Report for H1 of 2012.

prepared in line with
International Financial Reporting Standards

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INTRODUCTION TO CONDENSED FINANCIAL STATEMENT

PREPARED FOR THE PERIOD OF 6 MONTHS CLOSED ON JUNE 30, 2012

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 elsewhere classified, exclusive of insurance and pension funds (64.99.Z)
- Other business support activity, not elsewhere classified (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)
- Mechanical processing of metal elements (25.62.Z)
- Repair and maintenance of finished metal goods (33.11.Z)
- Trade of electricity (35.14.Z)
- Non-specialized wholesale trade (46.90.Z)
- Freight rail transport (49.20.Z)
- Freight transport by road (49.41.Z)
- Warehousing and storage (52.10.B)
- Engineering activities and related technical consultancy (71.12.Z)
- Renting and leasing of other machinery, equipment and tangible goods not elsewhere classified (77.39.Z)
- Other manufacturing, not elsewhere classified (32.99.Z)
- Manufacture of metal structures and parts of metal structures (25.11.Z)
- Manufacture of other fabricated metal products, not elsewhere classified (25.99.Z)
- Wholesale of metals (46.72.Z)
- Wholesale of waste and scrap (46.77.Z)

Composition of the Supervisory Board as on June 30, 2012:

- 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 Company Management Board as on June 30, 2012:

- 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 duration.

III. PERIOD COVERED BY THE FINANCIAL STATEMENT

This half-yearly financial statement shows the data as on 30.06.2012 and for the period from 01.01.2012 to 30.06.2012 and comparative data for the corresponding periods of 2011.

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

Izostal S.A. does not comprise any internal organizational units that would prepare separate financial statements.

V. INFORMATION ABOUT THE FINANCIAL STATEMENT PREPARED ON THE BASIS OF A GOING CONCERN ASSUMPTION WITH INDICATION OF CIRCUMSTANCES THAT COULD 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 WHICH THE 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, 2012 to June 30, 2012 and the respective period from January 1, 2011 to June 30, 2011 for comparison.
The presented financial statement meets all the requirements of the IFRS adopted by the EU and reflects reliably the Company's financial and material situation as on June 30, 2012 and June 30, 2011, its results and cash flows for the period from January 1, 2012 to June 30, 2012 and from January 1, 2011 to June 30, 2011.
This financial statement with data for H1 of 2012 has been reviewed by an independent chartered auditor, and the information contained herein and referring to 2011 is derived from the audited financial statement.

Application of the new and reviewed IFRS
Standards and interpretations used for the first time in 2012.
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, 2012.

- 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),

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

Standards and interpretations that have already been published and approved for application within the EU, but not yet effective
On the day of preparing this 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 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 19 "Employee benefits" – amendments to post-employment benefits accounting (effective for the annual periods starting on July 1, 2013 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 June 30, 2012, have not yet been 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 on 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 1 "First-time adoption of IFRS" – Government loans (effective for the annual periods starting on January 1, 2013 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 IFRS 9 "Financial instruments" and IFRS 7 "Financial instruments: disclosures" - mandatory effective date and transition regulations,
- 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 32 "Financial instruments: presentation" – offsetting financial assets and financial liabilities (effective for the annual periods starting on July 1, 2014 or after this date),
- Amendments to different standards and interpretations "Amendments to IFRS (2012)"- amendments effected as a result of annual amendments to IFRS, published on May 17, 2012 (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34) oriented mainly towards clarification of inconsistencies and specification of terminology (effective as to annual periods starting on January 1, 2013 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

Items 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 5 to 40 years

The applied depreciation rates are reviewed every year, as on December 31 of a specific year.
The financial lease agreements are activated as tangible fixed assets as on the day of the lease start.

Intangible assets

Acquired intangible assets are shown at their purchasing price. The use period for intangible assets is from 2 to 5 years.
Intangible assets are capitalized according to the rates that reflect the foreseen period of their use. For depreciation of intangible assets of a specific period of use the linear depreciation method is used.

Leasing

The financial lease agreements, which transfer the entire risk and all the benefits under the lease object, are activated as on the date of the lease start, in the current value of the minimum lease charges.
The lease charges are split in the financing costs and the principal, reducing lease liabilities balances.
The financial costs are booked based on an accrual basis at 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 from deliveries and services and other receivables

Receivables from 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. Over the month, for the purposes of outgoing material valuation, finished products are measured at planned production cost. After the month end, deviations are settled and the value of finished goods is adjusted to the actual cost.

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 on the basis of the share premium 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 share premium.

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, August 24, 2012

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

CONDENSED FINANCIAL STATEMENT

PREPARED FOR THE PERIOD OF 6 MONTHS CLOSED ON JUNE 30, 2012

I. SELECTED FINANCIAL DATA AND CONVERSION INTO EURO

Selected financial data	(PLN thousand)		(EUR thousand)	
	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011
Net revenues from sale of products, goods and materials	**233 969**	122 143	55 383	30 787
Operating profit (loss)	**14 412**	13 364	3 411	3 369
Gross profit (loss)	**13 302**	12 528	3 149	3 158
Net profit (loss)	**10 729**	10 119	2 540	2 551
Operating cash flow	**5 059**	-17 841	1 198	-4 497
Investment net cash flow	**-14 287**	-11 138	-3 382	-2 807
Financial net cash flow	**-11 827**	3 631	-2 800	915
Change in cash and cash equivalents	**-21 055**	-25 348	-4 984	-6 389
Number of shares	**32 744 000**	30 944 000	**32 744 000**	30 944 000
Profit (loss) per one ordinary share (PLN / EUR)	**0,33**	0,33	0,08	0,08
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)	**0,33**	0,31	0,08	0,08
	As on 30.06.2012	**As on 31.12.2011**	**As on 30.06.2012**	**As on 31.12.2011**
Total assets	**251 055**	272 426	58 915	61 679
Long-term liabilities	**41 582**	46 292	9 758	10 481
Short-term liabilities	**64 035**	85 858	15 027	19 439
Equity	**145 438**	140 276	34 130	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 H1 of 2012 (H1 of 2011) have been 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 H1. This rate was EUR 1 = PLN 4.2246 (EUR 1 = PLN 3.9673). 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 June 30, 2012 was EUR 1 = PLN 4.2613 (as on December 31, 2011 - EUR 1 = PLN 4.4168).

II. FINANCIAL POSITION REPORT AS ON 30.06.2012.

ASSETS	Note	As on 30.06.2012	As on 31.12.2011	As on 30.06.2011
A. Non-current assets (long-term)		**141 461**	**132 200**	**110 649**
1. Tangible fixed assets	1	136 899	131 407	110 073
2. Other intangible assets	2	168	199	172
3. Investments available for sale		0	0	0
4. Long-term financial assets	5	3 820	0	0
5. Deferred income tax assets	32	155	345	198
6. Long-term receivables and prepayments	7	419	249	206
B. Current assets (short-term)		**109 594**	**140 226**	**114 282**
1. Inventory	6	34 212	45 909	36 081
2. Long-term receivables and prepayments	7	63 786	57 757	74 618
including for deliveries and services	7	60 253	53 725	72 386
3. Receivables on account of income tax	8	0	336	0
4. Long-term financial assets	5	12	0	0
5. Currency derivatives		208	541	0
6. Cash and cash equivalents	36	11 376	35 683	3 583
Total assets		**251 055**	**272 426**	**224 931**

LIABILITIES	Note	As on 30.06.2012	As on 31.12.2011	As on 30.06.2011
A. Equity		**145 438**	**140 276**	**131 261**
1. Share capital	19	65 488	65 488	65 488
2. Share premium	20	38 175	38 175	38 175
3. Spare and reserve capital	21	31 046	17 479	17 479
4. Retained and current profit/loss		10 729	19 134	10 119
B. Long-term liabilities		**41 582**	**46 292**	**42 428**
1. Provisions	13	224	224	171
2. Provision on account of deferred income tax	32	208	128	141
3. Long-term bank loans and credits	10	14 172	19 214	19 260
4. Other long-term financial liabilities		2 929	3 425	3 904
5. Long-term liabilities and accruals	9	24 049	23 301	18 952
C. Short-term liabilities		**64 035**	**85 858**	**51 242**
1. Provisions	13	13	181	141
2. Short-term bank loans and credits	10	0	9 389	0
3. Short-term part of long-term bank loans and credits	10	10 200	10 212	7 140
4. Other short-term financial liabilities	11	975	942	912
5. Short-term liabilities and accruals	9	52 543	65 134	42 736
including for deliveries and services	9	39 984	60 540	39 305
6. Liabilities on account of income tax	12	304	0	313
Total liabilities		**251 055**	**272 426**	**224 931**

Zawadzkie, August 24, 2012

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

III. COMPREHENSIVE INCOME STATEMENT FOR THE PERIOD FROM 1.01.2012 TO 30.06.2012 (CALCULATION BASIS)

CALCULATION TABLE	Note	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011
A. Revenues from sale of products, goods and materials	26	233 969	**122 143**
B. Costs of products, goods and materials sold	27	212 334	**103 023**
C. Gross sales profit/loss (A-B)		**21 635**	**19 120**
D. Costs of sales	27	2 081	1 469
E. Overheads	27	5 836	4 938
F. Other revenues	31	715	824
G. Other costs	31	21	173
H. Operating profit/loss (C-D-E+F-G)		**14 412**	**13 364**
I. Financial income	29	1 174	490
J. Financial expenses	29	2 284	1 326
K. Gross profit/loss (H+I-J)		**13 302**	**12 528**
L. Income tax	32	2 573	2 409
M. Net profit/loss on business activity (K-L)		**10 729**	**10 119**
N. Other comprehensive 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 comprehensive income (M+N)		**10 729**	**10 119**

Earnings per share:	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011
- basic earnings based on financial result of a going concern	0,33	0,33
- basic earnings based of the financial result for the business year (PLN)	0,33	0,33
- diluted earnings based on financial result of a going concern (PLN)	0,33	0,31
- diluted earnings based of the financial result for the business year (PLN)	0,33	0,31

Zawadzkie, August 24, 2012

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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, 2012 TO JUNE 30, 2012

	Share capital	Share premium	Treasury shares	Spare and reserve capital	Reserve capital from revaluation of assets	Retained and current profit/loss	Total
As on 01.01.2012	**65 488**	**38 175**	**0**	**17 479**	**0**	**19 134**	**140 276**
Changes in equity in H1 of 2012	0	0	0	13 567	0	-2 838	10 729
Appropriation of net profit	0	0	0	13 567	0	-13 567	0
Issue of share capital	0	0	0	0	0	0	0
Profit/loss for business year	0	0	0	0	0	10 729	10 729
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 H1 of 2012	0	0	0	0	0	-5 567	-5 567
Dividends	0	0	0	0	0	-5 567	-5 567
As on 30.06.2012	65 488	38 175	0	31 046	0	10 729	**145 438**

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

Zawadzkie, August 24, 2012

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Chief Accountant Management Board President Management Board Vice-President

Marek Matheja Marek Mazurek Jacek Podwiński

V. CASH FLOW STATEMENT FOR THE PERIOD FROM 1.01.2012 TO 30.06.2012 (INDIRECT METHOD)

Specification	**From 01.01 to 30.06.2012**	**From 01.01 to 30.06.2011**
Operating cash flow		
Profit/loss before taxation	**13 032**	**12 481**
Item adjustments:	**-7 973**	**-30 322**
Depreciation of fixed assets	2 187	1 717
Amortization of intangible assets	31	35
Foreign exchange gains/losses	61	0
Interest costs and income	630	775
Profit/loss on investment activity	-35	-29
Change in provisions	-88	-169
Change in inventory	11 697	-16 019
Change in receivables and prepayments	-6 123	-20 328
Change in liabilities and accruals	-13 341	5 290
Paid/refunded income tax	-1 663	-1 594
Other adjustments	-1 329	0
Net operating cash flow	**5 059**	**-17 841**
Investment cash flow		
Earnings from the sale of fixed assets and intangible assets	182	247
Earnings from the sale of financial assets	0	0
Earnings from interest	0	0
Other investment earnings - obtained subsidies	1 329	0
Expenses on the purchase of tangible fixed assets and intangible assets	11 815	11 419
Net expenditure on the purchase of subsidiaries and associated entities	0	0
Loans granted	3 819	0
Other	-164	34
Net investment cash flow	**-14 287**	**-11 138**
Financial cash flow		
Receipts from loans and credits	0	7 362
Net receipts from the issue of shares, bonds, bills of exchange and vouchers	0	0
Repayment of credits and loans	10 898	2 328
Repayments of liabilities under financial lease contracts	463	610
Dividends paid to Company shareholders	0	0
Interest paid	466	589
Other	0	-204
Net financial cash flow	**-11 827**	**3 631**
Increase/decrease in cash and cash equivalents	**-21 055**	**-25 348**
Cash, cash equivalents and overdrafts at the beginning of the period	**32 441**	**28 931**
Gains/losses on exchange rate differences regarding valuation of cash, cash equivalents and overdrafts	-10	0
Cash, cash equivalents and overdrafts at the end of the period	**11 386**	**3 583**

Zawadzkie, August 24, 2012

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

VI. NOTES TO FINANCIAL STATEMENT PREPARED AS ON JUNE 30, 2012

1. Tangible fixed assets

Change in the value of tangible fixed assets in H1 of 2012:

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**	**85 390**	**1 699**	**58 963**	**5 005**	**152 444**
Increases, including:	58	990	67	6 410	201	**7 726**
− acquisition	58	990	67	6 410	201	**7 726**
− internal transfer	0	0	0	0	0	**0**
− other	0	0	0	0	0	**0**
Decreases, including: (-)	0	-43	0	-48	-8	**-99**
− liquidation	0	-43	0	-44	-8	**-95**
− revaluation	0	0	0	0	0	**0**
− sale	0	0	0	-4	0	**-4**
− internal transfer	0	0	0	0	0	**0**
− other	0	0	**0**	0	0	**0**
Gross value at the end of the period	**1 445**	**86 337**	**1 766**	**65 325**	**5 198**	**160 071**
Depreciation at the beginning of the period	**0**	**3 757**	**812**	**14 885**	**1 583**	**21 037**
Current depreciation - increases (including amendments to IAS)	**0**	**764**	**121**	**1 136**	**167**	**2 188**
Decreases, including: (-)	0	-7	0	-38	-8	**-53**
− liquidation	0	-7	0	-34	-8	**-49**
− sale	0	0	0	-4	0	**-4**
− internal transfer	0	0	0	0	0	**0**
− other	0	0	0	0	0	**0**
Depreciation at the end of the period	**0**	**4 514**	**933**	**15 983**	**1 742**	**23 172**
Net book value at the beginning of the period	1 387	81 633	887	44 078	3 422	**131 407**
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**	**81 633**	**887**	**44 078**	**3 422**	**131 407**
Net book value at the end of the period	1 445	81 823	833	49 342	3 456	**136 899**
Revaluation at the end of the period	0	0	0	0	0	**0**
Net value at the end of the period including revaluation	**1 445**	**81 823**	**833**	**49 342**	**3 456**	**136 899**

Change in the value of tangible fixed assets in H1 of 2011:

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

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 30.06.2012	As on 30.06.2011
1. Own	129 235	101 953
2. Rented, leased or used under another agreement, including leasing agreement	7 664	8 120
Total tangible fixed assets	**136 899**	**110 073**

Tangible fixed assets include fixed assets used by the Company on the basis of the financial leasing agreements, with the following net values as on 30.06.2012:

- means of transport - PLN 388 thousand.
- technical plant, machinery- PLN 7,276 thousand

Contractual obligations for leasing fixed assets as on June 30, 2012 - PLN 3,904 thousand.
Investment purchasing in H1 of 2012 was focused on the extension of tangible fixed assets and were financed from the Company's own funds.

The main investments of the Company in H1 of 2012 (including expenditure on intangible assets):

Specification	From 01.01 to 30.06.2012
- completing the construction of the Research and Development Center	5 628
- purchase of a developed property	153
- completing the construction of a small-diameter pipes warehouse	890
- revamping of the external coating line	344
- revamping of the internal coating line	250
- revamping of the production bay of the Research and Development Center	69
- purchase of computer hardware	45
- other purchasing	347
Total	**7.726**

In H1 of 2011, the investment expenditure amounted to PLN 12,890 thousand.

Fixed assets under construction as on 30.06.2012 amounted to PLN 688 thousand and comprised:

- purchase of real property - PLN 96 thousand,
- CCTV – PLN 85 thousand,
- revamping of the testing stands – PLN 249 thousand,
- renovation of the office building – PLN 24 thousand,
- pozostałe – 234 tys. zł.,

The following fixed assets hedged the credits taken by the Company as on 30.06.2012:

- coating production line (large diameters), of a net value as on 30.06.2012 of PLN 18 569 thousand (pledge)
- induction heating testing stand of a net value as on 30.06.2012 of PLN 1 789 thousand (pledge)
- testing stand for protective coating spray application of a net value as on 30.06.2012 of PLN 4,266 thousand (pledge)
- testing stand for temporary anti-corrosion protection of a net value as on 30.06.2012 of PLN 1 124 thousand (pledge),
- control and automation module of a net value as on 30.06.2012 of PLN 2,060 thousand (pledge),

Fixed assets securing the repayment of Company liabilities:

Specification	As on 30.06.2012	As on 30.06.2011
Security value (amount up to which security was established)		
Mortgage	60 936	60 936
Pledge and transfer of ownership of tangible fixed assets	27 808	18 675
Total	**88 744**	**79 611**
Net balance sheet value		
Land, including perpetual usufruct right to land	1 330	1 330
buildings and structures	78 692	64 267
technical plant and machinery	27 808	18 675
Other fixed assets	0	0
Total	**107 830**	**84 272**

Tangible fixed assets:

Specification	As on 30.06.2012	As on 30.06.2011
Land, including perpetual usufruct right to land	1 445	1 387
Buildings, premises and civil engineering structures	81 823	67 400
Technical plant and machinery	49 342	38 476
Means of transport	833	956
Other fixed assets	3 456	1 854
Total tangible fixed assets	**136 899**	**110 073**

Perpetual usufruct right refers to the land located in:

- Zawadzkie, ul. Polna 3 (KW41822)
- Zawadzkie, ul. Ks. Wajdy 1 (KW48794, KW57525, KW59207)
- Kolonowskie, ul. Opolska (OP1S/00040617/8, KW41688)
- Kolonowskie, ul. Lipowa 5 (OP1S/00052411/1,OP1S/00041687/6)

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 H1 of 2012:

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	**58**	**0**	**4**	**1 153**	**0**	**1 215**
Amendment to IAS	0	0	0	0	0	0
Increases, including:	0	0	0	0	0	0
− acquisition	0	0	0	0	0	0
− 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**
Amortization at the beginning of the period	**1**	**0**	**0**	**1 015**	**0**	**1 016**
Current amortization - increases (including amendments to IAS)	6	0	0	25	0	**31**
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**
Amortization at the end of the period	**7**	**0**	**0**	**1 040**	**0**	**1 047**
Net book value at the beginning of the period	57	0	4	138	0	**199**
Revaluation at the beginning of the period	0	0	0	0	0	**0**
Net value at the beginning of the period including revaluation	**57**	**0**	**4**	**138**	**0**	**199**
Net book value at the end of the period	51	0	4	113	0	**168**
Revaluation at the end of the period	0	0	0	0	0	**0**
Net value at the end of the period including revaluation	**51**	**0**	**4**	**113**	**0**	**168**

Changes in other intangible assets in H1 of 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:	0	0	0	29	0	29
− acquisition	0	0	0	29	0	29
− internal transfer	0	0	0	0	0	0
− other	0	0	0	0	0	0
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	**0**	**0**	**4**	**1 147**	**0**	**1 151**
Amortization at the beginning of the period	**0**	**0**	**0**	**945**	**0**	**945**
Current amortization - increases (including amendments to IAS)	0	0	0	35	0	35
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
Amortization at the end of the period	**0**	**0**	**0**	**980**	**0**	**980**
Net book value at the beginning of the period	0	0	4	173	0	177
Revaluation at the beginning of the period	0	0	0	0	0	0
Net value at the beginning of the period including revaluation	**0**	**0**	**4**	**173**	**0**	**177**
Net book value at the end of the period	0	0	4	168	0	172
Revaluation at the end of the period	0	0	0	0	0	0
Net value at the end of the period including revaluation	**0**	**0**	**4**	**168**	**0**	**172**

As on June 30, 2012, the main intangible assets comprised:

- computer software – of a total value of PLN 112 thousand,
- development works involving elaboration of the process for the coating of drilling pipes with 3LPP tri-layer film – for the value of PLN 51 thousand.

3. Investment real properties

As on June 30, 2012, the Company did not have any investment real properties.

4. Goodwill

Not applicable.

5. Long-term and short-term financial assets

The Company has got financial assets on account of the loan granted.
In H1 of 2012 the Company granted a loan of PLN 10 million to company ZRUG Zabrze S.A. Loan was granted only for the purpose of financing the construction of gas pipeline DN 700 Szczecin - Gdańsk realized by the consortium including ZRUG Zabrze S.A. seated in Zabrze (leader of the consortium), Stalprofil S.A. seated in Dąbrowa Górnicza (member of the consortium) and Nafta – Gaz – Serwis S.A. seated in Sanok (member of the consortium), to Operator Gazociągów Przesyłowych Gaz-System S.A. Stage II gas pipeline DN 700 Karlino - Koszalin, Stage III gas pipeline DN 700 Koszalin – Słupsk, Stage IV gas pipeline DN 700 Słupsk – Wiczlino.

Loan is paid out in tranches and may also be granted in EUR. Loan was granted on market conditions and bears interest based on WIBOR 1M rate increased with the bank margin for the amount granted in PLN and EURIBOR 1M increased with the bank margin for the amount granted in EUR. The loan is secured by the blank bill of exchange with a bill of exchange agreement. Repayment date 31.12.2013.

Loans as on 30.06.2012

Specification	Date of repayment	As on 31.12.2011	As on 30.06.2012		
			Total	including short-term	including long-term
Loan given to ZRUG Zabrze S.A.	31.12.2013	0	3 832	12	3 820
Total		**0**	3 832	**12**	3 820

Loan balance, as on 30.06.2012 and as shown in the above table comprises:

- loan amount of PLN 3 820 thousand,
- loan interest as on 30.06.2012 (PLN 12 thousand).

6. Inventory

Inventory as on 30.06.2012:

Specification	Valuation based on the purchasing price/production cost	Valuation based on the net realizable value	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	15 713	0	400	400	0	0	88 242	15 713	26 500
Auxiliary materials	1 483	0	0	0	0	0	728	1 483	
Work in process	0	0	0	0	0	0	0	0	
Finished products	6 527	0	2	0	0	2	0	6 525	
Goods	10 491	0	149	149	0	0	105 436	10 491	
TOTAL	34 214	0	551	549	0	2	194 406	34 212	

Inventory as on 30.06.2011:

Specification	Valuation based on the purchasing price/production cost	Valuation based on the net realizable value	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	25 568	25 568	1	1	0	0	62 242	25 568	20 500
Auxiliary materials	1 341	1 341	0	0	0	0	647	1 341	
Work in process	0	0	0	0	0	0	0	0	
Finished products	8 014	7 987	47	20	0	27	0	7 987	
Goods	1 185	1 185	0	0	0	0	41 092	1 185	
TOTAL	36 108	36 081	48	21	0	27	103 981	36 081	

As on June 30, 2012, 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 a 100% write-off.

As of June 30, 2012, 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 H1 of 2012 no major deviations from these payment terms occurred.

Detailed structure of Company receivables:

Specification	As on 30.06.2012	As on 30.06.2012
Receivables for deliveries and services:	**60 555**	**72 637**
- long-term part	0	0
- short-term part	60 555	72 637
Receivables from subsidiary entities, including:	**0**	**0**
receivables for deliveries and services	**0**	**0**
- long-term part	0	0
- short-term part	0	0
other receivables	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Receivables from affiliated entities, including:	**1 397**	**5 536**
receivables for deliveries and services	**1 397**	**5 536**
- long-term part	0	0
- short-term part	**1 397**	**5 536**
other receivables	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Advance payments:	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Other receivables:	**2 608**	**1 849**
- long-term part	0	0
- short-term part	2 608	1 849
Prepaid expenses:	**1 344**	**619**
- long-term part	419	206
- short-term part	925	413
Impairment write-offs at the beginning of the period	**1 199**	**1 355**
Recognition in the period of impairment losses	**141**	**1**
Reversal in the period of impairment losses	**1 038**	**1 075**
Impairment write-offs at the end of the period	**302**	**281**
TOTAL	**64 205**	**74 824**

Receivables and prepayments - currency structure

Specification	As on 30.06.2012	As on 30.06.2012
a) PLN	60 542	63 458
b) foreign currencies (in currencies and converted in PLN)	3 663	11 366
b1. unit/EUR	886	1 562
converted in PLN	3 663	6 076
b2. unit/USD	0	1 971
converted in PLN	0	5 290
Total short-term receivables	**64 205**	**74 824**

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

Specification	As on 30.06.2012	As on 30.06.2012
a) up to 1 month	38 246	39 452
b) from above 1 month to 3 months	6 387	19 677
c) from above 3 months to 6 months	40	0
d) over 6 months to 12 months	0	2 772

e) over 1 year	0	0
f) overdue receivables	15 882	10 736
Total (gross) receivables for deliveries and services	**60 555**	**72 637**
g) revaluation write-offs for receivables on account of supplies and services	302	250
Total (net) receivables for deliveries and services	**60 253**	**72 387**

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

Specification	As on 30.06.2012	As on 30.06.2012
a) up to 1 month	3 517	7 349
b) from above 1 month to 3 months	9 566	1 245
c) from above 3 months to 6 months	826	1 961
d) over 6 months to 1 year	584	42
e) over 1 year	1 389	139
Total (gross) overdue receivables for deliveries and services	**15 882**	**10 736**
f) revaluation write-off of receivables for deliveries and services, overdue	302	250
Total (net) overdue receivables for deliveries and services	**15 580**	**10 486**

Long-term prepaid expenses refer to costs of obtained certificates (PLN 203 thousand) and insurance (PLN 215 thousand).
As on 30.06.2012 and 30.06.2011 there were no long-term receivables.
Short-term prepaid expenses as on 30.06.2012 refer to:

- real property tax (PLN 381 thousand),
- insurance (PLN 364 thousand),
- costs of obtained certificates (PLN 80 thousand),
- allowances for Company Social Benefit Fund (PLN 70 thousand).
- other costs (PLN 30 thousand),

The amount of the other receivables shown as on 30.06.2012, that is PLN 2 608 thousand concerns mainly VAT amounts receivable (PLN 2 521 thousand).
All revaluation write-downs as on 30.06.2012 concern trade receivables.

8. Receivables on account of income tax

As on 30.06.2012 and 30.06.2011 the Company did not have any income tax receivables.

9. 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 30.06.2011 and 30.06.2012 amounted to PLN 5 575 thousand and PLN 2,341 thousand, respectively.
Salary payment liabilities as on 30.06.2012 and 30.06.2011 amounted to PLN 380 thousand and PLN 457 thousand, respectively.

Detailed structure of Company liabilities:

Specification	As on 30.06.2012	As on 30.06.2012
Liabilities related to deliveries and services:	**39 984**	**39 305**
- long-term part	0	0
- short-term part	39 984	39 305
Liabilities towards subsidiary entities, including:	**0**	**0**
liabilities related to deliveries and services	**0**	**0**

- long-term part	0	0
- short-term part	0	0
other liabilities	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Liabilities to affiliated entities, including:	**6 048**	**22 465**
liabilities related to deliveries and services	**6 048**	**22 465**
- long-term part	0	0
- short-term part	**6 048**	**22 465**
other liabilities	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Advance payments:	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Other liabilities:	**11 578**	**2 872**
- long-term part	0	0
- short-term part	11 578	2 872
Accruals:	**0**	**0**
- long-term part	0	0
- short-term part	0	0
Prepaid expenses:	**25 334**	**19 824**
- long-term part	24 049	18 952
- short-term part	1 285	872
TOTAL	**76 896**	**62 001**

Accruals as on 30.06.2012 shown in the above table refer 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 18,952 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 5,902 thousand.
- received prepayments for deliveries – PLN 480 thousand.

Short-term liabilities - currency structure

Specification	As on 30.06.2012	As on 30.06.2012
a) PLN	45 922	39 337
b) foreign currencies (in currencies and converted in PLN)	18 100	11 764
b1. unit/EUR	4 161	1 531
converted in PLN	18 086	6 259
b2. unit/USD	4	1 951
converted in PLN	14	5 505
Total short-term liabilities	**64 022**	**51 101**

10. Loans and credits

As on June 30, 2012, the Company had the following credits:

- Multi-purpose credit limit with 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 23, 2013. 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 (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 January 31, 2013. 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.
- Renewable credit facility in EUR at BNP PARIBAS BANK POLSKA S.A. for the amount of EUR 3 000 thousand. Valid till May 19, 2013. The loan's interest rate is EURIBOR 1M plus bank's margin. The loan is secured with a blank promissory note with an agreement and drawer’s declaration, borrower’s declaration on accepting the enforcement – general assignment of trade receivables from selected debtors.

Loans and credits as on 30.06.2012:

Specification	Date of repayment	As on 31.12.2011	As on 30.06.2012		
			Total	including short-term	including long-term
Multi-purpose credit limit at PKO BP	08.09.2013	0	0	0	0
Investment loan at PKO BP	31.03.2016	17 027	14 940	4 228	10 712
Investment loan at BNP Paribas Bank Polska SA	03.01.2014	12 407	9 432	5 972	3 460
Multi-currency overdraft at BRE Bank SA	31.01.2013	3 222	0	0	0
Multi-purpose credit line at BNP Paribas Bank Polska SA	23.05.2013	0	0	0	0
Working capital loan at BRE Bank SA	29.06.2012	6 159	0	0	0
Renewable loan at BNP Paribas Bank Polska S.A.	**19.05.2013**	**0**	0	0	0
Total		**38 815**	**24 372**	**10 200**	**14 172**

Loan balance, as on 30.06.2012 and as shown in the above table comprises:

- Amount of utilized loan (PLN 24 256 thousand)
- Accrued loan interest as on 30.06.2012 (PLN 116 thousand).

11. Other financial liabilities

The other financial liabilities (long-term and short-term) shown in the balance sheet as on 30.06.2012 refer to long-term leasing liabilities.

12. Liabilities on account of income tax

As on 30.06.2012 income tax liabilities amounted to PLN 304 thousand. As on 30.06.2011 income tax liabilities amounted to PLN 313 thousand.

13. Provisions

The note includes also a provision for deferred income tax.

At the beginning of the business year, the amount of the established provisions was PLN 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

As on 30.06.2012 the amount of the established provisions was PLN 445 thousand and comprised:

- provision for old-age severance pays and service anniversary awards in the Mount of PLN 237 thousand, out of which PLN 224 thousand is a long-term provision, and PLN 13 thousand is a short-term provision.
- long-term provision for deferred income tax in the amount of PLN 208 thousand.

Provisions as on 30.06.2012

Specification	**Provisions for warranty repairs**	**Restructuring provisions**	**Provisions for retirement and similar benefits:**	**Other provisions**	**Total**
Value at the beginning of the period, including:	**0**	**0**	**405**	**128**	**533**
- short-term at the beginning of the period	0	0	181	0	181
- long-term at the beginning of the period	0	0	224	128	352
Increases	0	0	57	80	137
- established in the period and increase in the existing ones	0	0	57	80	137
-acquired as merger of business entities	0	0	0	0	0
Reductions	0	0	225	0	225
-utilized over the year	0	0	225	0	225
-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**	**237**	**208**	**445**
- short-term at the end of the period	0	0	13	0	13
- long-term at the end of the period	0	0	224	208	432

Provisions as on 30.06.2011:

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

14. 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 30.06.2012**	**As on 30.06.2011**
Retirement severance pays	28	31
Service anniversary bonuses	209	142
Total	**237**	**173**

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 (assumption was taken that all of them would become entitled to retire once they reached the age).

The valuation method taken by an actuary is as follows:

- in line with IAS 19, to define the provision the forecast individual entitlements were used. The provision was determined on the basis of the information provided and whether or not it is correct depends on the accuracy of the information,
- for all the benefits the assumption 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.

15. Warranties

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

- use of appropriate materials designed for this purpose,
- delivery of goods characterized by appropriate 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.
Off-balance sheet items, including contingent liabilities:
Contingent liabilities of the Company:

Specification	As on 30.06.2012	As on 30.06.2012
1. Conditional liabilities	**22 329**	**1 114**
1.1. To affiliated entities (title)	0	0
- sureties and guarantees provided	0	0
1.2. To other entities (grounds)	22 329	1 114
- sureties and guarantees provided	22 329	1 114
- bills of exchange	0	0
- transfer of receivables under commercial contracts securing the loans	0	0

2. Other	**115 244**	**100 111**
- refused claims for which a contractor has initiated a court proceeding	0	0
- property encumbrances (mortgage, pledge, transfer of ownership as security)	115 244	100 111
including pledge on fixed assets	27 808	18 675
including pledge on inventory	26 500	20 500
including mortgage	60 936	60 936
Total off-balance sheet items	**137 923**	**101 225**

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:

Beneficiary	Guarantee type	Validity date	As on 30.06.2012	As on 31.12.2011	Delta
OGP Gaz-System S.A.	defects and faults removal	01.04.2016	159	159	0
OGP Gaz-System S.A.	defects and faults removal	28.03.2016	129	129	0
OGP Gaz-System S.A.	performance guarantee	03.02.2012	0	4 157	-4 157
	defects and faults removal	from 04.02.2012 to 03.02.2015	1 247	1 247	0
OGP Gaz-System S.A.	performance guarantee	10.05.2012	0	4 688	-4 688
	defects and faults removal	from 11.05.2012 to 10.05.2015	1 407	1 407	0
Polskie Górnictwo Naftowe i Gazownictwo S.A.	bid bond guarantee	13.01.2012	0	920	-920
OGP Gaz-System S.A.	performance guarantee	30.04.2014	2 374	0	2 374
	defects and faults removal	from 01.05.2014 to 15.02.2017	712	0	712
OGP Gaz-System S.A.	performance guarantee	30.01.2013	4 676	0	4 676
	defects and faults removal	from 31.01.2013 to 15.01.2016	1 403	0	1 403
OGP Gaz-System S.A.	performance guarantee	27.01.2013	6 829	0	6 829
	defects and faults removal	from 28.01.2013 to 12.01.2016	2 049	0	2 049
OGP Gaz-System S.A.	performance guarantee	15.11.2012	1 321	0	1 321
	defects and faults removal	from 16.11.2012 to 01.12.2015	396	0	396
OGP Gaz-System S.A.	performance guarantee	30.11.2012	1 245	0	1 245
	defects and faults removal	from 01.12.2012 to 15.11.2015	373	0	373
OGP Gaz-System S.A.	performance guarantee	30.11.2012	2 942	0	2 942
	defects and faults removal	from 01.12.2012 to 15.11.2015	883	0	883

The aforementioned guarantees were issued by banks and insurance companies and secure the liability of Izostal S.A. related to contracts performed and tenders in which the Company participates. In case of payments under the guarantee, the issuer has a recourse against Izostal S.A.

16. Operating leasing agreements

The Company is a party to the following operating lease agreements:

- Agreement of March 1, 1996 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 23.05.2012 Izostal terminated this agreement by 6-month notice.
- Agreement of December 1, 2005, on the lease of electric transmission and switching equipment. The agreement was concluded for an unlimited period. Rent is paid on a monthly basis by the 10th day of each month. On 23.05.2012 Izostal S.A. terminated this agreement by 6-month notice.

17. Financial lease obligations

As on 30.06.2012 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 30.06.2012		As on 30.06.2012	
	Current value of minimum fees	Minimum fees	Current value of minimum fees	Minimum fees
in the period of up to 1 year	975	1 221	912	1 224
in the period from 1 year to 5 years	2 929	3 253	3 904	4 474
in the period of over 5 years	0	0	0	0
Total	**3 904**	**4 474**	**4 816**	**5 698**

18. Bonds convertible to shares

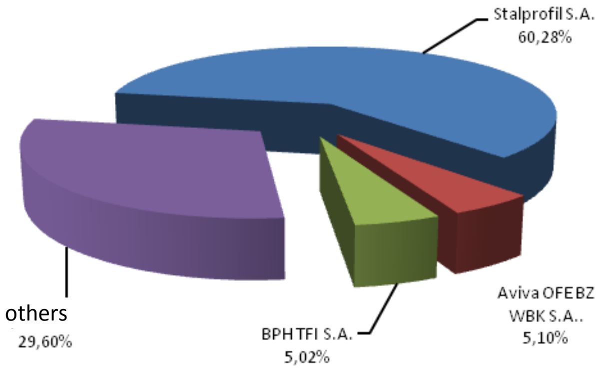
In H1 of 2012 the Company did not issue any bonds convertible to shares.

19. Share capital

Company share capital (in line with the entries in the National Court Register) as on 30.06.2012 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 contributions	1993-08-03	-
B series	bearer shares	none	none	1 150 000	PLN 2.00	2 300	21 850 - cash contributions, 1 150 – non-cash contributions	1994-02-28	1993-11-30
C series	bearer shares	none	none	150 000	PLN 2.00	300	cash 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 30.06.2012 to the knowledge of the Management Board is shown in the following table and chart. Data presented are the information received from shareholders as per art. 69 § 1 of the act of 29.07.2005 on public offering […]:



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%
Other	9 691 102	29,60%
Total	**32 744 000**	100,00%

20. Share premium
In H1 of 2012 no changes to the share premium were recorded.

21. Reserve and spare capital
In H1 of 2012 spare capital was increased by PLN 13 567 thousand (appropriation of net profit).

22. Treasury shares
In H1 of 2012 the Company did not hold any treasury shares.

23. Dividends
On May 10, 2012 the General Meeting resolved to appropriate part of 2011 profit to the payment of a dividend of PLN 5 567 thousand, that is PLN 0.17 per share. The dividend right date is 10.08.2012, and the dividend payment date is 03.09.2012.
The dividend is recognized as a liability in the financial statement.

24. Going concern uncertainty
The Company does not know about any reasons that would indicate any going concern uncertainty.

25. Merger of business entities
In H1 of 2012, no merger of the Companies was effected.

26. Revenues from sale of products, goods and materials

Sales revenues in the breakdown into basic product groups:

Specification	From 01.01 to 30.06.2012		From 01.01 to 30.06.2011	
	Amount	Structure	Amount	Structure
Coated pipes	119 562	51,1%	69 996	57,3%
including export sales	5 924	*47,5%*	*8 049*	*66,6%*
Coating services	2 112	0,9%	8 759	7,2%
including export sales	1 050	*8,4%*	*3 417*	*28,3%*
Goods, materials	111 992	47,9%	43 176	35,3%
including export sales	5 427	*43,5%*	*540*	*4,5%*
Other sales	303	0,1%	212	0,2%
including export sales	63	*0,5%*	*78*	*0,6%*
Total	233 969	**100,0%**	**122 143**	**100%**
including export sales	12 464	***100,0%***	***12 084***	***100%***
Specification	**From 01.01 to 30.06.2012**		**From 01.01 to 30.06.2011**	
			Amount	**Structure**
Sales revenues - products	119 582	51,1%	70 027	57,3%
Sales revenues - services	2 270	1,0%	8 866	7,3%
Sales revenues - materials	3	0,0%	13	0,0%
Sales revenues - goods	111 989	47,9%	43 163	35,3%
Sales revenues - lease services	125	0,1%	74	0,1%
Total	233 969	100,0%	122 143	100,0%
including non-cash revenues - exchange of goods or services	0	***0***	0	***0***

In H1 of 2012 export revenues constituted 5.33% of total revenues of the Company.

The main customers for services and goods exported in H1 of 2012 were the EU countries. The largest sales value: Slovakia (66.32% of exports), Germany (9.67% of exports) and Romania (6.91% of exports).

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

27. Information on prime costs and employment costs

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

Specification	**For t from 01.01 to 30.06.2012**	**For the period from 01.01 to 30.06.2011**
Depreciation of fixed assets	2 187	1 717
Depreciation of intangible assets	31	35
Costs of employee benefits	4 710	4 626
Raw materials, auxiliary materials and energy consumption	90 371	64 390
Costs of external services	2 539	2 257
Costs of taxes and charges	863	385
Other costs	973	502
Marketing costs	143	73
Change in products portfolio	12 998	-5 650
Own work capitalized	0	0
Costs of products, goods and materials sold	105 436	41 095
TOTAL	**220 251**	**109 430**
Costs of products, goods and materials sold	212 334	103 023
Costs of goods sold	2 081	1 469
Overheads	5 836	4 938
TOTAL	**220 251**	**109 430**

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

Specification	**For the period from 01.01 to**	**For the period from 01.01 to**

	30.06.2012	30.06.2011
Salaries costs	3 815	3 816
Social security costs	691	601
Company Social Benefit Fund	141	135
Other	63	74
TOTAL	**4 710**	**4 626**

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

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

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

28. Basic employment information

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

Specification	As on 30.06.2012	As on 30.06.2012
Blue-collars	79	74
White-collars	54	50
including Management Board Members	2	*2*
Students	0	0
Total employment	**133**	**124**

29. Financial costs and income

Main financial costs and income items:

Specification	For the period from 01.01 to 30.06.2012	For the period from 01.01 to 30.06.2011
Financial costs		
Interest costs , including:	1 192	775
- bank loans	582	589
- liabilities	447	0
- loans	0	0
- leasing	163	186
- payables to governmental bodies	0	0
Costs of shares' issue - rounded and charged to result	0	0
Costs of sureties obtained	0	0
Costs of bills of exchange discount	0	0
Foreign exchange gains/losses	1 028	486
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	0	53
Revaluation write-offs of interest	0	1
Bank commissions	64	11
Other	0	0
TOTAL	**2 284**	**1 326**
Financial income		
Earnings from interest	352	386
Cancellation of obtained interest	0	0
Bills of exchange discount	0	0
Foreign exchange gains	0	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	822	104
Other	0	0
TOTAL	1 174	**490**
Financial activity result	**-1 110**	**-836**

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.

30. 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 30.06.2012 prepaid expenses related to this subsidy amounted to 18 952 thousand.
On April 29, 2011, the Company concluded the subsidy agreement with the Minister 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 was implemented as planned, that is by February 29, 2012. The Company received cash in the amount of PLN 5 990 thousand. The remaining funds will be paid after the final payment application is approved.
As on 30.06.2012 accrued income related to this subsidy amounted to 5 902 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.

31. Other operating costs and income

Main operating costs and income items:

Specification	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011
Other operating costs		
Revaluation write-offs - impairment of receivables	0	0
Refused claims	0	0
Stock-taking shortages	0	0
Donations	6	9
Court fees	3	11
Costs of remedies in case of acts of God	0	6
Voluntary subscription fees to organizations	0	0
Provision for future operating costs	0	139
Compensations, penalties, fines	0	2
Inventory revaluation write-offs	0	0
Other	12	6
TOTAL	**21**	**173**
Other operating income		
Earnings from the sale of tangible fixed assets	35	29
Reversal of revaluation write-offs - impairment of receivables	3	118
Refund of court fees	3	7
Damages and compensations received	5	84
Subsidies	391	306
Reversal of provisions	278	235
Assets received free of charge	0	45
Write-off of overdue liabilities	0	0
Other	0	0
TOTAL	**715**	**824**
Other operating result	**694**	**651**

Other costs include costs and losses which are not directly related to operating activity. This category comprises mainly provisions established for the costs of operating activity, provisions for the risk of lost court cases, revaluation write-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.

32. Income tax

Tax debits/credits shown in profit & loss:

Specification	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011
Current income tax	2 303	2 361
- current charges on account of income tax	2 303	2 361
- retained corrections of current income tax	0	0
Deferred income tax	270	48
- debits/credit due to deferred tax for establishment and reversal of temporary differences	270	48
- debits/credit due to deferred tax related to a change in tax rates	0	0
Tax burden/credit shown in the profit & loss account, incl.:	2 573	2 409
- assigned to going concern	2 573	2 409
- assigned to discontinued concern	0	0

Current income tax

Current tax charges are calculated on the basis of effective tax regulations. Application of these regulations differentiates tax profit (loss) from net book profit (loss), 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 30.06.2012	From 01.01 to 30.06.2011
Gross financial result before going concern taxation	13 302	12 528
Profit/loss before taxation - discontinued concern	0	0
Gross financial result before taxation	13 302	12 528
Non-deductible expenses, including:	**1 345**	**1 294**
- provisions for future costs	13	152
- receivables write-offs	0	1
- inventories revaluation write-offs	0	0
- PFRON (National Fund for Rehabilitation of the Disabled)	57	60
- interest	168	0
- unpaid social security (ZUS)	203	213
- entertainment costs	28	30
- unpaid salaries	23	181
- depreciation of fixed assets covered by the subsidy	391	306
- costs of stock exchange service	75	113
- other	387	238
Additions to costs	**1 088**	**790**
- interest paid in previous years	240	1
- principal lease installments	42	74
- previous year salaries paid in the period	52	247
- previous year social security contributions paid in the period	246	249
- costs of financial assets sold	0	0
- issue costs	0	126
- other	508	93
Non-taxable income	**1 439**	**755**
- valuation exchange rate differences	0	0
- reversal of provisions	169	235
- unpaid interest	7	1
- reversal of revaluation write-offs (previously non-deductible)	573	118
- unpaid liquidated damages	0	0
- subsidies received	391	306
- other	299	95
Additions to income	**0**	**150**
- interest	0	0
- damages received	0	150
- exchange rate differences (change in the CIT law)	0	0
Result after deductions	**12 120**	**12 427**
Income deductions - retained losses	0	0
Result after deductions	**12 120**	**12 427**
CIT rate (%)	19	19
Tax debit/credit shown in profit & loss	**2 303**	**2 361**

Deferred income tax

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

Specification	Financial position report as on 30.06.2012	Comprehensive income statement for the period from 01.01.2012 to 30.06.2012	Financial position report as on 30.06.2011	Comprehensive income statement for the period from 01.01.2011 to 30.06.2011
Provision for deferred income tax				
Exchange rate differences	0	0	0	0
Valuation of fixed assets	66	0	68	0

Fixed assets under lease	52	-10	72	-44
Interest not covered by revaluation/penalties	90	90	0	-29
Gross provision - deferred income tax	**208**	**80**	**140**	**-73**
Deferred income tax assets				
Receivables write-off	7	-5	13	-26
Impairment of financial assets	0	0	0	0
Exchange rate differences	0	0	0	0
Accrued interest	31	-17	0	-3
Provisions for employee benefits	45	-40	33	-8
Provision for interest	0	0	0	0
Lease liabilities	27	-8	43	-41
Unpaid salaries	4	-6	34	-13
Un-invoiced costs	0	0	0	0
Unpaid social security (ZUS)	38	-9	40	-7
Other	3	-105	34	-23
Deductible tax loss	0	0	0	0
Gross assets - deferred income tax	**155**	**-190**	**197**	**-121**
Deferred income tax debits/credits	**0**	**270**	0	48

33. Contracts for construction

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

34. Transactions with affiliates

The entity preparing the 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 30.06.2012**	**From 01.01 to 30.06.2011**
Short-term employee benefits paid in the business year in this year	605	773
Retained short-term employee benefits paid in the business year	49	263
Provisions for salaries established at the end of the period	0	132
Unpaid salaries	50	46
Other long-term benefits	0	0
Benefits for termination of employment relationship	0	0
Employee benefits in the form of treasury shares	0	0

Information about salaries of Supervisory Board Members:

Specification	**From 01.01 to 30.06.2012**	**From 01.01 to 30.06.2011**
Short-term employee benefits paid in the business year in this year	113	108
Retained short-term employee benefits paid in the business year	22	21
Provisions for salaries established at the end of the period	0	0
Unpaid salaries	23	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**		**Loans given/transfer of receivables**		**Inventory as on**	
	From 01.01 to 30.06.2012	**From 01.01 to 30.06.2011**	**From 01.01 to 30.06.2012**	**From 01.01 to 30.06.2011**	**From 01.01 to 30.06.2012**	**From 01.01 to 30.06.2011**	**From 01.01 to 30.06.2012**	**From 01.01 to 30.06.2011**
Parent entity	57	13	33 363	48 493	7	0	307	1 009
Entities having significant impact	0	0	0	0	0	0	0	0
Subsidiary entities	0	0	0	0	0	0	0	0
Associated entities	1 142	5 089	377	3 541	3 820	0	1 118	2 427
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	
	30.06.2012	30.06.2011	30.06.2012	30.06.2011
Parent entity	0	0	6 048	21 370
Entities having significant impact	0	0	0	0
Subsidiary entities	0	0	0	0
Associated entities	5 229	5 536	0	1 095
Other affiliated entities	0	0	0	0

Transactions with parent entity

The parent entity is Stalprofil S.A.

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

Products sold were steel pipes.

In H1 of 2012 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 S.A. seated in Zabrze, and KOLB Sp. z o.o. seated in Kolonowskie.

The Company sold to ZRUG Zabrze S.A. mainly coated pipes; the Company purchased pipes and construction services. The Company gave a loan (described in note 5 to the statement) to ZRUG Zabrze S.A.

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

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

35. Earnings per share

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

Specification	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011
Net operating profit/loss - going concern	10 729	10 119
Profit (loss) - discontinued concern	-	0
Net profit/loss	10 729	10 119
Net profit/loss applied for calculation of diluted earnings/losses per share	10 729	10 119

Specification	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011
Weighted average number of ordinary shares issued applied for calculation of basic earnings/losses per share	32 744 000	30 944 000
Dilution effect	0	1 800 000
Corrected weighted average number of ordinary shares issued applied for calculation of basic earnings/losses per share	32 744 000	32 744 000

Specification	From 01.01 to 30.06.2012	From 01.01 to 30.06.2011
Calculation of basic earnings/losses per share (PLN)	0,33	0,33
Calculation of diluted earnings/losses per share (PLN)	0,33	0,31

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.

36. Cash and cash equivalents

Data on cash and cash equivalents held by the Company:

Specification	As on 30.06.2012	Status as on 30.06.2011
Cash at bank and in hand	246	2 043
Short-term deposits	11 130	1 540
Other	0	0
Total, including:	11 376	3 583

- 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 30.06.2012	As on 30.06.2011
Cash at bank and in hand	11 376	3 583
Overdrafts	0	0
Gain/loss on exchange rate differences regarding valuation of cash, cash equivalents and credit lines in the current account	10	0
Total	11 386	3 583

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

As on 30.06.2012 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 30.06.2012 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 30.06.2012 the overdraft was not utilized at all) and at BNP PARIBAS BANK POLSKA S.A. in the amount of PLN 5 000 thousand as on 30.06.2012 the overdraft was not utilized).

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

37. 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 in case of PLN appreciation.

As on 30.06.2012 the following transactions were open:

Bank	Type of security	Transaction value	Weighted average rate	Last contract's closing date	Valuation as on 30.06.2012
BRE Bank S.A.	Forward	**8 136**	**4,2407**	**31.10.2012**	**188**
BNP Paribas Bank Polska S.A.	Forward	407	4,1935	31.07.2012	20

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

As on 30.06.2012	**Balance sheet value**	**Increase/ reduction by percentage points**	**Impact on gross financial result**
Financial assets	**15 208**		**39**
Cash	246	0,25%	1
Receivables on account of loans granted	3 832	0,25%	10
Financial assets available for sale	0	0	0
Other financial assets	0	0	0
Short-term deposits	11 130	0,25%	28
Financial liabilities	**28 038**		**70**
Bank loans and credits	24 256	0,25%	61
Lease liabilities	3 782	0,25%	9

As on 30.06.2011	**Balance sheet value**	**Increase/ reduction by percentage points**	**Impact on gross financial result**
Financial assets	**1 681**		**385**
Cash	141	0,25%	0
Receivables on account of loans granted	**0**	0	**0**
Financial assets available for sale	**0**	0	**0**
Other financial assets	**0**	0	**0**
Short-term deposits	**1 540**	0,25%	**385**
Financial liabilities	**31 008**		**78**
Bank loans and credits	26 378	0,25%	66
Lease liabilities	4 630	0,25%	12

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

As on 30.06.2012	**Balance sheet value**	**Increase/ reduction of the rate (per cent)**	**Impact on gross financial result**
Financial assets	**5 569**		**56**
Cash in EUR	77	1,00%	1
Cash in USD	7	1,00%	0
Receivables on account of loans granted	**1 822**	**1,00%**	**18**
Receivables related to deliveries and services and other in EUR	**3 663**	**1,00%**	**37**
Receivables related to deliveries and services and other in USD	0	1,00%	0
FORWARD	208	1,00%	2
Financial liabilities	**18 100**	**1,00%**	**181**
Overdrafts in EUR	**0**		**0**
Short-term loans in EUR	0	1,00%	0
Liabilities related to deliveries and services in EUR	18 086	1,00%	181
Liabilities related to deliveries and services in USD	14	1,00%	0

As on 30.06.2011	**Balance sheet value**	**Increase/ reduction of the rate (per cent)**	**Impact on gross financial result**
Financial assets	**113 79**		**114**
Cash in EUR	13	1,00%	0
Cash in USD	0	0	0
Receivables on account of loans granted	0	0	0
Receivables related to deliveries and services and other in EUR	11 366	1,00%	114
Receivables related to deliveries and services and other in USD	0	1,00%	0
FORWARD	0	1,00%	0
Financial liabilities	**11 765**		**118**
Overdrafts in EUR	0	1,00%	0
Short-term loans in EUR	0	1,00%	0
Liabilities related to deliveries and services and other in EUR	11 765	1,00%	118
Liabilities related to deliveries and services and other in USD	0	1,00%	0

Fair values of financial instruments:

	Category in line with IAS 39	Balance sheet value		Fair value	
		As on 30.06.2012	As on 30.06.2011	As on 30.06.2012	As on 30.06.2011
Financial assets		**78 277**	**77 788**	**78 277**	**77 788**
Cash	Measured at fair value through profit and loss	11 376	3 583	11 376	3 583
Receivables related to deliveries and services and other receivables	Loans and receivables	62 861	74 205	62 861	74 205
Receivables on account of loans granted	Loans and receivables	3 832	0	3 832	0
Financial assets available for sale	Available for sale	0	0	0	0
Currency derivatives		208	0	208	0
Financial liabilities		**79 722**	**73 393**	**79 722**	**73 393**
Financial lease obligations	financial liabilities at amortized cost	3 904	4 816	3 904	4 816
Liabilities related to deliveries and services and other liabilities	financial liabilities at amortized cost	51 562	42 177	51 562	42 177
Bank loans and credits	financial liabilities at amortized cost	24 256	26 400	24 256	26 400

Financial instruments - income, costs, gains and losses:

From 01.01 to 30.06.2012	**Category in line with IAS 39**	**Gains/losses on interest**	**Foreign exchange gains/losse s**	**Reversal/esta blishment of revaluation write-offs**	**Gains/losses on the sale of financial instruments**
Financial assets		**1 174**	**-1 393**	**897**	**0**
Cash	Measured at fair value through profit and loss	197	22	0	0
Receivables related to deliveries and services and other receivables	Loans and receivables	964	-158	897	0
Receivables on account of loans granted	Loans and receivables	13	-155	0	0
Financial assets available for sale	Available for sale	0	0	0	0
Currency derivatives		0	-1 102	0	0
Financial liabilities		**-790**	**365**	**0**	**0**
Financial lease obligations	financial liabilities at amortized cost	-163	0	0	0
Liabilities related to deliveries and services and other liabilities	financial liabilities at amortized cost	-447	-114	0	0
Bank loans and credits	financial liabilities at amortized cost	-582	479	0	0

From 01.01 to 30.06.2011	**Category in line with IAS 39**	**Gains/losses on interest**	**Foreign exchange gains/losse s**	**Reversal/esta blishment of revaluation write-offs**	**Gains/losses on the sale of financial instruments**
Financial assets		**386**	**-524**	**1 074**	**0**

Cash	Measured at fair value through profit and loss	378	1	0	0
Receivables related to deliveries and services and other receivables	Loans and receivables	8	-525	1 074	0
Receivables on account of loans granted	Loans and 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		**-775**	**38**	**0**	**0**
Financial lease obligations	financial liabilities at amortized cost	-186		0	0
Liabilities related to deliveries and services and other liabilities	financial liabilities at amortized cost	0	38	0	0
Bank loans and credits	financial liabilities at amortized cost	-589	0	0	0

The difference in the values of reversal/creation 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 written-off receivables, for which revaluation write-offs were created in the previous period. Their value as on 30.06.2012 was PLN 72 thousand, and PLN 853 thousand as on 30.06.2011.

38. 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.

39. Events following the balance sheet date

After the balance sheet date no events took place that could have been reflected in the financial statement for H1 of 2012.

40. Remuneration of the chartered auditor

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

The remuneration of the entity authorized to audit the financial statements, paid or due was as follows:

Type of a financial statement	From 01.01 to 30.06.2012	For the period from 01.01 to 30.06.2011
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**

41. Approval of the financial statement for publication

This financial statement was approved for publication by the Management Board of Izostal S.A. on August 24, 2012.

Zawadzkie, August 24, 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 H1 of 2012

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.

H1 of 2012 was yet another period when the Company increased its revenues. The sale of pipes and anti-corrosion coating service increased by 54.5% (against H1 of 2011) to the level of PLN 121 674 thousand. The Company's customers comprised OGP Gaz-System S.A. and contractors. What should be noted is that the contracts for coated pipes concluded by the Company with OGP Gaz-System S.A. in H1 of 2012 will be realized starting from Q3.
Also the sale of goods increased by 159.4% to PLN 111 992 thousand, in connection with the deliveries of drilling pipes for the extraction of oil and gas, mainly to PGNiG S.A.

In the presented period the Company was successful in competing for public procurements in the domestic market with other entities, both national and foreign ones. In H1 of 2012 the Company concluded the contracts for the supply of 170 km of pipes (PLN 155 million) with OGP Gaz-System S.A.
On 09.01.2012 the Company concluded the contract with PGNiG S.A. for the sale of pipes and accessories for 4 out of 12 parts of the public procurement order "Purchase of pipes and fittings for extraction drillings for 2011 and 2012". Total value of this contract is PLN 50,232 thousand net. The contract provides for the realization of deliveries within 6 months from the date of signing the contract. Conclusion of the contract confirms the successful implementation of the Company's orientation of entering the market of pipes and accessories for gas extraction drillings.

On 02.02.2012 the Company concluded an appendix to the multi-currency overdraft agreement for the amount of PLN 10,000 thousand with BRE Bank S.A. Based on this appendix the period of utilizing the overdraft was extended from until 18.04.2012 to until 31.01.2013. Other essential conditions of the overdraft remained unchanged.

In February 2012 the Company completed the construction of the Research and Development Center for steel technologies and products. The investment comprised the construction of the R&D Center building, where testing stands for steel pipes were installed. Additionally, stands for radiology, visual, laboratory and other non-destructive tests were bought. The purpose of the project was to have the Company's own Research and Development Center that would conduct the works that previously had been contracted out, in part or in full, to external companies. The project will make it possible for the Company to start the formal and centralized R&D activity. Additionally, the R&D Center will function as R&D potential for Stalprofil Group being the leading steel distributor in Poland.
The new R&R Center for Steel Products and Technologies will conduct the following activity:

- ongoing control of technological processes,
- carrying out a wide range of tests and analyzes on raw materials used for production in order to optimize product parameters,
- developing new designs and technological solutions (e.g. developing product prototypes),
- optimizing the R&D processes and diversifying production,
- disseminating the results of internal scientific tests and development works and conducting research projects for the support of technology transfer and exchange between the Company and scientific institutes and centers of excellence.

The Company investment was subsidized by the Ministry of Economy in the amount of PLN 7 263 thousand from the 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 investments in modern services sector. The Company obtained the funds of PLN 5 990 thousand.

Another event important for the Company and its shareholders was the resolution adopted by the General Meeting on 10.05.2012 on the appropriation of PLN 5 567 thousand of the 2011 profit to dividend payment. The dividend will amount to PLN 0.17 per share and all the issued shares will be eligible. The dividend right date is 10.08.2012, and the dividend payment date is 03.09.2012.
The Company Management Board is of the opinion that the public offering of shares and the 2011 profit make the Company financial standing stable. Equity with available credit lines make the Company business operations safe, therefore it is justified to pay the dividend on the above-mentioned conditions.

As imports and purchasing in EUR increase, on 24.05.2012 the Company concluded a renewable credit facility agreement with BNP PARIBAS Bank Polska S.A. (EUR 3 000 thousand), valid till 19.05.2013.

Analysis of the comprehensive income statement

In H1 of 2012 the Company's revenues amounted to PLN 233 969 thousand. The biggest increase was recorded in the sale of goods, with an increase of 159.4% against H1 of 2011 and in the sale of pipes and coating service, where top-line was by 54.5% higher than in the corresponding period of the previous year. Costs of products, goods and materials sold increased by 106.1% (dynamics higher than sales revenues) due to change in the share of goods sale: in H1 of 2012 this share was 47.9%, and in H1 of 2011 it was 35.3%.
In H1 of 2012 costs of sales increased by 41.7%, and sales revenues increased by 91.6%.
Overheads increased by 18.2% as it was necessary to keep the warehousing infrastructure and real property tax was higher (in previous years the company took advantage of investment tax benefits).

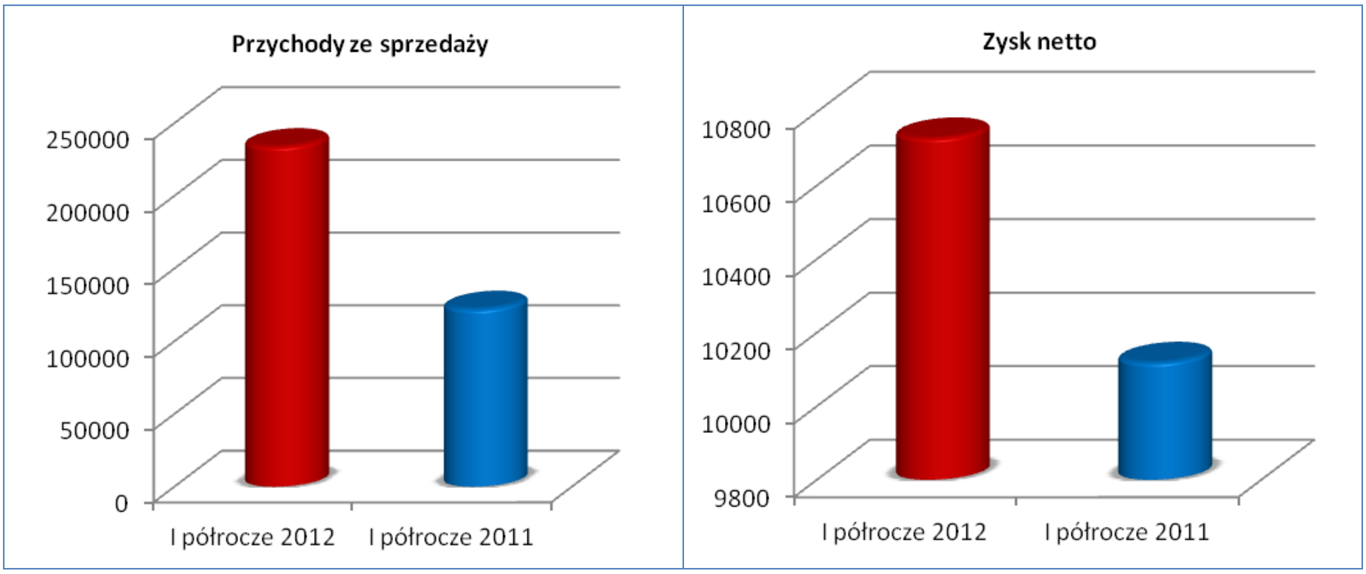
Profit of PLN 694 thousand was generated from other operating activity (increase by 6.6% against H1 of 2011). The actual profit was influenced mainly by:

- settlement of the received subsidies – PLN 391 thousand
- reversal of provisions - PLN 278 thousand.

In H1 of 2012 the Company generated a loss on financial activity in the amount of PLN 1 110 thousand, that is by 32.8% more than in the same period of the previous year. Difference caused mainly by:

- higher cost of interest on liabilities – increase by PLN 417 thousand.
- higher losses on exchange rate differences – increase by PLN 542 thousand.
- higher income on received interest – increase by PLN 718 thousand.

As a result of the above-mentioned factors in H1 of 2012 the Company generated a net profit of PLN 10 729 thousand, that is by 6% higher than in H1 of 2011.



Analysis of selected items of the financial position statement - assets

In H1 of 2012 Company assets decreased by PLN 21 371 thousand.
The value of non-current assets increased by 9 261 thousand (7%) against end of 2011, mainly as a result of investment expenditure of PLN 7 726 thousand (mainly for the completion of the Research and Development Center) and the loan tranches of PLN 3 820 thousand.
Current assets decreased by PLN 30 632 thousand, mainly due to the following:

- Decrease in inventory, by PLN 11 697 thousand (decrease by 25.5%)
- Decrease in cash by PLN 24 307 thousand.

Decrease in cash is related to a shorter payables outstanding cycle, which in H1 of 2012 was 30.8 days, and in H1 of 2011 was 83.9 days. It lets the Company realize better raw materials purchasing prices.

Analysis of selected items of the financial position statement - liabilities

Increase in Company equity in H1 of 2012 by PLN 5 162 thousand was related to the generation of profit in the amount of PLN 10 729 thousand, and appropriation of PLN 5 567 thousand thereof to the dividend to shareholders.
Company's long-term liabilities decreased by PLN 4 710 thousand, mainly due to the repayment of the investment loans of the total value of PLN 5 042 thousand.
In H1 of 2012 short-term liabilities decreased by PLN 21 823 thousand, due to the following factors:

- repayment of working capital loans taken in 2011 in foreign currencies – PLN 9 389 thousand
- reduced payables for deliveries and services - PLN 20 556 thousand.

II. DESCRIPTION OF SIGNIFICANT RISK FACTORS AND THREATS

1. Risk of getting dependent on customers

due to the structural characteristics of the Polish gas market, the Issuer indirectly depends on: PGNiG S.A. (prospecting for, extraction, sale and distribution of gas) and OGP Gaz-System S.A. (operator of transmission system), as well as on the investments implemented by these companies. In addition to direct sales, mainly to OGP Gaz-System S.A. and PGNiG S.A., the Company provides services to the companies being contractors or subcontractors of investments.

To minimize the risk, the Izostal S.A. searches for additional sales markets, both in Poland (private gas companies) and abroad.

2. Risk related to assuring the quality of services offered

The customers for the products and services offered by the Issuer are the entities operating in the gas and petroleum sectors, which are characterized by high quality requirements.
The quality of services offered by the Company is assured by the implemented and followed principles underlying the Quality Management System according to ISO 9001-2000 and compliance certificates for the products admitted for use in the construction industry, issued and supervised by the authorized certification authorities who confirm the observance of requirements. The Company has also implemented ISO 14001 standard. Insulation/coating produced by the Company meet 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 actual financial results 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. 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 actual financial results 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 and regarding 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 Programme 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 are an indication of 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 parts 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 by 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. The Issuer, in order to avoid the risk of changeable prices of steel pipes, optimizes its stock levels adapting them to the scope of operations.
In special cases, steel pipes are purchased at current prices for restocking purposes in the volumes that let the Company sell goods with profit.
As for the purchasing of pipes for large projects, the Issuer negotiates the prices with customers and conclude contracts that make it possible to maintain the negotiated price irrespective of the situation in the steel market.
Changes in pipes prices can influence Company's revenues and profitability, both in the core coating segment and in the sale of goods. The Company secures itself against changeable prices in specific contracts and on a short term, fluctuations in pipes' prices have limited impact on the profitability of specific contracts. Nevertheless, on a long-term basis, it is favorable for the Company to have high pipes' prices (at the income and margins level), and on the other hand, reduction in pipes' prices may lead to lower income and profit on the sale of pipes.

6. Risk of changeable exchange rates

Due to the export and import activity, the Company is exposed to the risk of changeable exchange rates. The second most frequently used currency for settling commercial transactions after PLN is EUR. 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 loans, 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 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 anti-corrosion coating of the following types of steel pipes:

1. External coating:
- three-layer polypropylene coating 3LPP
- three-layer polypropylene coating 3LPP
- single-layer epoxy coating
- DFBE coating
2. Internal coating LAYTEC®

The Company applies said coatings to the purchased pipes and provides the customers with the finished product – coated steel pipe, or provides the service for pipes delivered by the customer.
The Company does also sell drilling pipes used for the extraction of gas. Moreover, to have the order-book of products, the Company sells steel products.
Sales revenues in H1 of 2011 reached PLN 233 969 thousand, that is were by 91.6% higher than in H1 of 2010. Total sale of coated pipes and coating services in H1 of 2012 increased by PLN 42 919 thousand (by 54.5%). Sales increase was influenced by the realization of deliveries to O.G.P. Gaz-System S.A.
In H1 of 2012 revenues from the sale of goods increased by PLN 68 816 thousand (by 159.4%), in connection with the delivery of drilling pipes to PGNiG S.A.

Sales structure - values:

	H1 of 2012		H1 of 2011	
	value	share	value	share
Coated pipes	119 562	51,1%	69 996	57,3%
Coating services	2 112	0,9%	8 759	7,2%
Goods, materials	111 992	47,9%	43 176	35,3%
Other sales	303	0,1%	212	0,2%
Total	233 969	100,0%	122 143	100,0%

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

Sales increase in H1 of 2012 compared to the corresponding period of 2011 was driven by national demand. National sales revenues in H1 of 2012 increased by 101.3% against the same period of the previous year (increase by PLN 111 446 thousand)

Export revenues generated by the Company in H1 of 2012 are close to the values of the corresponding period in 2011. The Company exported its products to EU states. The main directions were Slovakia (66.32% of exports), Germany (9.67% of exports) and Romania (6.91% of exports).

Sales revenues in the breakup in domestic and export markets:

	H1 of 2012		H1 of 2011	
	value	share	Value	share
Domestic	221 505	94,7%	110 059	90,1%
Export	12 464	5,3%	12 084	9,9%
Total	233 969	100,0%	122 143	100,0%

Main customers in H1 of 2012 included:

- O.G.P. Gaz-System S.A. (28.2% share in sales)
- Ferrum S.A. (22.2% share in sales)
- PGNiG S.A. (18.0% share in sales)
- Impexrur S.A. (10.1% share in sales)

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

As for purchasing, the biggest suppliers of the Company are the companies offering steel products. Izostal S.A. purchases steel products from Polish and foreign suppliers. In H1 of 2012, foreign suppliers were EU entities.

Main suppliers in H1 of 2012 included:

- ArcelorMittal Tubular Products Ostrava a.s. (19.7% share in sales)
- Impexrur S.A. (16.2% share in sales)
- Ferrum S.A. (15.3% share in sales)
- Stalprofil S.A. (14.1% share in sales)

Out of the aforesaid suppliers, Izostal S.A. has 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. Contract concluded on 19.01.2012 with Polskie Górnictwo Naftowe Gazownictwo S.A. for the supply of four out of twelve parts of the public procurement contract "Purchase of pipes and fittings for

extraction drillings for 2011 and 2012". Total net value of the contract is PLN 50.232 thou. The contract is to be performed within 180 days from the day it is concluded. Detailed terms and conditions of the contract were presented in regular report no. 1/2012.

2. Orders and contracts concluded with Impexrur S.A. for the supply of coated pipes, coating services and steel pipes. Total value of transactions between Izostal S.A. and Impexrur S.A. (purchase and sales transactions) in H1 of 2012 was PLN 61.654 thou. Orders and contracts concluded between the parties do not allow for contractual penalties, and their terms and conditions are no different from terms and conditions commonly used for this type of orders and contracts.
3. Orders and contracts concluded with Stalprofil S.A. for the supply of steel products. Total value of transactions between Izostal S.A. and Stalprofil S.A. (purchase and sales transactions) in H1 of 2012 was PLN 33.420 thou. Orders and contracts concluded between the parties do not allow for contractual penalties, and their terms and conditions are no different from terms and conditions commonly used for this type of orders and contracts.
4. Orders and contracts concluded with MH Biuro Przedstawicielskie Zbigniew Kania for the purchase of pipes used for drilling by Izostal S.A. Total value of purchases between Izostal S.A. and MH Biuro Przedstawicielskie Zbigniew Kania in H1 of 2012 was PLN 6.844 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 Proma Sp. z o.o for the purchase of pipes by Izostal S.A. Total value of purchases between Izostal S.A. and Proma sp. z o.o. in H1 of 2012 was PLN 11.166 thou. Orders and contracts concluded between the parties do not allow for contractual penalties, and their terms and conditions are no different from terms and conditions commonly used for this type of orders and contracts.
6. Orders and contracts concluded with Arcelor MittalTubular Products Ostrava a.s. for the supply of steel pipes by Arcelor MittalTubular Products Ostrava a.s. Total value of purchases in H1 of 2012 was PLN 46.201 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.
7. Partial contract concluded on 10.05.2012 with O.G.P. Gaz-System S.A. for the supply of insulated steel pipes by Izostal S.A. (leader of the consortium) for the investment task: pipeline Szczecin – Gdańsk: Stage II Karlino – Koszalin, Stage III Koszalin – Słupsk. Net value of the concluded contract is PLN 46.765 thou. Contract's completion date falls in the period from 01.08.2012 to 31.12.2012. Partial contract will be performed under the concluded frame contract, the information on which was presented by the Company in regular report no. 9/2011 of January 26, 2011.
8. Partial contract concluded on 12.06.2012 with O.G.P. Gaz-System S.A. for the supply of insulated steel pipes by Izostal S.A. (leader of the consortium) for the investment task: pipeline Rembelszczyzna – Gustorzyn. Net value of the concluded frame contract is PLN 68.287 thou. Contract's completion date falls in the period from 13.08.2012 to 28.12.2012. Partial contract will be performed under the concluded frame contract, the information on which was presented by the Company in regular report no. 9/2011 of January 26, 2011.
9. Contract concluded on 15.06.2012 with O.G.P. Gaz-System S.A. for the supply of coated steel pipes DN 800 for the construction of gas pipeline Świnoujście – Szczecin. Total net value of the contract is PLN 10.736 thou. The contracts are to be performed within 4 months from the day they are concluded. Detailed terms and conditions of the contract were presented in regular report no. 34/2012.
10. Two partial contracts concluded on 22.06.2012 with O.G.P. Gaz-System S.A. for the supply of insulated steel pipes by Izostal S.A. (leader of the consortium) for investment tasks: gas pipeline Gustorzyn – Odolanów and gas pipeline Szczecin - Gdańsk, Stage I Płoty - Karlino. Total net value of the concluded contracts is PLN 41872 thou. Contracts' completion date falls in the period from 01.08.2012 to 31.10.2012. Partial contracts will be performed under the concluded frame contract, the information on which was presented by the Company in regular report no. 9/2011 of January 26, 2011.

11. Orders and contracts concluded with Ferrum S.A. for the supply of insulated pipes, coating services and steel pipes. Total value of transactions between Izostal S.A. and Ferrum S.A. (purchase and sales transactions) in H1 of 2012 was PLN 87.722. 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 the conditions commonly applied for such contracts.

Financial contracts

1. Appendix concluded on 02.02.2012 to the multi-currency overdraft agreement for the amount of PLN 10.000 thou. with BRE BANK S.A. which extended the period during which the company may use the facility from 18.04.2012 till 31.01.2013. Other essential conditions of the credit granted have remained unchanged. Significant terms of the Agreement have been described in note 10 to the notes to the Financial Statement.
2. Loan agreement concluded on 15.05.2012 with ZRUG Zabrze S.A. (member of Stalprofil S.A. Group). Loan granted up to the amount of PLN 10.000 thou. Detailed information concerning the loan was presented in item X of this Management Board report.
3. Appendix concluded on 24.05.2012 to the multi-purpose credit line agreement for the amount of PLN 5,000 thou. with BNP PARIBAS BANK POLSKA S.A. which extended the period during which the company may use the facility till 23.05.2013. Other essential conditions of the credit granted have remained unchanged. Significant terms of the Agreement have been described in note 10 to the notes to the Financial Statement.
4. Renewable loan agreement concluded with bank BNP PARIBAS BANK POLSKA S.A. on 24.05.2012. The bank granted the Company a working loan in the amount of PLN 3.000 thou. The loan was granted till 19.05.2013. Significant terms of the Agreement have been described in note 10 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
901006514021	Insurance of property against fire and other random events	PLN 185,862,348.78
	Insurance of stationary electronic equipment	PLN 665,589.90
	Insurance of stationary electronic equipment, not older than 7 years	PLN 667,357.38
	Insurance of machines and devices against electrical damage	PLN 5,000,000.00
	Insurance of machines and devices against damage	PLN 51,315,046.45
90100655404	Liability insurance connected with running a business activity or using property, including liability insurance for a product (Companies co-insured under this agreement: Stalprofil S.A., Izostal S.A., Kolb Sp. z o.o.)	PLN 30,000,000.00
901006505405	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 500,000.00
	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. 34 of Notes to the Condensed Financial Statement covering the 1st half of 2012.

Zawadzkie, 24.08.2012

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

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

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

The dominant entity of the capital group - Stalprofil S.A. - held 60.28% share in the Company's share capital as on 30.06.2012.
In H1 of 2012 the Company did not invest in securities, intangible assets or real property.

As far as investments in financial instruments are concerned, the Company granted a loan to ZRUG Zabrze S.A. (an associated entity), described in item X of this Management Board's report. The loan was financed with the Company's own funds.

VIII. INFORMATION ON SIGNIFICANT TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY ON CONDITIONS OTHER THAN ARM'S LENGTH 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 34 of the Notes to the Condensed Financial Statement for the 1st half of 2012.

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

In H1 of 2012 the Company was a party to the following credit and loan agreements:

1. Investment credit of 10.07.2009 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 08.09.2010 in form of a multi-purpose credit limit at bank PKO BP S.A. in PLN, in the amount of PLN 22,000 thou. 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 September 8, 2013.
3. Investment credit of 04.01.2011 at bank BNP PARIBAS BANK POLSKA S.A. in PLN, in the amount of PLN 12,358 thou. Credit bearing interest based on WIBOR 3M rate increased with the bank margin. Credit granted till 03.01.2014.
4. 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 31.01.2013.
5. Credit of 27.05.2011 in form of a multi-purpose credit facility of 27.05.2011 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 23.05.2013.

6. Working capital loan in EUR of 08.12.2011 concluded with 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, paid up by the Company in January.
7. Renewable loan in EUR of 24.05.2012 taken at BNP PARIBAS BANK POLSKA S.A. in the amount of EUR 3.000 thou. to be used for financing working capital. The loan granted till 19.05.2013. The loan's interest rate is EURIBOR 1M plus bank's margin.

Bank credits as on 30.06.2012 (short-term interest on debt not included).

	Credit amount under the agreement	**Utilization as on 30.06.2012.**
Multi-purpose credit limit at PKO BP (thou. PLN)	22 000	0
Investment loan at PKO BP (thou. PLN)	26 000	14 864
Investment loan at BNP Paribas Bank Polska S.A. (thou. PLN)	12 358	9 392
Multi-currency overdraft facility with BRE BANK S.A (thou. PLN)	10 000	0
Working capital loan with BRE BANK S.A (thou. EUR)	5 000	0
Multi-purpose credit line with BNP Paribas Bank Polska S.A. (thou. PLN)	5 000	0
Renewable loan at BNP Paribas Bank Polska S.A. (thou. EUR)	3 000	0

Detailed information on credit security as on June 30, 2012 was presented in note 10 of the Notes to the Financial Statement.

X. INFORMATION ON LOANS GRANTED IN A FINANCIAL YEAR

In H1 of 2012 the Company granted a loan of PLN 10 million to company ZRUG Zabrze S.A. Loan was granted only for the purpose of financing the construction of gas pipeline DN 700 Szczecin - Gdańsk realized by the consortium including ZRUG Zabrze S.A. seated in Zabrze (leader of the consortium), Stalprofil S.A. seated in Dąbrowa Górnicza (member of the consortium) and Nafta – Gaz – Serwis S.A. seated in Sanok (member of the consortium), to Operator Gazociągów Przesyłowych Gaz-System S.A. Stage II gas pipeline DN 700 Karlino - Koszalin, Stage III gas pipeline DN 700 Koszalin – Słupsk, Stage IV gas pipeline DN 700 Słupsk – Wiczlino.
Loan paid out in tranches and may also be granted in EUR. Loan was granted on market conditions and bears interest based on WIBOR 1M rate increased with the bank margin for the amount granted in PLN and EURIBOR 1M increased with the bank margin for the amount granted in EUR. The loan is secured by the blank bill of exchange with a bill of exchange agreement. Repayment date 31.12.2013. As on 30.06.2012 the value of the loan granted was PLN 3.820 thou. (interest charged but not settled as on 30.06.2012 not included).

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

Guarantees granted by the Company as on 30.06.2012:

Beneficiary	**Guarantee type**	**Validity date**	**As on 30.06.2012**	**As on 31.12.2011**	**Change**
OGP Gaz-System S.A.	defects and faults removal	01.04.2016	159	159	0
OGP Gaz-System S.A.	defects and faults removal	28.03.2016	129	129	0

OGP Gaz-System S.A.	performance guarantee	03.02.2012	0	4 157	-4 157
	defects and faults removal	from 04.02.2012 to 03.02.2015.	1 247	1 247	0
OGP Gaz-System S.A.	performance guarantee	10.05.2012	0	4 688	-4 688
	defects and faults removal	from 11.05.2012 to 10.05.2015.	1 407	1 407	0
Polskie Górnictwo Naftowe i Gazownictwo S.A.	bid bond guarantee	13.01.2012	0	920	-920
OGP Gaz-System S.A.	performance guarantee	30.04.2014	2 374	0	2 374
	defects and faults removal	from 01.05.2014 to 15.02.2017	712	0	712
OGP Gaz-System S.A.	performance guarantee	30.01.2013	4 676	0	4 676
	defects and faults removal	from 31.01.2013 to 15.01.2016	1 403	0	1 403
OGP Gaz-System S.A.	performance guarantee	27.01.2013	6 829	0	6 829
	defects and faults removal	from 28.01.2013 to 12.01.2016	2 049	0	2 049
OGP Gaz-System S.A.	performance guarantee	15.11.2012	1 321	0	1 321
	defects and faults removal	from 16.11.2012 to 01.12.2015	396	0	396
OGP Gaz-System S.A.	performance guarantee	30.11.2012	1 245	0	1 245
	defects and faults removal	from 01.12.2012 to 15.11.2015	373	0	373
OGP Gaz-System S.A.	performance guarantee	30.11.2012	2 942	0	2 942
	defects and faults removal	from 01.12.2012 to 15.11.2015	883	0	883

The aforementioned guarantees were issued by banks and insurance companies and secure the liability of Izostal S.A. related to contracts performed and tenders in which the Company participates. In case of payments under the guarantee, the issuer has a recourse against Izostal S.A.

As on 30.06.2012, no guarantees were granted to the Company.

As on 30.06.2012, the Company did not grant and was not granted any sureties. Moreover, as on 30.06.2012, 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

in H1 of 2012 the company did not issue any securities.

XIII. EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL RESULTS SHOWN IN THE ANNUAL FINANCIAL STATEMENT AND PREVIOUSLY PUBLISHED RESULTS FORECASTS

The company did not publish forecast results for 2012.

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

Debt ratios

Specification	I half of 2012	year 2011
Total debt ratio	32,0%	39,6%
Long-term debt	7,0%	8,3%

Zawadzkie, 24.08.2012

Debt to equity ratio	72,6%	94,2%
Equity to total assets ratio	57,9%	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 decreased in H1 of 2012. Total debt ratio decreased from 39.5% recorded at the end of the previous year to 32.0%. Company's total debt was PLN 80.283 thou. and decreased in H1 by PLN 27.472 thou. mainly due to:

- Utilization of bank loans decreased by PLN 14.443 thou. to PLN 24.372 thou. In H1 of 2012 apart from the repayment of investment loans required under the agreed schedules, thanks to stronger PLN, the Company repaid foreign currency working capital loans taken in the previous year.
- Company's liabilities on account of supplies and services decreased by PLN 20.556 thou. As a result of improved DPO, the Company was able to settle liabilities towards suppliers quicker, thus achieving better prices.

Thanks to better assets turnover ratio, assets decreased by PLN 21.371 thou. despite a considerable increase of the Company's turnover.
Long-term debt ratio dropped to 7.0% at the end of H1 of 2012.
Debt to equity ratio fell to 72.6% mainly as a result of debt level reduction. Company's equity increased by the profit generated in the amount of PLN 10.729 thou. and decreased as a result of decision on the payment of dividend in the amount of PLN 5.567 thou. made by the Company's Shareholders.
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	H1 of 2012	Year 2011
Current ratio	1,74	1,66
Quick liquidity ratio	1,20	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.

Current liquidity ratio at the end of H1 of 2012 was 1.74 whereas at the end of 2011 it was 1.66. The Company's Management Board is of the opinion that current and quick liquidity ratios at period end are at a safe level.

Working capital management efficiency

Specification	H1 2012	2011
DIO	26,3	63,6
DSO - supplies and services	46,3	74,8
DPO - supplies and services	30,8	83,9
Operating cycle	72,6	138,4
Cash conversion cycle	41,8	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 was considerably shortened in H1 of 2012. It was possible to shorten DIO by 37 days due to efforts on the optimization of supply chain (cycle shortened by 13 days), and performance of contracts for the sale of goods supplied directly from the supplier to the Company's customer (shortening by 24 days).
The Company may not be able to keep such a good DIO in consecutive periods due to contracts performance schedules, this, however, has been taken into account in the Company's working capital requirement.

DPO on account of supplies and services dropped (by 29 days) to 46.3 days in H1. Improved DPO is related to increased direct sales to O.G.P. Gaz – System S.A. and PGNiG S.A., with respect to which 30-day payment terms apply. Significantly longer payment terms apply to sales in favor of contractors performing construction services for investors in connection with performance period, collection and payment by investors for a constructed section of a gas pipeline. The Company allows for high DSO in working capital requirement. Furthermore, the majority of Company's receivables is insured.

Shorter DIO and DSO made it possible for the Company to settle payments towards its contractors quicker and thus obtain better prices.

Operating cycle was considerably reduced from 138.4 days in 2011 to 72,6 days. In view of a considerable change of DPO on account of deliveries and services, cash conversion cycle decreased by 13 days against 2011.

XV. EVALUATION OF INVESTMENT PROJECTS FEASIBILITY

The Company does not plan any capital investments.
Investments planned for H1 of 2012 were completed.
As for investments in tangible assets, the Company plans to spend the amount of PLN 3.794 thou. in H2 of 2012. Construction of outdoor storage yards for the amount of PLN 3.000 thou. is an important element of this plan. The necessity to provide additional storage space is a consequence of a planned increase in steel pipes sales and longer than expected 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.
Company postponed the construction of a warehouse for small-diameter pipes till 2013. The investment was described in 2011 annual report as planned for 2012. Due to the fact that there is no need at present to increase roofed storage space, the completion of the investment was shifted to the following year.

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.

Situation on the gas networks market shaped by projects related to development of gas transmission, distribution, warehouse and extraction infrastructure connected with the strategy of diversifying current sources of gas supplies adopted by Poland, remains the most important factor influencing Company's results;

the necessity to increase gas share in the production of electrical energy connected with restrictions imposed on Poland to reduce CO2 emission, as well as projects of revitalizing existing transmission networks.

As expected, the gas sector in Poland is completing investments of key importance for the energy security; the Management Board is of the opinion that this situation will remain unchanged in the following years which has been confirmed by information obtained by major investors in the sector i.e. O.G.P. Gaz-System S.A. and PGNiG S.A.

One of the key investments in the sector is the construction of LNG terminal in Świnoujście to be completed in mid 2014. The construction of the terminal is accompanied by the construction of the North-South gas corridor which is to distribute gas domestically and also facilitate its transmission to Czech Republic, Austria, Hungary and Slovakia, and provide a connection with the planned Adria LNG terminal and projects related to the South Gas Corridor through the internal transmission infrastructure of Central European countries. The construction of corridor on the territory of Poland will by 2014 include over 1000km of transmission gas pipelines. OGP Gaz-System S.A. also plans to construct a gas pipeline between Poland and Lithuania which is to supply gas to more Baltic states and use Lithuanian warehouses. This project is to facilitate further integration of the European gas system and create a liberal gas market in the north and eastern Europe. Documentation concerning the gas pipeline is being developed now, it is estimated that it will be 562km long.
The necessity to develop the distribution infrastructure also results from the plans to construct low emission power plants and gas heat and power plants which are a relatively clean source of energy. The construction of gas heat and power plants is already in progress - on March 13, 2012 Stalowa Wola Power Plant signed a contract for the construction of a gas block. It is necessary to increase the potential in scope of energy generation in Poland due to the fact that old power plants will be shut down in the coming years, and at the same time the demand for electric energy will increase.

A positive signal confirming further investments in the sector is the awareness of EU politicians concerning common energy market - including a considerable role played by gas. It is one of the major targets taken into account during works on EU budget for the years 2014-2020. Access to a safe, integrated and competitive energy market is one of the basic conditions facilitating stable development of the European economy, however at present the development of this market is blocked by insufficient capacity of trans border connections. European Commission estimates that the development of electric energy and gas networks will, by 2020, require investment outlays of approx. EUR 200 billion.

As far as investments in transmission networks are concerned, the following gas pipelines will be constructed in the coming future: Szczecin - Gdańsk (265 km long, estimated cost of the investment PLN 930 million.), Gustorzyn – Odolanów (168 km long, estimated cost of the investment PLN 638 million), Szczecin – Lwówek (188 km long). Izostal will supply O.G.P. Gaz-System with pipes for the construction of the aforementioned gas pipelines
Reserve projects lists of O.G.P. Gaz System SA under the Infrastructure and Environment Program includes the following projects: Zdzieszowice-Wrocław (130 km long, estimated cost of the investment PLN 335 million,) Polkowice-Żary (66 km long, estimated cost of the investment PLN 81 million,) Hermanowice - Strachocina (72 km long, estimated cost of the investment PLN 372 million,) Strachocina-Pogórska Wola (98 km long, estimated cost of the investment PLN 455 million,)

The next stage in the completion of strategic investments in the gas sector will be the construction of lower-pressure gas distribution pipelines which also generate demand for the Company's products.

The above makes it reasonable for the Company to expect a considerable demand for pipes with anticorrosive insulation used for the construction of gas pipelines in the coming years.

Zawadzkie, 24.08.2012

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 successfully supplies drill pipes used for decided to become a supplier of drill pipes. The development of this market segment will also facilitate the Company's expansion, especially once it is confirmed that gas extraction is profitable and it will become necessary to build infrastructure for its transmission.

Investments in the sector may be affected by EU economic situation. Macroeconomic situation is reflected in PLN/EUR exchange rate fluctuations which is 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.

The completion of the Research and Development Center for Steel Technologies and Products will influence the Company's current activity through optimization of the 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.

Zawadzkie, 24.08.2012

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.
As for operating activity, in H1 2012 the Company discontinued its production activity in bays leased within the premises of Walcownia Rur Andrzej Sp. z o.o. in Zawadzkie. All production activities are now run in the plant in Kolonowskie. Company's registered seat and its office building remains in Zawadzkie.
After the completion of the Research and Development Center for Steel Technologies and Products in Kolonowskie, the following were launched: Department of New Technologies and Research, and Department of Technical Research and Production.
Company's organizational structure is based on organizational divisions grouping Company's organizational units as per their scope of activity and defining subordinance to Management Board members. Management Board members directly supervise the functioning of individual divisions. Management Board Chairman also holds the function of a Finance Director, and the Management Board Vice-Chairman - Commercial Director reports directly to the Management Board Chairman - General 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 Systems
- 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,

The employment structure in IZOSTAL S.A. split into organizational divisions.

Specification	**30.06.2012**	
	Number of employees	**Share**
Board of Directors	2	1,5%
General Director Division	11	8,3%
Financial Director Division	8	6,1%
Commercial Director Division	12	9%
Production and Technical Director Division	80	60,1%
R&D Center	20	15%
TOTAL	133	100%

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

Specification	**30.06.2012**	
	Number of employees	**Share**
White-collar employees	54	41%
Blue-collar employees	79	59%
Total	133	100%

Zawadzkie, 24.08.2012

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 agreements with the following Management Board Members: Marek Mazurek, Jacek Podwiński, non-competition agreement valid during and after the expiry of the employment relationship. The agreements stipulate that the 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 competitive towards Izostal S.A., nor can they render the 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.

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

Salary	H1 of 2012	H1 of 2011
Remuneration paid to Management Board Members	654	1 036
Remuneration paid to Supervisory Board Members	135	129
TOTAL	**789**	**1 165**

The Company does not offer incentive or bonus schemes based on the issuer's capital, including schemes based on senior bonds, convertible bonds, subscription warrants (benefits in cash, in kind or any others).
In the last reporting period, the Company did not grant any loans or any other sureties or guarantees to management or supervisory board members.

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

To the Company's best knowledge, on 30.06.2012, members of Management Board and Supervisory Board held Izostal S.A. shares, in the amount and 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 SHAREHOLDERS' MEETING

The following tables shows the shareholders of Izostal S.A. who - to the best possible knowledge - held at least 5% votes at the General Meeting as on the day of announcing this report for H1, 2012 Data presented are the information received from shareholders as per art. 69 § 1of the act of 29.07.2005 on public procurement [...]:

Shareholder	**Number of shares**	**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 %

Zawadzkie, 24.08.2012

In the period since the announcement of the previous quarterly report of Izostal S.A. there have been no significant changes to the ownership structure.

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

As of the date of the present report, the Company was not aware of any other 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 an entity authorized to audit financial statements is included in note No. 40 of notes to the Financial Statement.

Zawadzkie, August 24, 2012

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

XXV. MANAGEMENT BOARD STATEMENT

(made in line with §9 cl. 1 item 4 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information submitted by issuers of securities, and conditions of recognizing information required by law of a non-EU state as equivalent.

The Management Board of Izostal S.A. declares that to the best of its knowledge, the condensed interim financial statement of Izostal S.A. for H1 of 2012 and comparative data were prepared in line with effective accounting regulations and truly, reliably and clearly present the Company's property and financial situation, and its financial results, it also declares that the yearly Management Board's report on the issuer's activity reliably reflects the issuer's business development, achievements and situation, including basic risks and threats.

Zawadzkie, August 24, 2012

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

XXVI. MANAGEMENT BOARD STATEMENT

(made in line with §89 cl. 1 item 5 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information submitted by issuers of securities, and conditions of recognizing information required by law of a non-EU state as equivalent.

The Management Board of Izostal S.A. declares that the entity authorized to examine financial statements i.e. Kancelaria Porad Finansowo – Księgowych dr. Piotr Rojek Sp. z o.o., which examined this condensed interim financial statement for H1 of 2012 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, August 24, 2012

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

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Grupa kapitałowa Stalprofil S.A.

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

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

VAT no. 756-00-10-641
SHARE CAPITAL PLN 65 488 000
KRS 0000008917- District Court in Opole, 8th Business Division of the National Court Register (KRS)

Zawadzkie, 24.08.2012