in steel pipes market have influence on company margins and results. 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 volumes that let the Company sell goods with profit.

As for the purchasing of pipes for large projects, the Issuer negotiates 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 basis changes in pipe prices have a limited influence on the profitability of individual contracts. Nevertheless, on a long-term basis high prices of pipes are favorable for the Company (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. To reduce the risk of changeable exchange rate, the Company concluded treasury limit agreements which enable it to conduct transactions securing against foreign exchange risk with banks without security, moreover the Company has access to currency credits which are utilized in case of depreciation of PLN against EUR.

## III. INFORMATION ON PROCEEDINGS PENDING BEFORE A COURT, A BODY COMPETENT TO CONDUCT ARBITRATION PROCEEDINGS 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 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 3LPE
- 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 service for pipes delivered by the customer.
Moreover, to have the order-book of products, the Company sells steel products.
Quantities of anti-corrosion coating sold:

| | 2010 | | 2011 | |
|---|---|---|---|---|
| | **m2** | **share** | **m2** | **share** |
| **external coating** | 305.758 | 71,2% | 568.890 | 64,6% |
| **Internal coating** | 123.972 | 28,8% | 311.275 | 35,4% |
| **Total** | 429.730 | 100,0% | 880.165 | 100,0% |

Sales of external coating increased in 2011 by 263.132 m2, i.e. by 86.1% against the previous year which was the result of improved economic situation on the gas market. Considerable market demand for internal coating and more and more frequent use of internal coating parallel with external coating resulted in a 151.1% increase of LAYTEC® coating sales against the previous year.
2011 income from sales was PLN 259.732 thou. i.e. 87.8% more than in 2010. Total sales of coated pipes and coating services in 2011 increased by PLN 88,436 thou. (by 108.2%).
Income from the sales of goods increased by PLN 34,880 thou. in 2011 (by 64.4%), which was related to fulfillment of orders for products outside the Company's product offer and completion of deliveries.
As for the other product groups, the sales level went down by PLN 1,913 thou.

Sales Structure - value:

| | 2010 | | 2011 | |
|---|---|---|---|---|
| | **value** | **share** | **value** | **Share** |
| **Coated Pipes** | 76 517 | 55,3% | 158 447 | 61,0% |
| **Coating services** | 5 204 | 3,8% | 11 710 | 4,5% |
| **Goods, materials** | 54 157 | 39,2% | 89 037 | 34,3% |
| **Other sales** | 2 451 | 1,7% | 538 | 0,2% |
| **Total** | 138 329 | 100,0% | 259 732 | 100,0% |

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

The increased sales level recorded in 2011 was mainly the result of an increased domestic demand. Domestic sales income in 2011 increased by 92.4% against the same period of the previous year (increase by PLN 111,369 thou.) Company's export revenues in 2011 were PLN 27,835 thou. and increased against 2010 by 56.4%. The Company exported its products to EU states. The main export directions were Slovakia (26.9% of exports), Hungary (20.7% of exports), Romania (19.6% of exports) and Germany (19.4% of exports).

Sales revenues split to domestic and export markets:

| | 2010 | | 2011 | |
|---|---|---|---|---|
| | **value** | **share** | **value** | **share** |
| **Domestic** | 120 528 | 87.1% | 231 897 | 89.3% |
| **Export** | 17 801 | 12.9% | 27 835 | 10.7% |
| **Total** | 138 329 | 100,0% | 259 732 | 100,0% |

Main customers in 2011 included:

- Ferrum S.A. (15.1% share in sales)
- O.G.P. Gaz-System S.A. (11.8% 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 companies offering steel products. Izostal S.A. purchases steel products from Polish and foreign suppliers. In 2011, foreign suppliers comprised EU entities.

Main suppliers in 2011 included:

- Stalprofil S.A. (23.9% share in sales)
- Ferrum S.A. (16.6% share in sales)
- ArcelorMittal Tubular Products Ostrava a.s. (12.4% 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 CONLUDED CONTRACTS WHICH WERE IMPORTANT FOR THE ISSUER'S ACTIVITY

**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. Detailed terms and conditions of the contract were presented in regular report no. 9/2011.
2. In connection with the above-mentioned frame contract, on September 21, 2011 Izostal S.A. , being the leader of a consortium, concluded 2 partial contracts for the supply of coated steel pipes for O.G.P. Gaz-System S.A. Total value of both contract is PLN 88,458 thou. Contracts' completion date falls in the period from November 7, 2011 to May 10, 2012. Detailed terms and conditions of the contracts were presented in regular report no. 9/2011.
3. 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 2011 was PLN 86.262 thou. Contracts concluded between the parties on October 4, 2011 include provisions on contractual penalties presented in regular report no. 48/2011. Other orders and contracts concluded between the parties do not allow for contractual penalties. Terms and conditions of orders and contracts concluded do not differ from conditions commonly applied for such contracts.
4. Orders signed with Arcelor Mittal Tubular Products Ostrava a.s. for the supply of steel pipes by ArcelorMittal Tubular Products Ostrava a.s. Total value of purchases in 2011 was PLN 35.184 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.
5. Orders and contracts concluded with U.S. Steel Kosice, s.r.o. seated in Koszyce, Slovakia (seller) for the supply of steel pipes. Total value of purchases in 2011 was PLN 14.218 thou. The contract concluded by the parties on October 10, 2011 includes provisions on contractual penalties which were presented in regular report no. 49/2011. Other 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. 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 on 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. The orders and contracts 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. Total value of transactions between Izostal S.A. and Stalprofil S.A. (purchase and sale transactions) in 2011 was PLN 67,515 thou.
7. 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 2011 was PLN 29.267 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.
8. Orders and contracts concluded with Steel Tubes Sp. z o.o. for the supply of coated pipes and steel pipes. Total value of transactions between Izostal S.A. and Steel Tubes Sp. z o.o. (purchase and sales transactions) in 2011 was PLN 13.068 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.

9. Orders concluded with Vistalex S.A. (former Vistal S.A.) for the supply of steel products. Total value of transactions between Izostal S.A. and Vistalex S.A. (purchase and sales transactions) in 2011 was PLN 15.020 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.
10. Orders and contracts concluded with JT Zakład Budowy Gazociągów Sp. z o.o. for the supply of coated pipes, coating services and steel pipes and other services related to operating activity. Total value of transactions between Izostal S.A. and JT Zakład Budowy Gazociągów Sp. z o.o. (purchase and sales transactions) in 2011 was PLN 15.711 thou. Orders and contracts concluded between the parties do not allow for contractual penalties, except for transactions involving sale of coated steel pipes and pipe 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. Significant terms of the Agreement were described in comment No.11 to the 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 financing current operations. On July 7, 2011 the Company concluded an appendix to the contract in question and increased the overdraft amount to PLN 10,000. In view of the intention to utilize credit in PLN and EUR, the agreement was terminated on December 1 and was replaced by a multi-currency overdraft facility for the amount of PLN 10,000 for financing the Company's current activity. The credit was granted till April 2012. Significant terms and conditions of the Agreement were described in a comment No.11 to the 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. Significant terms and conditions of the Agreement were described in comment No.11 to the notes to the Financial Statement.
4. Working capital loan agreement in EUR concluded with bank BRE BANK S.A. in December 2011. Bank provided the Company with a working capital loan of EUR 5,000. The loan was granted till June 29, 2012. Significant terms and conditions of the Agreement were described in comment No.11 to the 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 152,843,952.20. |
| | Insurance of stationary electronic equipment | PLN 614,765.55. |
| | Insurance of stationary electronic equipment, not older than 7 years | PLN 187,898.17. |
| | 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. |
| 901006405905 | Liability insurance connected with running a business activity or using property, including liability insurance for a product<br>(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 200,000.00. |
| | 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. |

Furthermore, the Company is a party to an agreement on the insurance of receivables concluded with KUKE. Company sales transactions are insured up to the amounts of credit limits granted by an insurance company to individual customers.
Transactions with affiliated entities were described in note no. 37 of Notes to the Financial Statement for financial year 2011.

## 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 31.12.2011.
In 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 WITH AFFILIATED ENTITIES 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 significant transactions concluded with affiliated entities was presented in note 37 of the Notes to the Financial Statement.

## IX. INFORMATION ON CREDIT AND LOAN AGREEMENTS CONCLUDED AND TERMINATED IN A GIVEN FINANCIAL YEAR

In the financial year the Company was a party to the following credit and loan agreements:

1. Investment credit of July 10, 2009 taken 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 the amount of PLN 22,000 thou. to be used as an overdraft facility, renewable working capital loan, bank guarantees, documentary letters of credit. Credit may be utilized in EUR and PLN. 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 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 10,000 thou. Credit bearing interest based on WIBOR O/N rate increased with bank margin. Credit granted till 18.04.2012. Loan agreement was terminated on 01.12.2011 due to concluding a multi-currency overdraft facility agreement described in the following item.
5. Multi-currency overdraft facility of 01.12.2011 at bank BRE BANK S.A. in PLN and EUR, in the amount of PLN 10,000 thou. Credit bearing interest based on WIBOR O/N rate increased with the bank margin for the part utilized in PLN and LIBOR O/N increased with the bank margin for the part utilized in EUR. Credit granted till 18.04.2012.

6. Credit of 27.05.2011 in form of a multi-purpose credit facility at bank BNP PARIBAS BANK POLSKA S.A. in PLN, in the amount of PLN 5,000 thou. to be used as an overdraft facility and bank guarantees. Credit bearing interest based on WIBOR 1M rate increased with bank margin. Credit granted till 24.05.2012.
7. Working capital loan in EUR of 08.12.2011 taken at bank BRE BANK S.A. in the amount of 5,000 thou. EUR to be used for financing contracts concluded with O.G.P. Gaz-System S.A. for the supply of coated pipes. Credit bearing interest based on EURIBOR 1M rate increased with bank margin. Credit granted till 29.06.2012.

Bank credits as on 31.12.2011

| | **Credit amount under the agreement** | **As on 31.12.2011.** |
|---|---|---|
| Multi-purpose credit limit at PKO BP (thou. PLN) | 22 000 | 0 |
| Investment loan at PKO BP (thou. PLN) | 26 000 | 16 940 |
| Investment loan at BNP Paribas Bank Polska S.A. (thou. PLN) | 12 358 | 12 358 |
| Multi-currency overdraft facility with BRE BANK S.A (thou. PLN) | 10 000 | 3 222 |
| Working capital loan with BRE BANK S.A (thou. EUR) | 5 000 | 1 347 |
| Credit in form of a multi-purpose credit line. BNP Paribas Bank Polska S.A. (thou. PLN) | 5 000 | 0 |

Detailed information on credit security as on December 31, 2011 was presented in note 11 of the Notes to the Financial Statement.

## X. INFORMATION ON LOANS GRANTED IN A GIVEN FINANCIAL YEAR

The Company did not grant loans in the financial year.

## XI. INFORMATION ON SURETIES AND GUARANTEES GRANTED AND RECEIVED IN A GIVEN FINANCIAL YEAR

Guarantees granted by the Company as on December 31, 2011:

- Defects and failures repair guarantee granted in favor of O.G.P. Gaz-System S.A. in connection with the supply of coated pipes up to the amount of PLN 129 thou. valid till 28.03.2016,
- defects and failures repair guarantee related to supplies of coated pipes granted in favor of O.G.P. Gaz-System S.A. up to the amount of PLN 159 thou. valid till 01.04.2016,
- performance bond and a guarantee of defects removal granted to OGP Gaz- System S.A. in connection with supplies of coated pipes up to the amount of PLN 4,157 thou. for a failure to perform or undue performance of the contract (till 03.02.2012), including a guarantee in the amount of up to PLN 1,407 thou. in the event of a failure to remove or undue removal of defects (till 03.02.2015)
- performance bond and a guarantee of defects removal granted to OGP Gaz- System S.A. Guarantee granted up to the amount of PLN 4,688 thou. for a failure to perform or undue performance of the contract (till 10.05.2012), including a guarantee in the amount of up to PLN 1.247 thou. in the event of a failure to remove or undue removal of defects (till 10.05.2015)
- bid guarantee for the total amount of PLN 920 thou. granted in favor of Polskie Górnictwo Naftowe i Gazownictwo S.A. in connection with unlimited tender in order to conclude a contract for the supply of extraction pipes. The above-mentioned bid guarantees expired on January 9, 2012 once the sales contract was signed.

As on 31.12.2011, the Company was not granted guarantees.

As on 31.12.2011, the Company did not grant nor was granted any sureties. Moreover, as on 31.12.2011, 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

Following the 2010 offering of 12.000.000 shares of series K at the issue price of PLN 5.50 per share, the Company obtained PLN 66.000 thou. Costs of shares issue were PLN 3,825 thou. Net income from the issue of shares was 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 to working capital (PLN 50,539 thou.), and the construction of the Center for the Research and Development of 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 10,755 thou.
- for working capital - PLN 30,165 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. EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL RESULTS PRESENTED IN THE ANNUAL REPORT AND PREVIOUSLY PUBLISHED ANNUAL FORECASTS

The Company presented forecast for 2011 in the prospectus approved by the Financial Supervision Authority on December 8, 2010. On December 9, 2011, following the analysis of financial results achievable in the business year, the Company's Management Board corrected the Company's forecast results for 2011 by way of regular report no. 56/2011.
The following table shows comparison of the Company corrected results' forecast for 2011 and actuals.

| | Forecast 2011 | 2011 Actual | % of actual |
|---|---|---|---|
| Sales revenue | 252 980 | 259 732 | 102,7 |
| Costs of operating activity* | 227 503 | 234 603 | 103,1 |
| Gross profit on sales | 38 230 | 38 786 | 101,5 |
| Depreciation | 3 556 | 3 550 | 99,8 |
| EBITDA | 30 028 | 29 215 | 97,3 |
| Operating profit | 26 472 | 25 666 | 97,0 |
| Net profit | 19 044 | 19 134 | 100,5 |

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

The table above shows that results recorded by the Company in 2011 are close to the forecast.

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

**Debt ratios**

| Specification | 2010 | 2011 |
|---|---|---|
| Total debt ratio | 30,6% | 39,6% |
| Long-term debt | 10,4% | 8,3% |
| Debt to equity ratio | 67,7% | 94,2% |
| Equity to total assets ratio | 59,6% | 51,5% |

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 2011 did not change significantly as compared to the end of 2010. The Company's financial situation significantly improved in 2010 as a result of the public offering of 12.000.000 shares of series K. As a result of the offering the Company obtained PLN 62.175 thou., and thus considerably improved its debt ratios in 2010.

At the end of 2011 total debt ratio increased to 39.6% from 30.6% at the end of 2010. Total debt of the Company in 2011 increased by PLN 45,544 thou. and assets increased by PLN 68,960 thou. Company's liabilities on account of credits taken increased in 2011 by PLN 17,455 thou. The Company took a credit in the amount of PLN 12,358 thou. to finance the construction of the Research and Development Center of Steel Technologies and Products, and foreign currency credits in the amount of PLN 9,380 thou. to finance import purchases. Furthermore, the Company's purchase liabilities in 2011 increased by PLN 29,902 thou.
Long-term debt ratio dropped slightly to 8.3% at the end of 2011.
Debt to equity ratio increased to 94.2%. The increase of the debt to equity ratio resulted from extending the scope of the Company's activity (increase of purchase liabilities), and credits taken.

The Company's financial situation is stable. The Company's capitals ensure safety and stability of the business activity conducted. Moreover, the Company has access to working capital loans which it may use on an as-needed basis. The Company diversifies its loan exposure.

**Liquidity ratios**

| Specification | 2010 | 2011 |
|---|---|---|
| Current liquidity ratio | 2,57 | 1,66 |
| Quick liquidity ratio | 2,07 | 1,12 |

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 2011 current liquidity ratio was 1.66 against 2.57 at the end of 2010. Its decrease was connected with liabilities related to the construction of the Research and Development Center for Steel Technologies and Products included in short-term liabilities in the total amount of PLN 9,709 thou., and increased scope of the Company's activity. Current liquidity and quick liquidity ratios were at a safe level in 2011.

**Working capital management efficiency**

| Specification | 2010 | 2011 |
|---|---|---|
| DIO | 52,2 | 63,6 |
| DSO - supplies and services | 137,6 | 74,8 |
| DPO - supplies and services | 79,7 | 83,9 |
| Operating cycle | 189,8 | 138,4 |
| Cash conversion cycle | 110,1 | 54,5 |

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 extended at the end of 2011 by 11 days. The increase is related to stocks kept by the Company (steel pipes and finished goods) in connection with fulfillment of contracts with strategic customers.

DSO at the end of 2011 was 74.8 days and decreased slightly (by 62 days) against 2010. Improvement of DSO is connected with direct sales to O.G.P. Gaz – System S.A., in case of which short payment terms apply (30 days). Significantly longer payment terms apply to sales in favor of contractors in connection with performance period, collection and payment by an investor for a constructed section of a gas pipeline. The Company allows for high DSO in working capital requirement. Furthermore, majority of Company's receivables are insured.

DPO on account of deliveries and services was slightly extended. The Company settles its payments within dates specified in a contract or order, irrespective of payment dates of its receivables.

Operating cycle was considerably reduced from 189.8 days in 2010 to 138.4 days. In view of a slight change of DPO on account of deliveries and services, cash conversion cycle decreased by 55 days against 2010.

## XV. EVALUATION OF INVESTMENT PROJECTS FEASIBILITY

The Company does not plan any capital investments.
As far as investments in the tangible fixed assets are concerned, the Company's plan for 2012 shows the amount of PLN 13,787 thou. The most important items of the plan are as follows:

- construction of a warehouse for small-diameter pipes in the amount of PLN 5.000 thou. The warehouse will mainly be used for storing small-size pipes intended for trading. Pipes purchased as commercial goods must be stored under the roof (to protect them against corrosion) since they will not be coated
- completion of the construction of the Center for Steel Technologies and Products in the amount of PLN 3,882 thou. The Company plans final payments for the supplier of research equipment, and expenditure for the purchase of the remaining instrumentation.
- construction of storage yards for the amount of PLN 3.000. The necessity to provide additional storage space is related to the planned increase in large-diameter steel pipes sales and longer warehousing period, which is due to the structure of orders placed by the main customers of the Company. Furthermore, more storage space will enable the Company to optimize the production planning process.

The Management Board is of the opinion that investment plans are not threatened. The planned investments will be financed from the Company's own funds. Moreover, in 2012 following approval of subsidy application by the Ministry of Economy the Company will receive the remaining tranche of subsidy in the amount of PLN 2,602 thou. received for the construction of the Research and Development Center for Steel Technologies and Products.

## XVI. CHARACTERISTICS OF EXTERNAL AND INTERNAL FACTORS VITAL FOR THE ISSUER'S COMPANY DEVELOPMENT. DESCRIPTION OF THE ISSUER'S BUSINESS DEVELOPMENT AT LEAST TILL THE END OF A BUSINESS YEAR FOLLOWING THE PREVIOUS BUSINESS YEAR.

The Company's financial situation is very good. Thanks to the public offering of shares in Q4 of 2011, Izostal has the working capital required to financially service contracts fulfilled since 2011. Company's financial capacity is additionally secured by bank loans taken to finance current activity.
Anticorrosion Insulation Center and Research and Development Center for Steel Technologies and Products make it possible for the Company to respond to market demand.

The most important factor influencing Company's results is the situation on the gas networks market shaped by projects related to development of gas transmission, warehouse and extraction infrastructure connected with the strategy of diversifying current sources of gas supplies; the necessity to increase gas share in the production of electrical energy, in order to comply with the restrictions imposed on Poland to reduce CO2 emission, as well as projects of revitalizing existing transmission networks.

Year 2011 witnessed a significant increase of expenditure on the extension of gas infrastructure in Poland which has been reflected in the Company's results.
Such business conditions will continue in following years as confirmed by information from O.G.P. Gaz-System S.A. and PGNiG S.A. Plans of O.G.P. Gaz-System S.A. assume that in 2012 capital expenditure will reach PLN 2.7 billion, with construction of gas networks being the main item. By the end of 2014 the Company will have spent PLN 8 billion. The

most important networks will be constructed (or are already constructed) in the north-west and center of Poland. These will be among others Szczecin-Lwówek (construction permit has already been granted - the investment is planned to be completed by February 2014), Świnoujście - Szczecin, Szczecin – Gdańsk, Rembelszczyzna – Gustorzyn, Gustorzyn – Odolanów pipelines. According to the plans of O.G.P. Gaz – System S.A. the extension of gas pipelines in Poland may be an important element of the North-South gas corridor connecting LNG terminal in Świnoujście with the planned Adria LNG terminal in Croatia through the internal transmission infrastructure of Central European countries. Construction of Poland - Lithuania gas pipeline is also being considered - decision to be made in 2013.
Strategic investments in the gas sector will require construction of lower-pressure gas distribution pipelines which also generate demand for the Company's products.
Demand for gas and consequent necessity to extend gas distribution infrastructure are also determined by plans to construct power and gas-fired heat and power plants, a rather clean source of energy that can respond to the foreseen electricity deficit in 2015 - 2016.

Izostal S.A. will participate in all tenders for its products and will compete against domestic and foreign companies. The Company's advantage arises from access to the state-of-art pipe coating technologies (The Company is the only domestic producer of LAYTEC ® internal coating), high-quality products offered, flexibility in purchasing steel pipes, developed warehouse facilities for pipes storage.

As Poland has slate gas deposits, and thus it is necessary to drill gas wells, the Company decided to become a supplier of drill pipes used for gas well drilling operations. The Consortium led by Izostal S.A. was selected by Polskie Górnictwo Naftowe i Gazownictwo S.A. as the supplier of some types of pipes with fittings for gas wells in years 2011 and 2012.

Investments in the sector may be affected by EU economic situation. Poland has managed to get through the global crisis so far, yet it is difficult to predict what will happen next. Macroeconomic situation is reflected in PLN/EUR exchange rate fluctuations which are not favorable for the Company as it currently imports steel pipes and settles its payments in EUR. In the period of PLN exchange rate fluctuations, the Company hedges its currency risk with derivatives.

Since the value of imports in the Company's purchases increased, the Company has treasury limits for forward transactions with BRE Bank S.A., BNP Paribas Bank Polska S.A. and PKO BP S.A. As on 31.12.2011, the Company concluded forward transactions for the purchase of currency for the total amount of euro 11,265 thou. to be realized in 2012. Those transactions are partly secured with PUT options securing the Company if PLN gets stronger.

The completed Research and Development Center for Steel Technologies and Products will influence the Company's current activity through optimization of R&D processes and production diversification. Company potential will be extended by a possibility to carry out analyses and tests of input materials for production, develop new structural and technological solutions and introduce new products and services not yet offered by the Company (DFBE coating among others). Profits from the operation of the Center will be obtained as early as 2012.

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

No significant changes were recorded in the basic Company management principles in the period covered by the report.
The Company runs production activity in the Coating Department in Zawadzkie and Anti-Corrosion Center in Kolonowskie. The Company's Management Board is based in Zawadzkie.
Company's organizational structure is based on organizational divisions grouping Company's organizational units as per their scope of activity and defining subordination to Management Board members. Management Board members directly supervise the functioning of individual divisions. Since February 21, 2011 the Company's Management Board has been composed of two members. According to Management Board Regulations the Vice president of the

Management Board - Commercial Director reports directly to the President of the Management Board - General Director. President of the Management Board also holds the function of the Financial Director.
The following report to the General Director:

- Production and Technical Director Division,
- R&D Center
- Quality Assurance Office
- Management Board Support and HR Office,
- Management Board Representative for Integrated Management System
- OH&S Inspector

The following report to the Financial Director:

- Chief Accountant and Financial Accounting Office
- Analyses and Settlement Office

The following report to the Commercial Director:

- Marketing Department
- Domestic Sales Office,
- Export Sales Office,
- Logistics Office,

On 31.12.2011 the Company employment level was 131 FTEs.
Employment structure in IZOSTAL S.A. split into organizational divisions.

| Specification | 31.12.2011 | |
|---|---|---|
| | Number of FTEs | Share |
| Management Board | 2 | 2% |
| General Director Division | 13 | 10% |
| Financial Director Division | 8 | 6% |
| Commercial Director Division | 12 | 9% |
| Production and Technical Director Division | 96 | 73% |
| TOTAL | 131 | 100% |

Employment structure of IZOSTAL S.A. according to the type of performed job

| Specification | 31.12.2011 | |
|---|---|---|
| | Number of FTEs | Share |
| White-collar employees | 49 | 37% |
| Blue collar employees | 82 | 63% |
| Total | 131 | 100% |

## XVIII. ALL AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND THE MANAGEMENT, WHICH ALLOW FOR COMPENSATION IN THE EVENT OF RESIGNATION OR DISMISSAL FROM THE POST.

The Company is a party to non-competition agreements with the following Management Board Members: Marek Mazurek and Jacek Podwiński, non-competition agreement valid during and after the expiry of the employment relationship. The agreements stipulate that Management Board Members are not allowed during the period of their employment in the Company and during the period of 6 months after termination of the work contract to be engaged in activities in competition with Izostal S.A., nor can they render work within the work contract or any other legal relationship to any subject operating in the same line of business or in business similar to the issuer's business. 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, to be paid by the Company in the amount of 50% of the last lump sum monthly remuneration (gross).

## XIX. REMUNERATIONS, AWARDS OR BENEFITS OF THE ISSUER'S MANAGEMENT AND SUPERVISORY STAFF.

Remunerations of the Company Management Board members performing their functions in 2011 are presented in the Table below (PLN).

| | Total | Salaries - fixed part | Salaries - variable part | Other benefits |
|---|---|---|---|---|
| **WŁADYSŁAW MRZYGŁÓD, incl.:** | | | | |
| Benefits paid in this business year | 160 397,43 | 48 158,60 | 111 803,83 | 435,00 |
| Employee benefits paid in this business year, but referring to previous years | 98 461,82 | 23 934,61 | 71 337,21 | 3 190,00 |
| Provisions for salaries created at the end of the period | 0,00 | 0,00 | 0,00 | 0,00 |
| Unpaid salaries | 0,00 | 0,00 | 0,00 | 0,00 |
| **JACEK PODWIŃSKI, incl.:** | | | | |
| Benefits paid in this business year | 559 283,39 | 230 491,08 | 319 174,18 | 9 618,13 |
| Employee benefits paid in this business year, but referring to previous years | 82 407,82 | 20 515,38 | 61 146,18 | 746,26 |
| Provisions for salaries created at the end of the period | 64 294,56 | 0,00 | 64 294,56 | 0,00 |
| Unpaid salaries | 22 466,52 | 21 431,52 | 0,00 | 1 035,00 |
| **MAREK MAZUREK, incl.:** | | | | |
| Benefits paid in this business year | 616 496,73 | 262 026,46 | 343 565,72 | 10 904,55 |
| Employee benefits paid in this business year, but referring to previous years | 82 531,56 | 20 515,38 | 61 146,18 | 870,00 |
| Provisions for salaries created at the end of the period | 75 010,32 | 0,00 | 75 010,32 | 0,00 |
| Unpaid salaries | 26 064,32 | 25 003,44 | 0,00 | 1 060,88 |
| **TOTAL, incl.:** | | | | |
| Benefits paid in this business year | 1 336 177,55 | 540 676,14 | 774 543,73 | 20 957,68 |
| Employee benefits paid in this business year, but referring to previous years | 263 401,20 | 64 965,37 | 193 629,57 | 4 806,26 |
| Provisions for salaries created at the end of the period | 139 304,84 | 0,00 | 139 304,88 | 0,00 |
| Unpaid salaries | 48 530,84 | 46 434,96 | 0,00 | 2 095,88 |

The Company does not offer incentive or bonus schemes based on the issuer's capital, including the schemes based on senior bonds, convertible bonds, subscription warrants (in kind or any other).

Remunerations of the Company Supervisory Board members performing their functions in 2011 have been presented in the Table below (PLN).

| | Total |
|---|---|
| **JERZY BERNHARD, including:** | |
| Benefits paid in this business year | 39 652,80 |
| Employee benefits paid in this business year, but referring to previous years | 3 454,58 |
| Provisions for salaries created at the end of the period | 0,00 |
| Unpaid salaries | 3 604,80 |
| **ZDZISŁAW MENDELAK, including:** | |
| Benefits paid in this business year | 39 652,80 |
| Employee benefits paid in this business year, but referring to the previous years | 3 454,58 |
| Provisions for salaries created at the end of the period | 0,00 |
| Unpaid salaries | 3 604,80 |
| **JAN KRUCZAK, including:** | |
| Benefits paid in this business year | 39 652,80 |
| Employee benefits paid in this business year, but referring to the previous years | 3 454,58 |
| Provisions for salaries created at the end of the period | 0,00 |
| Unpaid salaries | 3 604,80 |
| **JAN CHEBDA, including:** | |
| Benefits paid in this business year | 39 652,80 |
| Employee benefits paid in this business year, but referring to the previous years | 3 454,58 |
| Provisions for salaries at the end of the period | 0,00 |
| Unpaid salaries | 3 604,80 |
| **LECH MAJCHRZAK, including:** | |
| Benefits paid in this business year | 39 652,80 |
| Employee benefits paid in this business year, but referring to the previous years | 3 454,58 |

| | |
|---|---|
| Provisions for salaries created at the end of the period | 0,00 |
| Unpaid salaries | 3 604,80 |
| **ADAM MATKOWSKI, including:** | |
| Benefits paid in this business year | 39 652,80 |
| Employee benefits paid in this business year, but referring to the previous years | 3 454,58 |
| Provisions for salaries created at the end of the period | 0,00 |
| Unpaid salaries | 3 604,80 |
| **TOTAL, incl.:** | |
| Benefits paid in this business year | 237 916,80 |
| Employee benefits paid in this business year, but referring to the previous years | 20 727,48 |
| Provisions for salaries created at the end of the period | 0,00 |
| Unpaid salaries | 21 628,80 |

In the reporting period, the Company did not grant any loans or any other sureties or guarantees to the management or supervisory board members.

## XX. ASSESSMENT OF A TOTAL NUMBER AND NOMINAL VALUE OF ALL ISSUER'S SHARES AND SHARES HELD BY THE ISSUER'S MANAGEMENT AND SUPERVISORY STAFF

To the Company's best knowledge, on 31.12.2011, the members of Management Board and Supervisory Board held Izostal S.A. shares in total number presented in the table below:

| **Management Board** | **Total number of all shares of Izostal SA held by persons responsible for management and supervision.** | **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 |

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

On January 28, 2011 District Court in Opole, 8th Business Division of the National Court Register, registered an increase of the Company's share capital in connection with public offering of 12 million shares of K series. Following the registration, the share of the dominant shareholder i.e. Stalprofil S.A. decreased from 95.16% do 60.28%. Following purchase transactions of the Company's shares on Giełda Papierów Wartościowych S.A. w Warszawie, threshold of 5% of votes at General Meeting was reached by two new shareholders in 2011: Aviva PTE BZ WBK S.A., BPH TFI S.A.
List of shareholders holding more than 5% votes at General Meeting as on December 31, 2011:

| **Shareholder** | **Number of shares held** | **Shareholding (%)** | **Number of votes at the General Meeting of Shareholders.** | **Share in the total number of votes at the General Meeting of Shareholders (%)** |
|---|---|---|---|---|
| Stalprofil S.A. | 19 739 000 | 60,28 % | 19 739 000 | 60,28 % |
| Aviva PTE BZ WBK S.A. | 1 669 877 | 5,10 % | 1 669 877 | 5,10 % |
| BPH TFI S.A. | 1 644 021 | 5,02 % | 1 644 021 | 5,02 % |
| Others | 9 691 102 | 29,60 % | 9 691 102 | 29,60 % |
| **Total** | 32 744 000 | 100 % | 32 744 000 | 100 % |

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

As on the date of the present report, the Company was not aware of any contracts, which may in future trigger off changes in the proportion of shares held.

## XXIII. INFORMATION ON THE CONTROL SYSTEM OF EMPLOYEE SHARE SCHEMES.

The Company did not organize employees shareholding schemes.

## XXIV. INFORMATION ON THE CONTRACT WITH THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS.

Information on the contract with the entity authorized to audit financial statements is included in comment No.44 of notes to the Financial Statement.

Zawadzkie, March 30, 2012

……………………………… ………………………………

President of the Management Board Vice President of the Management Board

Marek Mazurek Jacek Podwiński

## XXV. MANAGEMENT BOARD STATEMENT

(made in line with §91 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 to the best of its knowledge, the annual financial statement of Izostal S.A. and comparative data were prepared in line with effective accounting regulations and truly, reliably and clearly present the Company's property and financial situation, as well as its financial results; it also declares that the annual report on the issuer's activity reliably reflects the issuer's business development, achievements and situation, including basic risks and threats.

Zawadzkie, March 30, 2012

……………………………… ………………………………

President of the Management Board Vice President of the Management Board

Marek Mazurek Jacek Podwiński

## XXVI. MANAGEMENT BOARD STATEMENT

(made in line with §91 clause 1 item 6 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 the annual financial statement, was selected in line with legal regulations. Both the entity and the auditors, who performed the audit, met the conditions necessary to prepare an independent opinion on the examined annual financial statement in line with relevant professional regulations

Zawadzkie, March 30, 2012

……………………………… ………………………………

President of the Management Board Vice President of the Management Board

Marek Mazurek Jacek Podwiński

## XXVII. CORPORATE GOVERNANCE

### A. Statement on observing corporate governance principles

In 2011 Izostal S.A. followed only corporate governance principles specified in the document entitled “Dobre Praktyki Spółek Notowanych na GPW” [Good practices of listed companies], adopted on May 19, 2010 by the Supervisory Board of Giełda Papierów Wartościowych SA in Warszawa by resolution no. 17/1249/2010, available to the public at the Exchange website: www.corp-gov.gpw.pl.
In 2011 the Company did not apply the following recommendations and rules specified in the above-mentioned document:

- **Recommendation set forth in Section I item 1 sub-item 3**

SUB-ITEM 3 of the RECOMENDATION: "The Company should ....make it possible to broadcast a session of the general shareholders' meeting on the Internet, record it and make it available on its website".

Regulations of the General Meeting of Izostal SA do not provide for a possibility of a shareholder casting a vote at the General Meeting by correspondence mode. The Company does not take action nor does it incur expenditure or costs related to the possible participation of shareholders in a general meeting through electronic communication means, or those connected with broadcasting a general meeting on the internet. Therefore the Company does not record nor does it make information that the course of a general meeting available on its website. Full implementation of sub-item 3 referred to in the above-mentioned principle may be effected after receiving information on supplementing Regulations of the General Meeting of Izostal SA were supplemented with provisions making it possible for a shareholder to cast vote at a General Meting by correspondence mode.

- **Recommendation set forth in Section I item 5**

RECOMENDATION: “5. Company should have a remuneration policy and rules of establishing such a policy. Remuneration policy should in particular define the form, structure and level of remuneration for members of supervisory and managing bodies. Remuneration policy applicable to members of supervisory and managing bodies of a company should be defined based on the recommendation of the European Commission of December 14, 2004 on fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), complementing Recommendations of April 30, 2009 (2009/385/EC).”

The Company has a remuneration policy formalized in the Remuneration Regulations which defines principles of remunerating the Company's employees. Form, structure and level of remuneration of members of supervisory and managing bodies is defined by a remuneration policy established by the General Meeting (for Supervisory Board members), and the Supervisory Board (for Management Board members). The policy is formalized in internal legal regulations effective in the Company, in particular in resolutions of the General Meeting and Supervisory Board. Policy of remunerating members of supervisory and managing bodies effective in the Company does not take into account recommendations of the European Commission set forth in rule 5. The Company's management is of the opinion that the remuneration policy established and followed by the Company is fully effective. It includes incentives reasonably linked to the Company's standing, planned budget and fulfillment of strategic targets. The Company will implement this principle once it receives information that the Company's Management Board implemented remuneration policy based on recommendations of the European Commission defined in recommendation 5.

- **Rule specified in Section III item 6**

RULE: “6. At least two members of the supervisory board should be independent of the company and entities related to the company. Enclosure II to the Recommendation of the European Commission of February 15, 2005 on the role of non-executive directors, or supervisory directors of listed companies and on the (supervisory) board committee applies to independence criteria to be met by supervisory board members. Irrespective of the provisions of item b) of the above-mentioned Enclosure, a person being an employee of the Company, a subsidiary or an associated entity does not meet the independence criteria referred to in the Enclosure. Moreover, in the meaning of this principle, a connection with a shareholder, excluding the independence of a supervisory board member, is understood as actual and significant connection with a shareholder with a right to exercise at least 5% of the total number of votes at a general meeting".

There are no Supervisory Board Members of IZOSTAL SA that would meet the independence criteria. The majority shareholder decided that no independent members would be appointed Supervisory Board members. The issuer will start to follow this principle upon obtaining information on the appointment of Supervisory Board members who meet the criteria of independence.

- **Rule specified in Section III item 8**

RULE: "8. Enclosure I to the Recommendation of the European Commission of February 15, 2005 on the role of non-executive directors (…) should apply to tasks and the functioning of committees within the supervisory board."

Izostal S.A. has a Supervisory Board Audit Committee appointed on 16.02.2011. Composition of the Audit Committee is not in line with Enclosure I to the Recommendation of the European Commission of February 15, 2005 on the role of non-executive directors (…) since none of its members meets the criteria of independence (referred to in the previous item).
The Audit Committee functions on the basis of its Regulations approved by the Supervisory Board on 28.02.2011. Adoption of the Audit Committee's Regulations, drawn up on the basis of the said Enclosure I to the Recommendation of the European Commission is the first stage of implementing the functioning principles and tasks for the review committees specified therein.
Full implementation of Enclosure I to the Recommendation of the European Commission of February 15, 2005 may occur upon obtaining information on the appointment of Supervisory Board members who meet the criteria of independence.

**B. Information on the main characteristics of internal control and risk management systems applied in the Issuer's enterprise with respect to the process of preparing financial statements**

Internal control system and obligations related to risk management in the Company are fulfilled by the Management Board, managers and other employees within their scope of duties.

The Company's Management Board regularly identifies risk and monitors areas of activity exposed to risk in order to provide security measures reducing the risk level.

Internal control mechanisms cover the manner in which Company employees perform their duties, in particular: qualifications, competences and compliance of the tasks performed with principles and procedures developed for individual areas in which the Company functions. The mechanisms are a control measure and are incorporated both in internal normative acts, procedures and integrated IT system for company management.

As for risk management covering the process of preparing financial statements, the Company regularly monitors changes in rules and external regulations concerning the preparation of statements. Internal regulations effective in the Company are also updated on a regular basis in order to adjust them to changing regulations.

Internal control system applying to the process of preparing financial statements is fulfilled by the Management Board, Chief Accountant and other competent employees. The purpose of the internal control is to ensure compliance of the prepared statements with books, documents and effective accounting regulations, and regulations for presenting results of business activity and the property and financial situation of the Company in line with the actuality. The controls include, among others, an analytical review of important balances and their comparison to previous periods, monitoring of whether or not activities necessary to close the reporting period are complete and performed on time.

Control activities are conducted on a day-to-day basis as part of responsibilities and obligations of individual employees of the Company, and when the management checks the correctness of tasks performed by subordinate employees, or while formulating internal procedures by paying special attention to ensuring adequate control mechanisms. Potential identified irregularities are corrected on a day-to-day basis by authorized employees of the Company.

Financial statements, including Company's periodic reports, are prepared in line with effective law regulations and the Accounting Policy adopted by the Company, including among others:

- general principles of keeping accounting books,
- methods of recording, evaluation, settlement and reporting,
- list of general ledger accounts and principles of recording business transactions,
- principles of keeping auxiliary books, and linking them to general ledger accounts,
- list of documents being accounting books on computer data carriers,
- approved software with information on its intended use, principles of data protection, and a description of the data processing system.

Finished financial statements are verified by the Management Board which accepts them based on the adopted internal regulations.

On February 16, 2011 an Audit Committee was appointed as a part of the Supervisory Board. The Committee plays an important part in the internal control process functioning in the Company. The tasks of the Audit Committee include among others the monitoring of the financial reporting system, performing financial audits and monitoring the efficiency of internal control systems, internal audit and risk management.

The Company's Management Board is of the opinion that the division of tasks connected with the preparation of financial statements in the Company, auditor's verification of the prepared statements, as well as the monitoring of the preparation and verification of statements by the Audit Committee, and Supervisory Board's assessment of the statements ensure that the information presented in financial statements is reliable and correct.

**C. List of shareholders holding significant blocks of shares either directly or indirectly.**

Company's shareholding structure as on December 31, 2011:

| Shareholder | Number of shares held | Shareholding (%) | Number of votes at the General Meeting of Shareholders. | Share in the total number of votes at the General Meeting of Shareholders (%) |
|---|---|---|---|---|
| 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 % |
| Others | 9 691 102 | 29,60 % | 9 691 102 | 29,60 % |
| **Total** | 32 744 000 | 100 % | 32 744 000 | 100 % |

**D. List of holders of all securities offering special control rights and information on those rights.**

The Company did not issue securities offering special control rights.

**E. Information on any and all limitations as to exercising the voting right.**

No limitations are imposed on securities issued by the Company as to exercising the voting right such as limited exercise of the voting right by shareholders holding a specific part or a number of votes, time limitations as to exercising the voting right or regulations according to which equity rights related to securities are separated from the holding of securities, subject to co-operation on the part of the Company.

**F. Limitations concerning the transfer of the ownership title to issuer's securities.**

On September 9, 2012 Stalprofil S.A., Izostal S.A. and Dom Maklerski BDM S.A. concluded a lock-up agreement on a ban on selling the shares of Izostal S.A. The shareholder (Stalprofil S.A.) committed itself not to sell, transfer, encumber or dispose of any shares held within full 12 months counting from the day on which the Issuer's shares were first listed on Giełda Papierów Wartościowych w Warszawie S.A. In view of the above, the Shareholder undertook to impose the required lock-up on shares. As on the day of preparing this annual report, the Company did not have information on other limitations concerning the transfer of the ownership title to the Issuer's securities.

**G. Description of principles of appointing and recalling managers, and their powers.**

The Management Board is composed of two to four persons appointed for a joint term of office of three years. The Management Board is appointed and recalled by the Supervisory Board by absolute majority of votes. One of the appointed Management Board Members shall be entrusted by the Supervisory Board with the function of Management Board President, and at least one of the Management Board Members shall be entrusted with the function of Management Board Vice-President. The number of Management Board members of a given term is defined by the Supervisory Board which may increase or decrease the number of Management Board members during the term. Two Management Board members jointly, or one Management Board member together with a proxy, are authorized to represent the Company, make statements of intent and sign documents, including an authorization to incur obligations on behalf of the Company. A Management Board resolution is required in case of issues exceeding the ordinary scope of the Company's activities related to managing its business.

The Supervisory Board consists of five to seven members appointed by the General Meeting for a joint term of office lasting five years. The General Meeting determines the number of Supervisory Board members. The General Meeting may change the number of Supervisory Board Members during their term of office, yet only in relation to the change in the composition of the Supervisory Board during its term of office. At the first meeting of the new term the Supervisory Board appoints, in a secret ballot, the President, Vice President and Secretary from among its members, by absolute majority of votes cast in the presence of at least half of the Supervisory Board members. Supervisory Board supervises the Company's activity, and its specific powers are defined by the Commercial Companies Code, Company's articles and the Regulations of the Supervisory Board of Izostal S.A.

The Management Board and the Supervisory Board act in line with provisions of the act Commercial Companies Code, the Company's Articles and its Regulations publicly available on the Company's website (www.izostal.com.pl).

As for the right of the managing persons to make a decision on the issue or buy-out of shares, the Company follows relevant provisions of the act Commercial Companies Code, and other commonly effective law regulations applicable in this scope. It must be noted that the General Meeting may, by virtue of a resolution on the increase of the Company's share capital, authorize the Company's Management Board to take all actual and legal action necessary to increase the Company's share capital based on and in a scope defined by a relevant resolution passed by the General Meeting.

**H. Description of amendments to the statute or the issuer's articles of association**

Supervisory Board expresses its opinion on amendments to the Issuer's statute which are then approved by a resolution of the General Meeting. The Company does not follow any other specific principles concerning amendments to the statute that would differ from the principles specified in the commercial companies code.

**I. Information on the functioning of the General Meeting, its basic powers, shareholders' rights, and the manner of exercising those rights.**

General Meeting functions based on the Regulations of the General Meeting of Izostal S.A., seated in Zawadzkie, which define the principles of the functioning of the General Meeting i.e.: rule for convening and canceling a general meeting, shareholders' rights to information, rights to participate in a General Meeting, principles of registering General Meeting participants, participation of persons other than Shareholders in a General Meeting, principles of opening the Meeting and appointing a President of a General Meeting, agenda and course of the meeting, principles of appointing a Supervisory Board and principles of keeping minutes of a General Meeting. General Meeting regulations are published on the Company's website (www.izostal.com.pl). Provisions of the Commercial Companies Code and other legal acts, as well as provisions of the Company's Statute apply in issues not governed by the present Regulations.

A General Shareholders’ Meeting may be convened by authorities or persons entitled so in line with legal regulations or the Statute. A shareholder may demand that copies of the motions on the issues covered by the agenda of the meeting be issued to them one week prior to the General Shareholders’ Meeting. Company Shareholders entitled under registered shares and provisional certificates, as well as pledgees and users with a voting right are entitled to participate in the General Meeting provided that they were entered into the shares ledger at least one week before the General Meeting, as well as persons holding bearer shares who provided the Company with certificates issued as a proof of depositing shares or registered deposit certificates at least one week before the date of the General Meeting. As of the day on which the Company obtains the status of a public company, the right of participation in a General Meeting shall be ascribed to persons being Shareholders sixteen days prior to the General Meeting, and who demand participation in the Meeting, with reservations specified in the regulations of the General Meeting of Izostal S.A. available on the Issuer's website. Any participant of the General Shareholders’ Meeting shall have a right to apply for the position of the General Shareholders' Meeting President, as well as to put up one candidate for the General Shareholders' Meeting President. Any Shareholder shall have the right to ask questions on any matter covered by the agenda of the meeting. During the session participants of the General Shareholders’ Meeting shall have the right to ask questions related to a given item of the agenda to the current members of the Company bodies present in the room.

The General Meeting is in particular authorized to adopt resolutions on:

- reviewing and approving the Company's financial statement and the Management Board report on the Company’s activity for the previous financial year,
- distributing profit or covering loss,
- granting a vote of approval to members of the Company bodies for the performance of their duties,
- establishing and reversing reserve capital, special funds and defining their purpose,
- decisions regarding claims for rectification of damage while establishing, supervising or managing the Company,
- appointing and recalling Company Supervisory Board members,
- appointing and recalling liquidators,
- determining remuneration for Company Supervisory Board members,
- adopting regulations for the sessions of the General Meeting,
- marketing Company shares in an organized system for securities trading.

## J. Composition of governing, supervisory and administrative bodies of the Issuer and their committees as well as composition of these bodies and changes therein in the last financial year.

**Management Board**

Composition of the Management Board of Izostal S.A. changed in 2011. On February 21, 2011 Mr. Władysław Mrzygłód resigned from the function of Management Board President. Resignation was accepted by the Supervisory Board Chairman. On February 28, 2011 the Supervisory Board decided that the Management Board will consist of two persons as per §7 item 1 of the Company's Statute, and the function of the Management Board President was entrusted to Mr. Marek Mazurek.

Since February 28, 2011 the Company's Management Board has functioned with the following members:

| | |
|---|---|
| Marek Mazurek | President of the Management Board |
| Jacek Podwiński | Vice President of the Management Board |

The Management Board functions based on the provisions of the Commercial Companies Code, Company Articles, Regulations of the Management Board of Izostal S.A., Good Practices of Companies listed on the Warsaw Stock Exchange, and effective legal regulations. The Company Management Board manages Company activity and represents it in relations with the outside world.

The Management Board's scope of activities includes all matters connected with managing the Company, whereas those that are not restricted by commonly effective law regulations and the Company's Articles fall within the powers of the General Meeting or the Supervisory Board. Management Board President manages the works of the Management Board, specifically coordinates, supervises and organizes the work of other Management Board Members. For ordinary management matters, each Management Board Member may run Company affairs on their own. A Management Board resolution is required in case of issues exceeding the ordinary scope of the Company's activities related to managing its business. The Management Board takes decisions in form of a resolution also if even one Management Board member so requires. Resolutions are passed by ordinary majority of shares at Management Board meetings held on dates agreed on an ongoing basis, as necessary. Management Board meetings may be held at the Company's seat or outside and are convened by the President of the Management Board at their own initiative, or at the request of another Management Board member. Management Board resolutions may also be adopted through direct remote communication means or by circulation (written procedure). Resolutions adopted by circulation (written procedure) or via means of remote communication are valid if all Management Board members have been informed on the adoption and content of the resolution. Management Board members' participation in Management Board meetings is obligatory, and any absence should be excused appropriately. Minutes are kept to record the course of Management Board meetings. While taking decisions on Company matters, Management Board members act within the limits of reasonable business risk, that is after examination of all the information, analyses and opinions which, in the assessment of the Management Board, shall be considered in a given case to the best interest of the Company. On determining Company's interest, the Management Board takes into account the long-term interest of shareholders, creditors, Company employees and other entities and persons co-operating with the Company as regards its business activity, as well as the interest of local communities. While effecting transactions with shareholders and other persons whose interest may have influence on the Company's interest, the Company Management Board exercises due care to have the transactions realized on arm's length conditions.

**Supervisory Board**

Composition of the Supervisory Board did not change during the business year and is as follows:

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

The Supervisory Board is a collective body and consists of five to seven members appointed by the General Meeting for a joint term of office lasting five years.

Supervisory Board supervises Company operations. Each Supervisory Board member should act in line with the Company's interests, and follow independent opinions, in particular: should not demand or accept unjustified benefits that could have a negative impact on the assessment of the independence of its opinions and judgments, should object clearly and express a dissenting opinion if they believe that a decision of the Supervisory Board is in conflict with the Company's interests. At the first meeting of the new term the Supervisory Board appoints, in a secret ballot, the President, Vice President and Secretary of the Supervisory Board from among its members, by absolute majority of votes cast in the presence of at least half of the Supervisory Board members. Supervisory Board may replace the person holding the position of the Supervisory Board President, Vice President and the Secretary during the term of office. A motion on recalling a Supervisory Board member from the position held must be combined with appointing a Supervisory Board member who will replace the person recalled from the position. The appointment is made through a secret ballot, by absolute majority of votes cast in the presence of at least half of the Supervisory Board members. The President's powers include: managing the works of the Supervisory Board and coordinating those works, convening Supervisory Board meetings and chairing them, opening a General Meeting or indicating a person authorized to open and chair the meeting until the President of the General Meeting is appointed. Vice President replaces the Supervisory Board President and chairs Supervisory Board meetings when the Supervisory Board President is not able to perform their duties, or does not wish to chair a Supervisory Board meeting. Secretary's duties include: exercising regular supervision over keeping the Supervisory Board minutes book and all documentation on the activities of the Supervisory Board, maintaining regular contact with the Company's Management Board, informing the Supervisory Board on the manner of implementing its resolutions, signing the Supervisory Board outgoing correspondence. Supervisory Board meetings are convened as necessary, yet at least 3 times in a business year. First meeting of the newly appointed Supervisory Board is convened by the President of the Supervisory Board of the previous term of office to be held at the latest on a day falling two weeks from the appointment of Supervisory Board of the new term of office. Should the Supervisory Board President of the previous term fail to convene the meeting, the first Supervisory Board meeting is convened by the Company's Management Board. Meetings of the Supervisory Board are convened by the President of the Supervisory Board. Supervisory Board meetings are convened based on a written invitation including among others the suggested agenda, prepared by the Supervisory Board President, to be effectively distributed to all Board members at least seven days before the date of the meeting. Supervisory Board resolutions are adopted by an absolute majority of votes in the presence of at least half of the Supervisory Board members. Minutes are kept to record Supervisory Board meetings. The Supervisory Board performs its obligations collectively; however it may delegate its members to individually perform certain supervisory activities. For contracts concluded between the Company and Management Board members, the Supervisory Board may, by virtue of a resolution, authorize one or more of its members to perform such legal activities. Members of the Supervisory Board exercise their rights and duties personally.

An Audit Committee functions within the Supervisory Board of Izostal SA, appointed by the Supervisory Board on February 16, 2011. Audit Committee members:

Zawadzkie, March 30, 2012

……………………………… ………………………………

| | |
|---|---|
| President of the Management Board<br>Marek Mazurek | Vice President of the Management Board<br>Jacek Podwiński |

| | |
|---|---|
| Jan Kruczak | Chairman of the Audit Committee |
| Adam Matkowski | Vice-Chairman of the Audit Committee |
| Zdzisław Mendelak | Secretary of the Audit Committee |

Audit Committee acts on the basis of Audit Committee Regulations approved by the Supervisory Board of Izostal S.A., and in line with the adopted annual Schedule of Regular Meetings. The tasks of the Audit Committee include among others the monitoring of the financial reporting system, performing financial audits and monitoring the efficiency of internal control systems, internal audit and risk management.

izostal sa
Grupa kapitałowa Stalprofil S.A.

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