



**REPORT
FROM FINANCIAL STATEMENT AUDIT**

IZOSTAL S.A. IN ZAWADZKIE

FOR A BUSINESS YEAR FROM 1ST JANUARY TO 31ST DECEMBER 2012



Report of chartered auditor for the Shareholders and the Board of Directors of "Izostal" S.A. in Zawadzkiem

The report has been drawn up in reference to the audit of financial statement of "Izostal" S.A. in Zawadzkiem for a period from 1st January to 31st December 2012.

The report should be read altogether with chartered auditor's opinion on the above mentioned financial statement.

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I. GENERAL SECTION

1. INTRODUCTION

"Izostal" S.A., seated in Zawadzkiem, has been formally established by virtue of a notariary deed, on the 14th of July 1993.

The Company's place of business is located in Zawadzkiem (47-120), at Polna 3 street.

The Company is registered in the National Court Register of District Court in Opole, Commercial Division of the National Court Register, registration number KRS 0000008917.

"Izostal", seated in Zawadzkiem, is a joint stock company.

The Company is identified by a statistic identification number "REGON" 530884676 and operates under tax identification number NIP 756-00-10-641, assigned on the 9th of September 1993.

According to the statute, the main business activity of the Company is:

- metals processing and coating,
- wholesale of metal products and hydraulic equipment,
- production of other plastic products,
- production of plastic plates, sheets, pipes and fittings
- raw material recycling,
- works related with constructing pipelines and distribution grids,
- other financial service activity, not classified otherwise, excluding insurance and pension funds,
- other activity supporting the main business activity,
- other research and technical analyses,
- science research and development works in the field of biotechnologies and other environmental and technical sciences.

The actual business activity of the Company does not significantly differ from the formally stated.

As for 31st December 2012, basic capital of the Company totaled 65,488 thousand zł and was divided into 32,744,000 shares with a nominal value of 2 zł each.

At the end of the business year, the property structure of the basic capital was as follows:

	Number of shares	Number of votes	Nominal share value (zł)	Share in basic capital (%)
Stalprofil Finance Sp. z o.o.	19.739.000	19.739.000	39.478.000,00	60.3
Aviva PTE BZ WBK S.A.	1.669.877	1.699.877	3.339.754,00	5.1



BPHTFI SA	1.644.021	1.644.021	3.288.042,00	5.0
Others	9.691.102	9.691.102	19.382.204,00	29.6
Total	32.744.000	32.744.000	65.488.000,00	100.0

Within the duration of the business year, no changes in the scope of basic capital have occurred.

Equity for a balance day, ie. 31st December 2012 equaled 155,015 thousand zloty, which is an increase by 14m739 thousand zloty, as compared to the previous business year.

"Izostal" S.A. is a member of Stalprofil S.A. group.

The group of companies consists of the following associated members:

- KOLB Sp. z o.o. in Kolonewsk,
- ZRUG Zabrze S.A. in Zabrze,
- Stalprofil Finanse Sp. z o.o. in Dąbrowa Górnicza..

The Board of Directors, as of 31st December 2012, consisted of the following persons:

- President - Mr. Marek Mazurek
- Vicepresident - Mr. Jacek Podwiński

No changes in the Board of Directors have occurred during the audited period.

The Board of Directors, as of 31st December 2011, consisted of the following persons:

- Chairman of the Supervisory Board - Mr. Jerzy Bernhard,
- Vice Chairman of the Supervisory Board - Mr. Zdzisław Mendelak,
- Secretary of the Supervisory Board - Mr. Jan Chebda
- Member of the Supervisory Board - Mr. Jan Kurczak,
- Member of the Supervisory Board - Mr. Lech Majchrzak,
- Member of the Supervisory Board - Mr. Adam Matkowski.

No changes in the Supervisory Board have occurred during the audited period.



2. FINANCIAL STATEMENT

2.1. The audited financial statement

The financial statement for business year from 1st January to 31st December 2012 includes:

1/ introduction to the financial statement

2/ financial situation statement as of 31st December 2012, which totals with a sum of **280,803 thousand zloty**,

3/ statement of total income for a period from 1st January to 31st December 2012, presenting total income to be
20,306 thousand zloty

4/ statement of changes in equity for a period from 1st January to 31st December 2012, presenting an increase of equity by
14.739 thousand zloty,

5/ statement of financial transactions for a period of 1st December to 31st December 2012, presenting a decrease of
possessed funds by **16.384 thousand zloty**

6/ additional information to the financial statement.

2.2. Information on the authorized entity and the chartered auditor

Basis for performance of the audit is an agreement made between the Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Spółka Z.O.O, seated in Katowice at Floriana 15, and "Izostal" S.A. seated in Zawadzkiem at Polna 3, on the 11th of May 2011.

Mr. Rojek's office has been selected for the deed by the Supervisory Board's resolution from the 20th of April 2011.

Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Spółka Z.O.O in Katowice (the auditor's office) operates within the field of financial statement audit as provided by the act on expert auditors and their autonomy, subjects authorized for auditing financial statements and public supervision of 7th of May 2009 / Dz. U. Nr 77, item 649 / and has been registered as a subject authorized for performing the above mentioned audit under number 1695.

The Contractor is represented by auditor:

- Joanna Stoalrczyk - registered in the auditor's register under number 9502.

The audit was performed by:

- Aleksandra Malcherczyk - trainee,
- Damian Mlynarczyk - assistant.

The audit was performed in September 2012, and in February-March 2013.



The authorized entity as well as the auditors performing the audit on its behalf hereby declare that they remain independent from the audited unit, pursuant to art. 56 of the act on expert auditors and their autonomy, subjects authorized for auditing financial statements and public supervision of 7th of May 2009

2.3. The received statements and accessibility of data

No significant limitations were applicable. The Board has furnished to all the auditors, all financial statements, account books and documents, as well as provided all necessary explanations required for giving the opinion.

We have also received a statement of the Board signed by all of its members (active as of 21st of March 2013) declaring that all due data have been included in the account books, all conditional liabilities have been presented and all significant events that occurred between the balance date and the date of making the statement have been included.

2.4. Information on financial statement for the previous business year

The financial statement for the previous business year has been audited by Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Spółka Z.O.O in Katowice and no reservations were made.

The statement was approved on the Shareholder's Meeting on the 10th of May 2012

The financial statement for a previous business year has been submitted to the National Court Register and posted in the Official Gazette - B No. 1696 of 9th August 2012.

Pursuant to the order of the Shareholder's Assembly of 10th May 2012, the 2011 year profit totaling 19.134 thousand zloty has been directed for:

• dividend for the Shareholders	5.567	thousand zł
• supplementary capital of the Company	13.567	thousand zł.

All account books as of 1st January 2012 have been correctly opened, basing on the approved closing balance for the 31st December 2011.



II. FINANCIAL POSITION

1. The unit's business activity, its financial results and financial situation for the business year that ended on the 31st of December 2012 and for the previous years are presented by the following selected figures:

(in thousand zloty)	31.12.2012	31.12.2011	31.12.2010
Balance total	280.803	272.426	203.466
Fixed assets	137.731	132.200	99.568
Equity	155.015	140.276	121.345
including: financial result	20.306	19.134	7.438
• EBITDA	33.765	29.216	14.836
l • Return on sales (%)	6,8	9,9	8,0
j • Net profit margin (%)	4,4	7,4	5,4
• Return on equity (%)	138	14,6	8,6
• Return on assets (%)	73	8,0	4,2
• Current ratio	1,73	1,65	2,55
• Quick ratio	0,99	1,1	2,03
• Net working capital	34.766	31.067	43.314
• Receival turnover ratio (days)	40	75	105
• Inventory turnover ratio (days)	45	51	61
• Liabilities turnover ratio (days)	50	71	91
• Global indebtedness ratio (%)	44,8	48,5	40,4

2. Commentary:

In 2012, the Company's total assets worth increased by 8.377 thousand zł, ie. by 3.1%. Income from nominal sale increased by 199.689 thousand zł, ie. by 76,9%. The Company has achieved higher results by 1.172 thousand zł, as compared to the previous year. All profitability indicator values have been reduced as compared to the previous year

In the audited year, a decrease in liability turnover ratio by 35 days was noted, to a level of **40** days, with liabilities turnover ratio value decreasing by 21 days, to a level of 50 days. Turnover ratio for inventory equaled 45 days, and has decreased by 6 days, as compared to the previous year.



In year 2012, an increase of current ratio (1st degree) was noted, with global indebtedness indicator decreasing to the level of 44,8%. Working capital at the end of the audited year has totaled 34.766 thousand zł, its turnover cycle equaled 26 days.



III. SPECIFIC INFORMATION

1. Assessment of documentation of the applied accountancy, business operation documenting and managing account books principles

The documentation of the applied accountancy principles conforms to the requirements of the act on accountancy, as well as to the International Financial Reporting Standards requirements. During the audit, we did not note any abnormalities in documenting business operation or managing account books, that might have an adverse effect on the financial statement, that would not have been corrected, including those related to correctness, accessibility and reliability of the account books, relation of its entries with accounting evidences and the drafted financial statement or the correctness of opening of the account books. The account books are kept electronically and conform with all applicable legislature regarding this matter. The account books and financial-account documentation are stored pursuant to the requirements stated in section 8 of the accountancy act.

2. Assets stocktaking

The Company has carried out stocktaking of all asset components listed below;

- funds available as on
31.12.2012
- monetary assets on bank accounts available as on
31.12.2012
- inventory available in the period of
12.11.- 21.11.2012
- fixed assets as on
30.11.2012
- machines and devices included in the fixed assets in making as on
31.12.2012
- liabilities as on
31.10.2012

The performed stocktaking of assets results from a statutory duty imposed by article 26 of the accountancy act.

Any inventory variances have been settled in the books for the audited period. The Office's Personnel has taken part in observations of physical stocktaking on the 15th of November 2012.



3. Basic accountancy rules applied at formulating a financial statement

Accountancy rules applied at formulating the financial statement are pursuant to rules determined by the International Accounting Standards, International Financial Reporting Standards, and any interpretations in form of executive orders issued by the European Committee, if not regulated by the IFRS or IAS - in the accountancy act of 29th September 1994 (Dz. U. 2009, no. 152, item 1223 with later amendments) and secondary legislation issued on its basis. The rules of assessment of assets and liabilities' worth and the calculation of financial result for the period ending on the 31st of December 2012 have been applied continuously in reference to the previous year.

a) Assessment of assets and liabilities expressed in foreign currency

For the balance sheet date, the following are expressed in foreign currency:

- assets items - in purchase rate applied by leading bank on that day,
- liabilities items - in sale rate applied by leading bank on that day.

Rate variances regarding assets and liabilities expressed in foreign currency, that appeared on the day of their assessment and at payment of liabilities in foreign currency, shall be classified as financial income and cost, and - in justified cases - as cost of manufacture of product or product purchase price, as well as price of manufacture or purchase of fixed assets, assets in construction or non-material and legal values.

b) Fixed tangible assets

Fixed assets include assets items that are stored for the purpose of using them in the manufacture process or for merchandise delivery and providing services, for the purpose of furnishing to other subjects, basing on a lease agreement or for administrative purposes, which are foreseen to be used for longer than one year. Fixed assets are assessed according to their purchase price or cost of manufacture, reduced by depreciation charge.

Financial leasing agreements are classified as fixed assets for the day of the beginning of lease.

c) Intangible assets

Intangible assets are identifiable, non-monetary assets items without a physical form, remaining under the unit's control, from which profit may be drawn in the



future. Intangible assets include computer software licences and costs of completed development works.

Intangible assets are assessed according to their purchase prices or costs of manufacture, reduced by depreciation charge.

d) Depreciation

Amount of depreciation rates of tangible assets and intangible assets are determined by the Company in consideration of a time period, in which, according to the estimations, a given assets item will be applied by the unit.

Use periods for basic groups of tangible assets are as follows:

• buildings and constructions	from	10	years	to	50	years
• machines and devices	from	3	years	to	40	years
* means of transport	from	5	years	to	10	years
• remaining tangible assets	from	5	years	to	40	years

Use periods for intangible assets	from	2	years	to	5	years
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Assets items of initial worth not larger than 3,5 thousand zł are classified as costs after their commissioning to use. The beginning of depreciation takes place after the commissioning of tangible asset for use, and its end - after depreciation charges equal the initial value, submission of assets for liquidation, sale or statement of deficiency.

e) Assets from deferred income tax

Assets from deferred income tax have been determined in an amount estimated in the future to be deferred from income tax in relation to negative transition variances, which will cause decrease of basis for calculating income tax, applying prudence principle.

f) Inventory

Inventory include raw materials, end products and merchandise.

The inventory items are expressed in net value (decreased by write-downs). The inventory is assessed according to purchase price or to cost of manufacture, not higher than its net sale price for the balance sheet date.



g) Short-term liabilities

Short-term liabilities include:

- all liabilities resulting from deliveries and services, regardless of contractual payment term,
- other liabilities, whose contractual payment term of the last installment is shorter than year from the balance sheet date.

The liabilities are assessed as amount due to be paid, maintaining prudence.

h) Prepayments/accruals

Prepayments/accruals include expenses incurred, constituting costs of future turnover periods. In the statement, prepayments and accruals are divided into long- and short-term.

i) Cash and cash equivalents

Cash and cash equivalents include cash. Cash is assessed in nominal value.

j) Equity

Equities consist of equities established by the Company, according to the law, applicable legislature and the Company's statute. Equity includes the current year's income. The Company's equity is presented in an amount conforming to the Company's statute and its entry in the court register. Net financial result of the business year equals to profit resulting from the statement from total incomes.

k) Provisions

Provisions for liabilities are created for plausible future liabilities resulting from past events, of which value may be estimated. In the statement, provisions are divided into long- and short-term.

l) Long-term liabilities

Long-term liabilities include all of the unit's liabilities, excluding liabilities resulting from deliveries and services, whose payment deadline come after the year following the balance sheet date. Long-term liabilities are presented in a due amount, except for financial liabilities assessed in fair value.



m) Short-term liabilities

Short-term liabilities include all liabilities resulting from deliveries and services, regardless of the payment term, and all liabilities requiring payment within the nearest 12 months. Short-term liabilities are presented in due amount to be paid, except for liabilities assessed in fair value.

n) Prepayments and accruals

Prepayments and accruals include all actually received donations and subsidies for purchase or manufacture of fixed assets. In the statement, prepayments and accruals are divided into long- and short-term.

o) Income from sale of products, materials and goods.

Income from sale of products, materials and goods is repetitive income related with basic activity of the company. Such income is presented in net value, without tax, including donations, rebates, etc.

p) Costs of sold products, goods and materials

Cost of sold products, goods and materials includes costs of sold products and materials, costs of manufacture of sold products and costs of sale and general management related with the main business activity.

q) Other costs and revenue

Other costs and gains include gains and costs not directly related to the basic business manufacture activity, having influence on the financial result.

r) Financial costs and revenues

Financial costs and revenues include revenues and costs related to the basic business activity, having influence on the financial result.

s) Income tax

Income tax from legal entities is a tax constituting liability, corrected with change of level of reserves for an deferred income tax, and assets from deferred income tax. Reserve from deferred income tax is created in an amount of income tax to be paid in the future, as a result of occurrence of positive temporary differences. Assets resulting from deferred income tax are determined in an amount



estimated for deduction from tax in the future, in relation to occurrence of negative temporary differences, after applying prudence rule.

4. Characteristics of particular items of the financial statement report and total income report

4.1. Fixed assets

The presented amount of fixed assets is in agreement with the account books of the Company. Changes in the value of fixed assets in the audited period were as follows:

(in thousand zloty)	Initial value		End value	
	gross value	total depreciation	gross value	total depreciation
• tangible assets, including	152.444	21.037	159.885	23.629
- <i>technical devices and machines</i>	<i>58.963</i>	<i>14.885</i>	<i>65.959</i>	<i>17.099</i>

Level of use of tangible assets as of 31st December 2012 equaled 14,8%, which is an increase by 1 percentage point as compared to the previous year.

As of 31st December 2012, fixed assets constituted 48,5% of the unit's assets.

4.2. Assets from deferred income tax

The level of assets from deferred income tax presented in the statement is in conformity with account books, and totals 0.3% of assets for the balance sheet date.

4.3. Inventory

The inventory presented in the statement results from account books.

(in thousand zloty)	Initial value	%	End value	%
1.	2.	3.	4.	5.
• materials	21.606	46,5	26.598	42,0
• end products	20.541	44,2	24.962	39,4
• goods	4.313	9,3	11.789	18,6
Total	46.460	100,0	63.349	100,0
Write-down	551	1,2	3.377	5,3
Net inventory worth*	45.909	98,8	59.972	94,7



As compared to the previous year, the net level of inventory of the Company has increased by 30,6%

As of 31st December 2012, the inventory constituted 21,4% of the Company's assets.

4.4. Short-term receivables

The level of receivables presented in the statement conforms with the account books. Time structure of liabilities resulting from deliveries and services, according to the maturity date, was as follows:

(in thousand zloty)	Initial value	%	End value	%
prompt	44.222	80,6	36.663	75,6
• up to 12 months	44.222	80,6	36.663	75,6
overdue	10.675	19,4	11.856	24,4
• up to 1 month	5.815	10,6	4.962	10,2
• above 1 month to 3 months	2.831	5,2	4.489	9,2
• above 3 to 6 months	227	0,4	1.480	3,0
• above 6 to 12 months	1.723	3,1	221	0,5
• above a year	79	0,1	704	1,5
Gross liabilities	54.897	100,0	48.519	100,0
Write-downs	1.172	2,1	732	1,5
Net liabilities	53.725	97,9	47.787	98,5

As compared to the previous year, net receivables level from deliveries and services has been reduced by 11,1%.

As on 31st October 2012, the Company has settled 98,0% of receivables.

The remaining receivables are mainly related to the VAT tax, a total of 3.398 thousand zloty.

As on 31st December 2012, short-term receivables constituted 18,3% of the Company's property.

4.5. Prepayments/accruals

Level of prepayments and accruals presented in the statement results from account books and refers to the below presented items:

	(in thousand zloty)
• insurances	
- short-term	299
- long-term	152



• costs of acquiring certificates	
- short-term	103
- long-term	213
• remaining	
- short-term	38
Total	805

As of 31st December 2012, the prepayments/accruals constituted 0,3% of Company's property.

4.6. Short-term financial assets

The level of short-term financial assets presented in the statement conforms to the account books and includes all granted loans.

As on 31st December 2012, participation of other financial assets in the Company's property totaled 2,6%.

4.7. Cash and its equivalents

The amount of cash and its equivalents stated in the statement results from account books and includes cash in hand and in bank.

As of 31st December 2012, cash constituted 8,% of the Company's property.

4.8. Equities

The amount of equities presented in the statement results from the account books.

	(in thousand zloty)
• basic capital	65.488
• supplementary capital	69.221
• net gain	20.306
Equities total	155.015

As of 31st December 2012, equities constituted 55,2% liabilities of the Company.

4.9. Provisions

Level of provisions stated in the account books agrees with quantities presented in the financial situation report.



The amount of reserves in the begin and at the end of the business year was as follows:

	(in thousand zloty)	level in the begin of the period	level at the end of the period
• deferred income tax		128	112
• provisions for employment benefits			
- long-term		224	294
- short-term		181	307
Total		533	713

As of 31st December 2012, provisions for liabilities constituted 0,3% of the Company's liabilities.

4.10. Long-term liabilities

The amount of long-term liabilities presented in the statement results from the account books.

The commitments are related to acquired bank credits (14.630 thousand zł) and liabilities from financial leasing (2.446 thousand zł).

As on 31st December 2012, long-term liabilities constituted 6.1% of the Company's liabilities

4.11. Short-term liabilities

The presented level of short-term liabilities is in accordance with the account books and includes:

	(in thousand zloty)
• loans and credits	18.017
• liabilities resulting from services and deliveries	56.677
• liabilities resulting from remunerations	494
• liabilities resulting from taxes	5.827
• short-term financial liabilities	1.265
• other short-term liabilities	34
Total	82.314

The amount of liabilities resulting from deliveries and services in relation to maturity periods is as follows:

(in thousand zloty)	Initial value	%	End value	%
prompt	59.326	98,0	48.158	85,0
• up to 12 months	59.326	98,0	48.158	85,0



overdue	1.214	2,0	8.519	15,0
• up to 1 month	1.209	2,0	8.510	15,0
• above 1 month	5		9	
Total	60.540	100,0	56.667	100,0

On the balance sheet date, short-term liabilities constituted 29,3% of the Company's liabilities

4.12. Prepayments and accruals (long- and short-term)

The presented settlement of prepayments and accruals in the statement result from the account books. The settlements equal 25.685 thousand zł and relate mainly to obtained subsidies for purchase of tangible fixed assets.

As of 31st December 2011, prepayments and accruals constituted 9,1% of total liabilities.

4.13. Income from sale of products, materials and merchandise

The income presented in the business year is in accordance with the account books. The

Company has mainly gained income from sale of pipes.

As compared to the previous year, the income has increased by 76,9%.

4.14. Cost of sold products, materials and merchandise

Cost of sold products, materials and merchandise in the business year result from the account books.

As compared to the previous year, the costs of sold products, materials and merchandise, together with costs of sale and general management increased by 82,5%.

From the sales, the unit has obtained a profit of 31.304 thousand zł.

4.15. Other income and costs

Amounts presented in the statement are in accordance with the account books.

A main item of other incomes are settlements of obtained subsidies and released provisions. Other operating costs are mainly write-downs for inventory and liabilities and created reserves.

From other operational activity, the Company has noted a loss of 2.157 thousand zł.

4.16. Financial income and costs

Amounts presented in the statement are in accordance with the account books.



Financial income includes interest. The main part of financial costs are interests from credits and trade liabilities and varying currency rates.

The Company has noted a loss of 3.941 thousand zł from financial activity.

5. Contingent liabilities and risks

5.1. Securities on the property made for the benefit of third parties

As of 31st December 2011, securities on the property made for the benefit of third parties have been stated correctly. They include

	(in thousand zloty)
• real estate mortgage	60.936
• lien and transfer of ownership of machines	27.489
• transfer of ownership of inventory items	32.500

5.2. Other contingent liabilities

As of 31st December 2012, all other contingent liabilities have been stated correctly and relate to issued security warranties and warranties of due execution of contracts, correctly stated in the additional information section.

5.3. Other considerable risks

Legislation related to taxes, customs and insurances have been changing frequently, therefore application of tax system in practice may be vague and unclear. Moreover, frequently occurring differences in interpretations of tax law provisions are a cause of increased tax risk. Even though the Board of Directors is certain of having conformed with all tax provisions, there is a risk of misinterpreting its provisions.

Governmental bodies may carry out tax audits within 5 years from the audited period

6. Events after the audit date

No significant events have occurred after the date of the audit, that may influence the financial situation of the audited unit.

7. Statement of changes in equity

Data included in the statement of changes in equity are complete and in accordance with information provided in the report from financial situation and account books.



8. Statement of cash flows

Statement of cash flows drafted by the Company is correctly related to the financial statement, total income statement and account book entries. No irregularities in the process of drafting this statement were noted during the audit.

9. Additional information and explanations relating to the financial statement

Data included in the additional information and explanations relating to the financial statement section are correct and complete.

10. Statement of the unit's activity

Statement of the unit's activity is in agreement with article 49 point 2 of the accountancy act and Minister of Finance's Order of 19th February 2009 on periodical and current information transmitted by issuers of securities and conditions for deeming equal information required by law of a country not being a member country (Dz. U. No. 33, item 259), and information contained in it are in accordance with it.

Key auditor:

Joanna Solarczyk registered in the auditor register as no. 9502

*Kancelaria Porad Finansowo - Księgowych dr Piotr Kojek
Spółka Z.O.O 40-286 Katowice, ul. Floriana 15 Subject
registered as authorized for audit of financial statements as no.
1695*

Katowice, 21st March 2013