



## ANNUAL REPORT OF IZOSTAL S.A. FOR YEAR 2012

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drawn up in accordance with  
INTERNATIONAL FINANCIAL REPORTING STANDARDS

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## INTRODUCTION TO THE FINANCIAL STATEMENT

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**I. NAME (COMPANY) AND ITS PLACE OF BUSINESS, MAIN BUSINESS ACTIVITY AND INDICATION OF APPLICABLE COURT OF REGISTER**

Izostal S.A., seated in Zawadzkie, was founded by virtue of a notarized deed of 14th of July 1993. The registration was made by the Commercial Court of Law in Opole on the 3rd of August 1993, under number RHB 1899. The Company was listed in the National Court Register on the 23rd of April 2011 under number 0000008917 in Opole District Court VIII Commercial Division of the NCR.

The Company's main business activity is production and sale, specifically:

- Metal processing and coating (25.61.Z.)
- Wholesale of metal products and equipment and additional heating and hydraulic equipment (46.74.Z)
- Production of other plastic products (22.29.Z)
- Production of plastic plates, sheets, pipes and fittings (22.21.Z)
- Recycling of sorted materials (3832.Z.)
- Works related to construction of transmission pipelines and distribution grids (42.21.Z)
- Providing other services, not elsewhere classified, excluding insurance and pension funds (64.99.Z)
- Other supporting activity for the main activity, not elsewhere classified (88.99.Z).
- Other research and technical analyses (71.20.B)
- Scientific research and development works in the field of biotechnologies (72.11.Z)
- Scientific research and development works in the field of other environmental and technical works (72.19.Z)
- Mechanical processing of metallic elements (25.62.Z)
- Repair and maintenance of metallic end products (33.11.Z)
- Electricity trade (35.14.Z)
- Non-specific wholesale (46.90.Z)
- Goods rail transport (49.20.Z)
- Goods road transport (49.41.Z)
- Storing of other goods (52.10.B)
- Operations in the field of engineering and technical advisory related (71.12.Z)
- Lend and lease of other machines, devices and materials, elsewhere not classified (77.39.Z)
- Production of other products, elsewhere not classified (32.99.Z)
- Production of metal constructions and their elements (25.11.Z)
- Production of other metallic end products, elsewhere not classified (25.99.Z)
- Wholesale of metals (46.72.Z)
- Wholesale of waste and scrap (46.77.Z)

The Supervisory Board's list of members as on 31st December 2012 was as follows:

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

The Board of Management members' list as on 31st December 2012 was as follows:

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

**II. TERM OF COMPANY'S OPERATION**

The Company's term of operation is unlimited.

**III. PERIOD OF THE STATEMENT**

The annual financial statement presents data as on 31.12.2012 and for the period from 01.01.2012 to 31.12.2012, together with comparative data for the same periods of year 2011.

**IV. INFORMATION ON THE FINANCIAL STATEMENT THAT INCLUDES INTERNAL UNITS DRAWING UP INDIVIDUAL FINANCIAL STATEMENTS**

Izostal S.A. does not hold any internal units drawing up individual financial statements.

**V. INFORMATION REGARDING THE FINANCIAL STATEMENT THAT WAS DRAWN UP ASSUMING CONTINUITY OF BUSINESS ACTIVITY BY THE COMPANY, WITH AN INDICATION OF CIRCUMSTANCES CONSTITUTING DANGER OF CEASING ACTIVITY**

This financial statement has been drawn up assuming continuity of business activity.

**VI. INFORMATION ON FINANCIAL STATEMENT FOR A PERIOD IN WHICH MERGE OF COMPANIES TOOK PLACE**

No merge of Companies occurred in the period.

**VII. DESCRIPTION OF APPLIED ACCOUNTANCY PRINCIPLES**

Izostal S.A. financial statement has been drawn up in conformity with International Financial Reporting Standards (IFRS) applied by the European Union and with requirements of the Minister of Finances' Order of 18th February 2009, on current and periodical information provided by securities issuers (Dz. U. no. 33 item 259 with later amendments) for a period of 1st January to 31st December 2012, and comparative period of 1st January to 31st December 2011.

The presented financial statement conforms with all requirements of the IFRS applied by the European Union and presents reliably and sufficiently the financial situation of the Company as on 31st December 2012 and 31st December 2011, its results and cash flows for the period of 1st January 2012 to 31st December 2012 and from 1st January 2011 to 31st December 2011.

**Application of new and verified IFRS standards**

**Standards and interpretations applied first in year 2012**

In 2012, the Company applied new and updated standards and interpretations issued by the Council of International Accountancy Standards and Committee for Interpreting International Accountancy Standards, and approved for use in the European Union, applicable to the conducted business activity and in the annual statement periods since 1st January 2012.

- Changes to IFRS "Financial instruments: release of information" - transfer of financial assets, approved in the UE on 22th November 2011 (applicable in reference to annual periods beginning on 1st July 2011 or after that date).

Acceptance of the above standards and interpretations has not had a major influence on the accountancy policy of the Company or on presentation of financial statements.

**Standards and interpretations already published and approved for the use in the UE, but not yet in force**

On the date of drawing up this statement, the Company has not applied the following standards, changes in standards and interpretations that were published and applied for use in the UE, but not yet in force:

- Changes to IAS 1 "Presentation of financial statements" - presentation of components of other total income (applicable in reference to annual periods beginning on the 1st July 2012 or after that date),
- Changes to IAS 19 "Employee benefits" - amendments to accounting of benefits after employment period (applicable in reference to annual periods beginning on the 1st January 2013 or after that date).

- IFRS 10 "Consolidated financial statement" (applicable in reference to annual periods beginning on the 1st of January 2014 or after that date),
- IFRS 27 (revised in 2011) "Individual financial statements" (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- IFRS 28 (revised in 2011) "Investments in associated units and common enterprises" (applicable in reference to annual periods beginning on the 1st of January 2014 or after that date)
- IFRS 11 "Common contractual provisions" (applicable in reference to annual periods beginning on the 1st of January 2014 or after that date)
- IFRS 12 "Disclosures on shares in other units" (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- IFRS 13 "Fair value measurement" (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- Changes to IFRS "Financial instruments: disclosure of information" - compensation of assets and financial liabilities (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- Changes to IFRS 12 "Income tax" - Deferred tax: recovery of assets (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- Changes to IAS 32 "Financial instruments: presentation" - offsetting of assets and financial liabilities (applicable in reference to annual periods beginning on the 1st of January 2014 or after that date)
- KIMSF 20 Interpretation "Settlement of costs of removal of scrap during production in open pits" (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- Changes to IFRS 1 "Adoption of IFRS for the first time" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopter (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date),

The Company has decided not to exercise the possibility of earlier application of the above changes to the standard.

#### **Standards and interpretations adopted by IASB that were not yet approved by the EU**

IFRS in the shape approved by the UE do not differ significantly from regulations adopted by the International Accounting Standards Board (IASB), except for the following standards, changes to standards and interpretations, which, as on 21st March 2013, have not been yet implemented:

- IFRS 9 "Financial instruments" (applicable in reference to annual periods beginning on the 1st of January 2015 or after that date)
- Changes to IFRS 1 "Adoption of IFRS for the first time" - Governmental loans (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- Changes to IFRS 9 "Financial instruments" and IFRS "Financial instruments: disclosure of information" - date of entering into force and interim provisions,
- Changes to different standards "Amendments to IFRS (2012)" - changes made in terms of procedure of implementing yearly amendments to IFRS published on 17th May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34), whose purpose is mainly settling inconsistencies and specifying terminology (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- Changes to IFRS 10 "Consolidated financial statements", IFRS 11 "Common contractual obligations" and IFRS 12 "Disclosure of information on shares in other units" - clarifications on interim provisions (applicable in reference to annual periods beginning on the 1st of January 2013 or after that date)
- Changes to IFRS 10 "Consolidated financial statements" IFRS 12 "Disclosure of information on shares in other units" and IAS 27 "Separate financial statements" - investment units (applicable in reference to annual periods beginning on the 1st of January 2014 or after that date)

According to the Company's estimations, the standards, interpretations and changes to standards listed above would not have a significant influence on the financial statements if adopted by the unit on the balance sheet date.

#### **Description of adopted accounting principles**

##### **Valuation of items expressed in foreign currency**



### Functional currency and presentation currency

Balance sheet items included in the financial statement are expressed in functional currency.

Functional currency and presentation currency of the Company is PLN.

Amounts in this financial statement are presented in thousand of zł, unless stated otherwise.

### Transaction and balances

Transactions expressed in foreign currencies are converted to functional currency, applying rates on the date of transaction, while clearing accounts and financial measures balances for the balance sheet date are valued using leading bank's closing rate (assets using purchase rate, liabilities using selling rate). Exchange rate differences resulting from valuation are presented in the loss and profit account.

### Fixed tangible assets

Fixed tangible assets are presented according to their purchase price or cost of manufacture, reduced by accumulated depreciation.

Gained real estate titles are presented in real estates and are not subject to depreciation.

Fixed assets of worth not exceeding 3,5 thousand zł, are depreciated once, in the month of their commissioning for use.

Depreciation of fixed assets occurs using rates presenting their estimated period of use. For the purpose of depreciation of fixed assets, linear depreciation principle is applied. Usage periods for particular fixed assets items are the following:

Buildings and structures	from 10 to 50 years
Machines and devices	from 3 to 40 years
Means of transport	from 5 to 10 years
Other fixed assets	from 5 to 40 years

Verification of the applied depreciation rates takes place annually, on the 31st of December.

Financial lease contracts are activated as tangible fixed assets on the date of begin of lease.

### Non-tangible assets

Non-tangible assets are presented according to their purchase prices. Usage period for non-tangible assets and legal assets' items is 2 to 5 years.

Depreciation of non-tangible assets and legal assets takes place using rates reflecting their estimated period of use. For the purpose of depreciation of non-tangible assets of specific use period, linear depreciation method is applied.

### Lease

Financial lease contracts transferring entire risk on the unit and all loans resulting from possession of lease subject are capitalized on the day of beginning of lease, in an amount of minimum lease payments.

Lease payables are split between financial costs and capital part decreasing liabilities accounts from lease.

Financial costs are posted basing on accrual principle upon inclusion into profit and losses account.

### Investments

All investments are initially presented according to their purchase price corresponding to the fair value of the paid amount, including costs related to purchase of investment.

After initial presentation, investments classified as "marketable" and "available for sale" are valued according to their fair value. Profits or losses from marketable and furnished for sale investments are presented on the account of profits and losses.

Long-term financial assets are presented according to their purchase price corresponding to the value of paid amount,

including costs related to purchase of investments, decreased by write-downs made on the account of loss of value.

### **Inventory**

Reserves are valued according to their purchase prices or cost of manufacture, not higher than net sales price for the balance sheet date.

Amount of any write-downs of reserves' net value possible to achieve and any losses in reserves are presented as cost of period in which the write-down or loss took place.

The cost is determined by applying FIFO rule.

### **Liabilities on the account of trade as well as other liabilities**

Liabilities on the account of deliveries and services, whose maturity period is between 30 and 120 days, are presented according to initially invoiced amounts, including write-downs of unrecoverable or doubtful debts. Write-downs for doubtful debts are estimated, when recovery of full amount of debt is not probable anymore. Unrecoverable debts are recorded as losses upon deeming unrecoverable.

### **Cash and cash equivalents**

Cash and short-term investments presented in the balance sheet include cash in bank and in hand as well as short-term investments of initial maturity period not exceeding three months.

Balance of cash and equivalents presented in the account of cash flows consists of cash and equivalents mentioned above, decreased by non-paid credits in current accounts.

Overdraft is presented on the balance sheet as short-term credit and loan item within short-term liabilities.

Cash collected on a separate account of Employee Benefit Fund is not included into cash presented on the balance sheet and the cash flow account.

### **Provisions**

Provisions are created when the unit bears legal or customary liability resulting from past events and when it is probable that fulfillment of this liability will lead to a necessity of extract of funds representing economic benefits, and when the amount of this liability may be reliably estimated.

The Company creates provisions for pension benefits and anniversary awards. The amount of provisions created for these purposes is adjusted on the balance sheet date (31st December each year).

### **Loss of value**

On each balance sheet date, the Company performs review of balance value of fixed assets items in order to state whether there are no circumstances which may lead to loss of their value. In case such circumstances are noted, the recoverable value of each item is estimated for the purpose of assessing possible write-down on this account. The recoverable value is the value higher from among two values, that is: fair value decreased by costs of sales or utility value, which corresponds to current value of estimation of future cash flows discounted by applying rate of discount, considering real market money value at that time and specific risk, if any, for a given asset.

If recoverable value is lower than net account value of the asset item, book value is reduced to recoverable value. Loss from this account is presented as cost in period in which the loss occurred.

In the case of reversal of value loss, net value of items of assets is increased to the new estimated recoverable value, not higher than net value of items of assets which would be estimated if value loss was not noted in the previous periods. Reversal of loss of value is presented as adjustment of cost from period in which circumstances leading to loss of value were halted.

### **Income**

Income from sales are presented in fair value of payments received or receivable and represent receivables for goods, products and services delivered on the basis of standard business activity, decreased by rebates, VAT and other sale-

related taxes.

Income from sale is presented only if the following conditions are met:

- a significant risk was transferred to the purchasing party, relating from propriety rights to products and goods
- The Company ceases to be permanently engaged in management of the sold goods in a level usually effective in the case of possessing propriety rights to the goods, and does not maintain any effective control upon them,
- the amount of income may be valued in a reliable way,
- there is a probability that economic profit will be gained on the account of the transaction and that costs incurred, as well as those that are to be incurred in relation to the transaction may be reliably valued.

The incomes are subtracted only when gaining economic benefits related to the transaction is plausible. Transfer of rights of the sold goods, products and materials is deemed as sale. Execution and commissioning is deemed as moment of providing service. If there is a doubt regarding recoverability of due amount already entered in as income, then the unrecoverable amount, or amount whose recoverability is doubtful, is presented as costs, not as adjustment of the initially presented amount of income.

Amount of income resulting from the transaction is determined contractually. Its value is determined according to fair value of payment, including trade rebates.

Fair value of payment is determined by discounting all future receipts, basing on an imputed rate of interest.

Difference between fair value and nominal value of payment is presented as income on the account of interest. Income on account of interest is presented cumulatively, in reference to main due amount, adopting effective interest rate method.

#### **Dividends**

Payment of dividends for the Company's shareholders is presented as liability in the unit's financial statement for the period in which their approval was made by the shareholders.

#### **Income tax**

For the purpose of financial reporting, income tax provision is established for all interim differences on the balance sheet date between tax value of assets and liabilities; its balance sheet value is presented in the financial report. Deferred income tax provisions are established in the amount of income tax to be paid in the future, resulting from appearance of positive interim differences, i.e. differences that will cause an increase of tax base in the future.

Assets on the account of deferred income tax are determined in an amount estimated in the future for deduction from income tax in relation to negative interim differences, which will in the future cause a decrease of tax base. Balance sheet value of asset item on the account of deferred tax is verified on each balance sheet date and is subject to necessary reduction, provided that attaining taxable income sufficient for partial or total use of deferred income tax asset is not likely anymore. Balance sheet value of asset item on the account of deferred tax is verified on each balance sheet date and is subject to necessary deduction, provided that attaining taxable income sufficient for partial or total use of deferred income tax asset is not likely anymore.

#### **Internal financing costs**

Internal financing costs that may be classified as purchase, construction or production of a subject asset is presented as part of purchase price or cost of manufacture, pursuant to alternative treatment of the IAS 23.

#### **Unfinished production valuation principles**

Unfinished production is valued according to the real cost of use of input materials, i.e. cost of wear of black pipes.

#### **End products valuation principles**

End products are valued according to their scheduled cost of production, determined for each particular assortment items. At the end of each month, real production costs for executed orders are determined. Any accounting deviations resulting from it appear on separate accounts. During the month, end products are valued for expenditure according to their planned production cost. At the end of the month, deviations are calculated, equaling the value of end products with their real cost.

**Equities**

Equities are presented as split into types, and according to principles defined by law and the Company's statute.

Share capital is presented according to its nominal value, in an amount in accordance with the Company' statute and its entry to the Court Register.

Declared, but not paid contributions are presented as independent contributions for the capital. Own shares and receivables for the share capital are deducted from equities.

Capital from issue of shares above their nominal value is established from surplus of issue price of shares above their nominal value, minus costs of such emission.

Costs of share emission incurred upon an increase of share capital decrease share premium capital to a value of share premium.

**Reporting regarding segments**

The Company does not maintain any reporting activity regarding operating segments. The Company operates within reporting segment comprising production, sale and services related with anti-corrosion coating of steel pipes and delivery of pipes for gas and petrochemical purposes. Internal and external coating is a complementary product. This segment constitutes the company's main business activity, other activities are insignificant.

The issuer operates within a single geographical segment. The majority of export sale is sale to the European Community, consisting of countries of similar economical environment and political conditions.

No particular elements or resources are assigned to specific types.

Zawadzkie, 21st March 2013

.....  
Chief Accountant  
Marek Matheja

.....  
President of the Board  
Marek Mazurek

.....  
Vice President of the Board  
Jacek Podwiński



FINANCIAL STATEMENT FOR YEAR 2012

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## I. SELECTED FINANCIAL FIGURES, CONVERTED TO EURO

Selected financial figures	in thousand zł		in thousand EURO	
	For a period of 01.01 to 31.12.2012	For a period of 01.01 to 31.12.2012	For a period of 01.01 to 31.12.2012	For a period of 01.01 to 31.12.2012
Net revenue from sale of products, materials and goods	459,421	259,732	110,078	62,735
Profit (loss) from operating activity	29,147	25,666	6,984	6,199
Gross profit (loss)	25,206	23,773	6,039	5,742
Net profit (loss)	20,306	19,134	4,865	4,622
Net cash flows from operating activity	20,476	19,029	4,906	4,596
Net cash flows from investment activity	-18,329	-27,620	-4,392	-6,671
Net cash flows from financial activity	-18,531	12,101	-4,440	2,923
Change in level of cash and equivalents	-16,384	3,510	-3,926	848
Amount of shares	32,744,000	31,856,329	32,744,000	31,856,329
Profit (loss) per one common share (in zł / EUR)	0.62	0.60	0.15	0.15
Estimated amount of shares	32,744,000	32,744,000	32,744,000	32,744,000
Estimated profit (loss) per one common share (in zł / EUR)	0.62	0.58	0.15	0.14
	<b>As on 31.12.2012</b>	<b>As on 31.12.2011</b>	<b>As on 31.12.2012</b>	<b>As on 31.12.2011</b>
Assets total	280,803	272,426	68,686	61,679
Long-term liabilities	42,309	46,292	10,349	10,481
Short-term liabilities	83,479	85,858	20,420	19,439
Equity	155,015	140,276	37,918	31,760

The selected financial figures presented in the statement have been converted to Euro in the following way: figures related to statement of total income, statement of cash flows, profit (loss) per common share and estimated profit (loss) per common share for 2012 (2011) were converted using rate being mean arithmetic of mean rates issued by NBP, applicable for the last day of each month of the year. The rate was 1 EURO = 4,1736 zł (1 EURO = 4,1401 zł). Figures of the financial statement report were converted using mean rate issued by NBP, applicable on the balance sheet date. The rate on 31.12.2012 was - 1 EURO = 4,0882 zł (on 31.12.2011 - 1 EURO = 4,4168 zł).

## II. FINANCIAL STATEMENT DRAWN UP FOR THE 31ST OF DECEMBER 2012

ASSETS	Note	As on 31.12.2012	As on 31.12.2011
<b>A. Fixed assets (long-term)</b>		<b>137,731</b>	<b>132,200</b>
1. Fixed tangible assets	1	136,256	131,407
2. Other non-tangible assets	2	185	199
3. Marketable investments		0	0
4. Long-term financial assets	5	0	0
5. Deferred income tax assets	34	925	345
6. Long-term liabilities and prepayments/accruals	7	365	249
<b>B. Current assets (short-term)</b>		<b>143,072</b>	<b>140,226</b>
1. Inventory	6	59,972	45,909
2. Short-term liabilities and prepayments/accruals including deliveries/services	7	51,851	57,757
	7	47,787	53,725
3. Income tax receivables	8	0	336
4. Short-term financial assets	5	7,376	0
5. Currency options		0	541
6. Cash and equivalents	38	23,873	35,683
<b>Assets total</b>		<b>280,803</b>	<b>272,426</b>

LIABILITIES	Note	As on 31.12.2012	As on 31.12.2011
<b>A. Equity</b>		<b>155,015</b>	<b>140,276</b>
1. Basic capital	20	65,488	65,488
2. Share premium	21	38,175	38,175
3. Reserve and supplementary capital	22	31,046	17,479
4. Profit/loss from previous years and current year		20,306	19,134
<b>B. Long-term liabilities</b>		<b>42,309</b>	<b>46,292</b>
1. Reserves	13	294	224
2. Deferred income tax liability	34	112	128
3. Long-term bank credits and loans	10	14,630	19,214
4. Other long-term financial liabilities	11	2,446	3,425
5. Long-term liabilities and prepayments/accruals	9	24,827	23,301
<b>C. Short-term liabilities</b>		<b>83,479</b>	<b>85,858</b>
1. Reserves	13	307	181
2. Short-term bank credits and loans	10	7,905	9,389
3. Short-term part of long-term bank credits and loans	10	10,112	10,212
4. Other short-term financial liabilities	11	1,265	942
5. Short-term liabilities and prepayments/accruals including deliveries/services	9	63,640	65,134
	9	56,677	60,540
6. Income tax liabilities	12	250	0
<b>Total liabilities</b>		<b>280,803</b>	<b>272,426</b>

Zawadzkie, 21st March 2013

.....  
 Chief Accountant  
 Marek Matheja

.....  
 President of the Board  
 Marek Mazurek

.....  
 Vice President of the Board  
 Jacek Podwiński

**III. STATEMENT OF TOTAL INCOME FOR A PERIOD OF 1ST JANUARY 2012 TO 31ST DECEMBER 2012  
(CALCULATION VARIANT)**

CALCULATION VARIANT	Note	For a period of 1.1 to 31.12.2012	From 1.1. to 31.12.211
<b>A. Income from sale of products, goods and materials</b>	<b>28</b>	<b>459 421</b>	<b>259,732</b>
<b>B. Costs of sold products, goods and materials</b>	<b>29</b>	<b>407,922</b>	<b>220,946</b>
<b>C. Gross profit/loss from sale (A-B)</b>		<b>51,499</b>	<b>38,786</b>
D. Cost of sale	29	7,800	3,477
E. Overhead costs	29	12,395	10,180
F. Other income	33	1,306	1,402
G. Other costs	33	3,463	865
<b>H. Profit/loss from operating activity (C-D-E+F-G)</b>		<b>29,147</b>	<b>25,666</b>
I. Financial revenue	31	1,725	1,777
J. Financial costs	31	5,666	3,670
<b>K. Gross profit/loss (H+I-J)</b>		<b>25,206</b>	<b>23,773</b>
L. Income tax	34	4,900	4,639
<b>M. Net profit/loss from economic activity (K-L)</b>		<b>20,306</b>	<b>19,134</b>
N. Other total costs		0	0
- Profit/loss from adjustment of valuation of tangible fixed assets		0	0
- Profit/loss from valuation of marketable investments carried over equity		0	0
- Profit/loss regarding securing cash flow (effective part)		0	0
- Rate differences from valuation of units operating abroad		0	0
- Income tax related to figures presented in other total income		0	0
<b>O. Total income sum (M+N)</b>		<b>20,306</b>	<b>19,134</b>

Profit per one share	For a period of 1.1 to 31.12.2012	From 1.1. to 31.12.211
- basic profit from financial result of continued activity (in zł)	0.62	0.60
- basic profit from financial result for business year (in zł)	0.62	0.60
- estimated profit from financial result of continued activity (in zł)	0.62	0.58
- estimated profit from financial result for business year (in zł)	0.62	0.58

Zawadzkie, 21st March 2013

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## IV. STATEMENT OF CHANGES IN EQUITY FOR A PERIOD FROM 1ST JANUARY 2012 TO 31ST DECEMBER 2012

	Basic capital	Share premium	Equity shares	Reserve and supplementary capital	Reserve capital from adjustment of asset valuation	Profit/loss from previous years and current year	Total
<b>Balance as on 1.1.2012</b>	<b>65,488</b>	<b>38,175</b>	<b>0</b>	<b>17,479</b>	<b>0</b>	<b>19,134</b>	<b>140,276</b>
<b>Changes in equity in 2012</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>13,567</b>	<b>0</b>	<b>6,739</b>	<b>20,306</b>
Net profit division	0	0	0	13,567	0	-13,567	0
Emission of basic capital	0	0	0	0	0	0	0
Profit/loss for business year	0	0	0	0	0	20,306	20,306
Cost of emission of shares	0	0	0	0	0	0	0
Registration of basic capital	0	0	0	0	0	0	0
<b>Total revenue and costs presented in 2012</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5,567</b>	<b>-5,567</b>
Dividends	0	0	0	0	0	-5,567	-5,567
<b>Balance as on 31.12.2012</b>	<b>65,488</b>	<b>38,175</b>	<b>0</b>	<b>31,046</b>	<b>0</b>	<b>20,306</b>	<b>155,015</b>

	Basic capital	Share premium	Equity shares	Reserve and supplementary capital	Reserve capital from adjustment of asset valuation	Profit/loss from previous years and current year	Total
<b>Balance as on 1.1.2011</b>	<b>41,488</b>	<b>38,379</b>	<b>0</b>	<b>34,041</b>	<b>0</b>	<b>7,438</b>	<b>121,346</b>
<b>Changes in equity in 2011</b>	<b>24,000</b>	<b>-204</b>	<b>0</b>	<b>-16,562</b>	<b>0</b>	<b>11,696</b>	<b>18,930</b>
Net profit split	0	0	0	7,438	0	-7,438	0
Emission of basic capital	0	0	0	0	0	0	0
Profit/loss for business year	0	0	0	0	0	19,134	19,134
Cost of emission of shares	0	-204	0	0	0	0	-204
Registration of basic capital	24,000	0	0	-24,000	0	0	0
<b>Total revenue and costs presented in 2011</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Dividends	0	0	0	0	0	0	0
<b>Balance as on 31.12.2011</b>	<b>65,488</b>	<b>38,175</b>	<b>0</b>	<b>17,479</b>	<b>0</b>	<b>19,134</b>	<b>140,276</b>

Zawadzkie, 21st March 2013

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## V. STATEMENT OF CASH FLOWS FOR A PERIOD FROM 1ST JANUARY 2012 TO 31ST DECEMBER 2012 (INDIRECT METHOD)

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2012
<b>Cash flows from operating activity</b>		
<b>Profit/loss without tax</b>	<b>25,800</b>	<b>23,884</b>
<b>Adjustments by:</b>	<b>-5,324</b>	<b>-4,855</b>
Fixed assets depreciation	4,556	3,479
Non-tangible assets depreciation	64	71
Profits/losses from rate differences	1,023	-635
Profits/losses from interest	1,616	1,186
Profit/loss from investment activity	-98	-164
Change in provisions	180	-88
Change in inventory	-14,063	-25,847
Change in level of liabilities and prepayments	5,653	-3,657
Change in level of liabilities and accruals	3,254	30,093
Paid/returned income tax	-4,909	-4,632
Other adjustments	-2,600	-4,661
<b>Net cash flows from operating activity</b>	<b>20,476</b>	<b>19,029</b>
<b>Cash flows from investment activity</b>		
Revenue from sale of tangible and non-tangible assets	2,700	398
Revenue from sale of financial assets	0	0
Revenue from interest	86	0
Other investment revenue - obtained subsidies	2,600	4,661
Expenses for purchase of tangible fixed assets and non-tangible assets	15,829	32,754
Net expenses for purchase of associated and subject units	0	0
Granted loans	7,574	0
Other	-312	75
<b>Net cash flows from investment activity</b>	<b>-18,329</b>	<b>-27,620</b>
<b>Cash flows from financial activity</b>		
Revenue from loans and credits	5,500	18,590
Net revenue from emission of shares, bonds, bills of exchange	0	0
Repayment of loans and credits	16,107	4,404
Payment of financial lease liabilities	942	1,059
Dividends paid to the Company's shareholders	5,566	0
Paid interest	1,416	822
Other		-204
<b>Net cash flow from financial activity</b>	<b>-18,531</b>	<b>12,101</b>
<b>Increase/decrease of level of cash and equivalents</b>	<b>-16,384</b>	<b>3,510</b>
<b>Cash, equivalents and overdrafts in the begin of the period</b>	<b>32,441</b>	<b>28,931</b>
Profit/loss on the account of rate exchange rate differences regarding valuation of cash, cash equivalents and credits on the current account	-88	22
<b>Cash, cash equivalents and overdrafts at the end of the period</b>	<b>16,057</b>	<b>32,441</b>

Zawadzkie, 21st March 2013

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## VI. ADDITIONAL INFORMATION TO THE FINANCIAL STATEMENT DRAWN UP ON THE 31ST DECEMBER 2012

### 1. Fixed tangible assets

#### Scope of changes in values of tangible fixed assets in year 2012

Specification	Lands, including right of perpetual usufruct	Local buildings and land/marine engineering objects	Means of transport	Technical devices, machines	Other fixed assets	Total
<b>Gross value in the begin of the period</b>	<b>1,387</b>	<b>85,390</b>	<b>1,699</b>	<b>58,963</b>	<b>5,005</b>	<b>152,444</b>
Increases, including:	58	4,644	230	7,188	329	12,449
– purchase	58	4,644	230	7,188	329	12,449
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
Decreases, including:(-)	-57	-4,369	-226	-192	-164	-5,008
– liquidation	0	-155	-1	-128	-156	-440
– adjustment of value	0	0	0	0	0	0
– sale	-57	-4,214	-225	-64	-8	-4,568
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
<b>Gross value at the end of the period</b>	<b>1,388</b>	<b>85,665</b>	<b>1,703</b>	<b>65,959</b>	<b>5,170</b>	<b>159,885</b>
<b>Remission in the begin of the period</b>	<b>0</b>	<b>3,757</b>	<b>812</b>	<b>14,885</b>	<b>1,583</b>	<b>21,037</b>
Current remissions - increases (including IAS changes)	0	1,596	249	2,396	315	4,556
Decreases, including:(-)	0	-1,397	-221	-182	-164	-1,964
– liquidation	0	-79	-1	-128	-156	-364
– sale	0	-1,318	-220	-54	-8	-1,600
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
<b>Remission at the end of the period</b>	<b>0</b>	<b>3,956</b>	<b>840</b>	<b>17,099</b>	<b>1,734</b>	<b>23,629</b>
Net book value in the begin of the period	1,387	81,633	887	44,078	3,422	131,407
Write-down in the begin of the period	0	0	0	0	0	0
<b>Net value in the begin of the period, upon including write-down</b>	<b>1,387</b>	<b>81,633</b>	<b>887</b>	<b>44,078</b>	<b>3,422</b>	<b>131,407</b>
Net book value at the end of the period	1,388	81,709	863	48,860	3,436	136,256
Write-down at the end of the period	0	0	0	0	0	0
<b>Net value at the end of the period, upon including write-down</b>	<b>1,388</b>	<b>81,709</b>	<b>863</b>	<b>48,860</b>	<b>3,436</b>	<b>136,256</b>

#### Scope of changes in values of tangible fixed assets in year 2011

Specification	Lands, including right of perpetual usufruct	Local buildings and land/marine engineering objects	Means of transport	Technical devices, machines	Other fixed assets	Total
<b>Gross value in the begin of the period</b>	<b>1,387</b>	<b>60,252</b>	<b>1,685</b>	<b>56,392</b>	<b>3,219</b>	<b>122,935</b>
Increases, including:	0	25,138	228	8,797	1,810	35,973
– purchase	0	25,138	228	8,797	1,810	35,973
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
Decreases, including:(-)	0	0	-214	-6,226	-24	-6,464
– liquidation	0	0	-3	-6,204	-20	-6,227
– adjustment of value	0	0	0	0	0	0
– sale	0	0	-211	-22	-4	-237
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
<b>Gross value at the end of the period</b>	<b>1,387</b>	<b>85,390</b>	<b>1,699</b>	<b>58,963</b>	<b>5,005</b>	<b>152,444</b>
<b>Remission in the begin of the period</b>	<b>0</b>	<b>2,589</b>	<b>772</b>	<b>19,193</b>	<b>1,434</b>	<b>23,988</b>
Current remissions - increases (including IAS changes)	0	1,168	236	1,903	173	3,480
Decreases, including:(-)	0	0	-196	-6,211	-24	-6,431
– liquidation	0	0	-3	-6,189	-20	-6,212
– sale	0	0	-193	-22	-4	-219
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
<b>Remission at the end of the period</b>	<b>0</b>	<b>3,757</b>	<b>812</b>	<b>14,885</b>	<b>1,583</b>	<b>21,037</b>
Net book value in the begin of the period	1,387	57,663	913	37,199	1,785	98,947
Write-down in the begin of the period	0	0	0	0	0	0
<b>Net value in the begin of the period, upon including write-down</b>	<b>1,387</b>	<b>57,662</b>	<b>913</b>	<b>37,198</b>	<b>1,786</b>	<b>98,946</b>
Net book value at the end of the period	1,387	81,633	887	44,078	3,422	131,407
Write-down at the end of the period	0	0	0	0	0	0
<b>Net value at the end of the period, upon including write-down</b>	<b>1,387</b>	<b>81,633</b>	<b>887</b>	<b>44,078</b>	<b>3,422</b>	<b>131,407</b>

The Company holds no liabilities to the Treasury on the account of transfer of land propriety rights. Lands presented as assets include right of perpetual usufruct, which is not subject to depreciation.

## Ownership structure of fixed tangible assets:

Specification	As on 31.12.2012	As on 31.12.2012
1. Own	128,825	123,729
2. Used basing on lend/lease contracts or other	7,431	7,678
<b>Tangible fixed assets total</b>	<b>136,256</b>	<b>131,407</b>

In the fixed tangible assets were included fixed assets constantly utilized by the Company basing on financial lease contracts, whose net value as on 31.12.2012 was:

- means of transport - 293 thousand zł.,
- technical devices, machines - 7.138 thousand zł.

Contractual liabilities from leased fixed assets as on 31.12.2012 equaled 3.426 thousand zł.

Investment purchases in 2012 were directed mostly for increasing level of tangible fixed assets and were paid for from the Company's equity.

## Main Company's investments in 2012 (including non-tangible purchases):

Specification	For a period of 1.1 to 31.12.2012
- completion of Research & Development Center construction	5,890
- construction of stacking yard no. 4	2,455
- purchase of developed property	953
- completion of small diameter pipes warehouse construction	890
- modernization of internal coating line	397
- modernization of paints warehouse	387
- modernization of internal coating line	326
- purchase of vacuum cross-bar	233
- purchase of means of transport	162
- purchase of computer equipment	88
- other purchases	718
<b>Total</b>	<b>12,499</b>

In year 2011, investments totaled for an amount of 36.066 thousand zł.

Fixed assets in construction as on 31.12.2012 equaled 1.733 thousand zł. and include:

- purchase and modernization of expeditors' buildings - 895 thousand zł.,
- modernization of paints warehouse - 387 thousand zł.,
- pipe identification system - 164 thousand zł.,
- purchase of dwelling - 75 thousand zł.,
- silo for waste storage - 69 thousand zł.,
- modernization of research posts - 30 thousand zł.,
- other - 113 thousand zł.,

The following fixed assets constituted security for credits taken by the Company, as on 31.12.2012:

- coating production line (large diameters), whose net worth as on 31.12.2012 equaled 18.213 thousand zł., (lien placed)
- test post for induction heating, whose net value as on 31.12.2012 equaled 1.801 thousand zł., (lien placed)
- test post for applying protection coats, whose net value as on 31.12.2012 equaled 4.218 thousand zł., (lien placed),
- test post for temporary anti-corrosion protection, whose net value as on 31.12.2012 equaled 1.238 thousand zł., (lien placed),
- control and automatics module, whose net value as on 31.12.2012 equaled 2.019 thousand zł., (lien placed).

Fixed assets constituting security for payment of liabilities by the Company:

Specification	As on 31.12.2012	As on 31.12.2012
<b>Amount of security (amount to which security was raised)</b>		
Mortgage	60,936	60,936
Lien and transfer of fixed tangible assets	27,489	18,280
<b>Total</b>	<b>88,425</b>	<b>79,216</b>
<b>Net balance value</b>		
Lands and right of perpetual usufruct	1,330	1,330
buildings and structures	80,709	78,538
technical devices and machines	27,489	18,280
Other fixed assets	0	0
<b>Total</b>	<b>109,528</b>	<b>98,148</b>

Fixed tangible assets:

Specification	As on 31.12.2012	As on 31.12.2012
Lands, including right of perpetual usufruct	1,388	1,387
Local buildings and land/marine engineering objects	81,709	81,633
Technical devices, machines	48,860	44,078
Means of transport	863	887
Other fixed assets	3,436	3,422
<b>Fixed tangible assets total</b>	<b>136,256</b>	<b>131,407</b>

The right of perpetual usufruct is for lands located under the following addresses:

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

Valuation of right of perpetual usufruct is made according to its purchase price. Lands are purchased after year 1997 - after the hyperinflation period.

## 2. Other non-tangible assets

Scope of changes in other non-tangible asset values in 2012:

Specification	Non-tangible assets produced by self		Other non-tangible assets			Total
	Patents, trademarks, development works	Others	Patents, trademarks, development works	Others	Advance payments for assets in construction	
<b>Gross value in the begin of the period</b>	<b>58</b>	<b>0</b>	<b>4</b>	<b>1,153</b>	<b>0</b>	<b>1,215</b>
IAS change	0	0	0	0	0	0
Increases, including:	4	0	-4	50	0	50
– purchase	0	0	0	50	0	50
– internal dislocation	4	0	-4	0	0	0
– other	0	0	0	0	0	0
Decreases, including:(-)	0	0	0	-2	0	-2
– liquidation	0	0	0	-2	0	-2
– adjustment of value	0	0	0	0	0	0
– sale	0	0	0	0	0	0
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
<b>Gross value at the end of the period</b>	<b>62</b>	<b>0</b>	<b>0</b>	<b>1,201</b>	<b>0</b>	<b>1,263</b>
<b>Remission in the begin of the period</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1,015</b>	<b>0</b>	<b>1,016</b>
Current remissions - increases (including IAS changes)	12	0	0	52	0	64
Decreases, including:(-)	0	0	0	-2	0	-2
– liquidation	0	0	0	-2	0	-2
– sale	0	0	0	0	0	0
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
<b>Remission at the end of the period</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>1,065</b>	<b>0</b>	<b>1,078</b>
Net book value in the begin of the period	57	0	4	138	0	199
Write-down in the begin of the period	0	0	0	0	0	0
<b>Net value in the begin of the period, upon including write-down</b>	<b>57</b>	<b>0</b>	<b>4</b>	<b>138</b>	<b>0</b>	<b>199</b>
Net book value at the end of the period	49	0	0	136	0	185
Write-down at the end of the period	0	0	0	0	0	0
<b>Net value at the end of the period, upon including write-down</b>	<b>49</b>	<b>0</b>	<b>0</b>	<b>136</b>	<b>0</b>	<b>185</b>

Scope of changes in other non-tangible asset values in 2011:

Specification	Non-tangible assets produced by self		Other non-tangible assets		Advance payments for assets in construction	Total
	Patents, trademarks, development works	Others	Patents, trademarks, development works	Others		
<b>Gross value in the begin of the period</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>1,118</b>	<b>0</b>	<b>1,122</b>
IAS change	0	0	0	0	0	0
Increases, including:	58	0	0	35	0	93
– purchase	58	0	0	35	0	93
– internal dislocation	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
– adjustment of value	0	0	0	0	0	0
– sale	0	0	0	0	0	0
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
<b>Gross value at the end of the period</b>	<b>58</b>	<b>0</b>	<b>4</b>	<b>1,153</b>	<b>0</b>	<b>1,215</b>
<b>Remission in the begin of the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>945</b>	<b>0</b>	<b>945</b>
Current remissions - increases (including IAS changes)	1	0	0	70	0	71
Decreases, including:(-)	0	0	0	0	0	0
– liquidation	0	0	0	0	0	0
– sale	0	0	0	0	0	0
– internal dislocation	0	0	0	0	0	0
– other	0	0	0	0	0	0
<b>Remission at the end of the period</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1,015</b>	<b>0</b>	<b>1,016</b>
Net book value in the begin of the period	0	0	4	173	0	177
Write-down in the begin of the period	0	0	0	0	0	0
<b>Net value in the begin of the period, upon including write-down</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>173</b>	<b>0</b>	<b>177</b>
Net book value at the end of the period	57	0	4	138	0	199
Write-down at the end of the period	0	0	0	0	0	0
<b>Net value at the end of the period, upon including write-down</b>	<b>57</b>	<b>0</b>	<b>4</b>	<b>138</b>	<b>0</b>	<b>199</b>

As on 31.12.2012, the main non-tangible and legal asset items are:

- software for pipe identification - 47 thousand zł.,
- other computer software - worth 94 thousand zł. total,
- development works on drill pipes coating with a 3LPP triple-layer coat - worth 44 thousand zł.,

### 3. Investment properties

The Company as on 31.12.2012 does not possess any investment properties.

### 4. Company value

Not applicable.

### 5. Long-term and short-term financial assets

The Company possesses financial assets on the account of a granted loan.

The Company has granted a loan to ZRUG Zabrze S.A. in an amount of 10 million zł. The loan is granted exclusively for financing of a pipeline construction DN 700 Szczecin-Gdańsk carried out within a consortium ZRUG Zabrze S.A. seated in Zabrze (consortium leader), Stalprofil S.A. seated in Dąbrowa Górnicza (consortium member) and Nafta - Gaz - Serwis S.A. seated in Sanok (consortium member) for Gaz-System S.A: Stage II pipeline DN 700 Karlino - Koszalin, Stage III pipeline DN 700 Koszalin - Słupsk, Stage IV pipeline DN 700 - Słupsk - Wiczlino.

The loan is paid in tranches and may be granted also in EUR currency. The loan has been granted on market conditions, its interest is WIBOR 1M increased by mark-up for the PLN part and EURIBOR 1M increased by mark-up for the EUR part. The loan's security is an open note together with a bill of exchange. The loan's repayment deadline is 31.12.2013.

Loans as on 31.12.2012:

Specification	Repayment deadline	As on 31.12.2012	As on 31.12.2012		
			Total	including: short-term	including: long-term
Loan granted to ZRUG Zabrze S.A.	31.12.2013	0	7,376	7,376	0
<b>Total</b>		<b>0</b>	<b>7,376</b>	<b>7,376</b>	<b>0</b>

The presented loan's balance, as on 31.12.2012 includes:

- granted loan amount (7, 351 thousand zł),
- loan interest (25 thousand zł.).

## 6. Inventory

Inventory level as on 31.12.2012:

Specification	Valuation according to purchase price/cost of manufacture	Valuation according to achievable net value	Amount of inventory value write-downs in the begin of the period	Amounts of reversal of inventory write-downs presented as reduction of the write-down in period	Amounts of inventory value write-downs presented in the period as cost	Amount of inventory value write-downs at the end of the period	Value of inventory presented as cost in the period	Inventory balance value at the end of the period	Value of inventory constituting security of liabilities
Basic materials	25,609	0	400	400	2,711	2,711	221,106	22,898	32,500
Auxiliary materials	989	0	0	0	0	0	2,351	989	
Products in process	0	0	0	0	0	0	0	0	
End products	24,962	0	2	0	664	666	0	24,296	
Goods	11,789	0	149	149	0	0	178,966	11,789	
<b>TOTAL</b>	<b>63,349</b>	<b>0</b>	<b>551</b>	<b>549</b>	<b>3,375</b>	<b>3,377</b>	<b>402,423</b>	<b>59,972</b>	

List of inventory as on 31.12.2011:

Specification	Valuation according to purchase price/cost of manufacture	Valuation according to achievable net value	Amount of inventory value write-downs in the begin of the period	Amounts of reversal of inventory write-downs presented as reduction of the write-down in period	Amounts of inventory value write-downs presented in the period as cost	Amount of inventory value write-downs at the end of the period	Value of inventory presented as cost in the period	Inventory balance value at the end of the period	Value of inventory constituting security of liabilities
Basic materials	16,948	0	1	1	400	400	145,236	16,548	26,500
Auxiliary materials	4,658	0	0	0	0	0	1,564	4,658	
Products in process	0	0	0	0	0	0	0	0	
End products	20,541	0	47	47	2	2	0	20,539	
Goods	4,313	0	0	0	149	149	83,697	4,164	
<b>TOTAL</b>	<b>46,460</b>	<b>0</b>	<b>48</b>	<b>48</b>	<b>551</b>	<b>551</b>	<b>230,497</b>	<b>45,909</b>	

As on 31.12.2012, the inventory of total value of 32.500 thousand zł constituted security for the following credits taken by the Company:

- multi-purpose credit limit granted by PKO BP S.A. bank in an amount of 22.000 thousand zł (lien on inventory of 16,500 thousand zł value)
- current account credit granted by BRE BANK S.A. in an amount of 10.000 thousand zł. (lien on inventory of 6,000 thousand zł value)
- revolving credit granted by BRE BANK S.A. in an amount of 10.000 thousand zł (lien on inventory of 10000 thousand zł value)

Write-downs performed are recorded as operating activity costs (end products) or other costs (other inventory items). Reversed write-downs are recorded as operating activity costs or other costs.



## 7. Receivables and prepayments/accruals

Receivables from debtors to be liquidated or deemed bankrupt, questioning validity of the debt, or in any other cases, when the assessment of financial situation of the subject indicates that payment of liabilities in the nearest future is not plausible, are subject to write-down.

As on 31st December 2012, the Company has written down all endangered receivables. In case the receivable is insured, the Company deduces only the value of its loss.

In reference to the possessed receivables, the Company has the right to impose interest rates, pursuant to any legal provisions and in accordance with rates determined, provided the debtor has failed to satisfy the liability in time.

The Company, in case of export receivables, applies a 30-120 day payment deadline, as compared to a 30-90 day deadline for domestic trade. No failures in meeting payment deadlines were noted in 2012.

Detailed list of the Company's receivables:

Specification	As on 31.12.2012	As on 31.12.2011
<b>Services and deliveries-related receivables:</b>	<b>48,519</b>	<b>54,897</b>
- long-term part	0	0
- short-term part	48,519	54,897
<b>Receivables from affiliates, including:</b>	<b>0</b>	<b>0</b>
<b>services and deliveries-related receivables</b>	<b>0</b>	<b>0</b>
- long-term part	0	0
- short-term part	0	0
<b>other receivables</b>	<b>0</b>	<b>0</b>
- long-term part	0	0
- short-term part	0	0
<b>Receivables from affiliates, including:</b>	<b>98</b>	<b>928</b>
<b>services and deliveries-related receivables</b>	<b>98</b>	<b>928</b>
- long-term part	0	0
- short-term part	98	928
<b>other receivables</b>	<b>0</b>	<b>0</b>
- long-term part	0	0
- short-term part	0	0
<b>Prepayments:</b>	<b>0</b>	<b>0</b>
- long-term part	0	0
- short-term part	0	0
<b>Other liabilities:</b>	<b>3,624</b>	<b>4,231</b>
- long-term part	0	0
- short-term part	3,624	4,231
<b>Current prepayments/accruals:</b>	<b>805</b>	<b>413</b>
- long-term part	365	249
- short-term part	440	164
<b>Prepayments/accruals on the account of revaluation in the begin of the period</b>	<b>1,199</b>	<b>1,355</b>
<b>Presentation in the period of revaluation write-downs</b>	<b>894</b>	<b>1,040</b>
<b>Reversal in the period of revaluation write-down</b>	<b>1,361</b>	<b>1,196</b>
<b>Revaluation write downs at the end of the period</b>	<b>732</b>	<b>1,199</b>
<b>TOTAL</b>	<b>52,216</b>	<b>58,342</b>

Receivables and prepayments/accruals - currency structure:

Specification	As on 31.12.2012	As on 31.12.2011
a) in Polish currency	48,343	34,093
b) in foreign currencies (according to currencies and PLN conversion)	3,873	24,249
b1. unit/EURO value	973	5,365
conversion to PLN	3,873	23,341
B2. unit/USD currency	0	270
conversion to PLN	0	908
<b>Short-term receivables total</b>	<b>52,216</b>	<b>58,342</b>

Gross trade receivables with maturity date other than balance sheet date:

Specification	As on 31.12.2012	As on 31.12.2011
a) up to 1 month	26,986	29,408
b) above 1 month to 3 months	7,259	14,738
c) above 3 months to 6 months	2,418	76
d) above 6 months to 12 months	0	0
e) above 1 year	0	0

f) overdue receivables	11,856	10,675
<b>trade receivables total (gross)</b>	<b>48,519</b>	<b>54,897</b>
g) write-downs of trade receivables	732	1,172
<b>Trade receivables total (net)</b>	<b>47,787</b>	<b>53,725</b>

Trade receivables, overdue, divided into receivables not paid within the period:

Specification	As on 31.12.2012	As on 31.12.2011
a) up to 1 month	4,962	5,815
b) above 1 month to 3 months	4,489	2,831
c) above 3 months to 6 months	1,480	227
d) above 6 months to 1 year	221	1,723
e) above 1 year	704	79
<b>Trade receivables</b>	<b>11,856</b>	<b>10,675</b>
f) overdue trade liabilities write-downs	521	1,172
<b>Overdue trade liabilities total (net)</b>	<b>11,335</b>	<b>9,503</b>

Long-term prepayments/accruals relate mainly to costs of obtained certificates (213 thousand zł) and insurance (151 thousand zł).

As on 31.12.2012 and 31.12.2011, no long-term receivables were due.

Short-term prepayments/accruals of costs as on 31.12.2012 relate to:

- insurances (299 thousand zł.),
- costs of obtaining certificates (103 thousand zł.),
- other costs (38 thousand zł.).

Other receivables amount of 3.624 thousand zł as on 31.12.2012 relates mostly to VAT tax receivables (3.398 thousand zł.).

Write-downs as on 31.12.2012 relate entirely to trade receivables.

#### 8. Income tax receivables

As on 31.12.2012, the company holds no income tax receivables. As on 31.12.2011, income tax receivables equaled 336 thousand zł.

#### 9. Liabilities and prepayments/accruals

The unit's trade liabilities bear interest in accordance with provisions of law. Lease contract liabilities are an exception, as they require change in interest rates in the case of overdue. No interest of trade liabilities exists, except for the above mentioned. In relation to foreign liabilities, the Company manages to achieve payment deadlines of 30 to 60 days from the date of issue of invoice. As for domestic liabilities, the Company manages to maintain payment terms of 7 to 90 days from the date of issue of invoice. Prepayments or payments upon receipt to new counterparts are an exception.

The Company's tax liabilities (in case of overdue payment) bear interest of an amount defined by the provisions of law. Tax and insurance liabilities as on 31.12.2012 and 31.12.2011 equaled 5.827 thousand zł and 2.967 thousand zł accordingly.

Remuneration liabilities as on 31.12.2012 and 31.12.2011 equaled 494 thousand zł. and 505 thousand zł accordingly.

#### Detailed Company' liabilities structure

Specification	As on 31.12.2012	As on 31.12.2011
<b>Trade liabilities:</b>	<b>56,677</b>	<b>60,540</b>
- long-term part	0	0
- short-term part	56,677	60,540
<b>Liabilities to affiliated units, including:</b>	<b>0</b>	<b>0</b>
<b>trade liabilities</b>	<b>0</b>	<b>0</b>
- long-term part	0	0
- short-term part	0	0
<b>other liabilities</b>	<b>0</b>	<b>0</b>

- long-term part	0	0
- short-term part	0	0
<b>Liabilities from affiliated units, including:</b>	<b>15,222</b>	<b>6,844</b>
<b>trade liabilities</b>	<b>15,222</b>	<b>6,844</b>
- long-term part	0	0
- short-term part	15,222	6,844
<b>other liabilities</b>	<b>0</b>	<b>0</b>
- long-term part	0	0
- short-term part	0	0
<b>Prepayments:</b>	<b>0</b>	<b>0</b>
- long-term part	0	0
- short-term part	0	0
<b>Other liabilities:</b>	<b>6,355</b>	<b>3,500</b>
- long-term part	0	0
- short-term part	6,355	3,500
<b>Accruals:</b>	<b>0</b>	<b>0</b>
- long-term part	0	0
- short-term part	0	0
<b>Revenue accruals/prepayments:</b>	<b>25,685</b>	<b>24,395</b>
- long-term part	24,827	23,301
- short-term part	858	1,094
<b>TOTAL</b>	<b>88,717</b>	<b>88,435</b>

Income accruals as on 31.12.2012 presented in the table refer to:

- subsidy accrued for purchase of fixed assets obtained as part of action 4.4. (New investments of high investment potential) – 18,646 thousand zł.
- subsidy accrued for purchase of fixed assets obtained as part of action 4.5. (Support for economically significant investments). – 7,033 thousand zł.
- received prepayments for deliveries - 6 thousand zł.

Short-term liabilities - currency structure:

Specification	As on 31.12.2012	As on 31.12.2011
a) in Polish currency	47,501	42,306
b) in foreign currencies (according to currencies and PLN conversion)	35,671	43,371
b1. unit/EURO value	8,527	9,308
conversion to PLN	35,671	42,577
B2. unit/USD currency	0	225
conversion to PLN	0	794
<b>Short-term liabilities total</b>	<b>83,172</b>	<b>85,677</b>

## 10. Loans and credits

The Company as on 31.12.2012 had the following credits taken:

- Multi-purpose credit limit granted by PKO BP S.A. in the amount of 22,000 thousand zł. The credit expires on 8.09.2013. The credit bears an interest rate of WIBOR 1M minus bank markup. The credit may be utilized in PLN and EUR. The credit is secured by open note, lien on inventory equal 16,500 thousand zł. together with transfer of insurance policy rights, clause regarding deduction of debt amounts from accounts managed by PKO BP S.A.

- Investment credit granted by PKO BP S.A. in the amount of 26,000 thousand zł. The credit has been taken for the purpose of financing construction of the Center for Steel Pipes Anti-corrosion Coatings. The credit expires on 31.03.2016. The credit is repaid in two monthly installments, beginning from 1st January 2011 until 31st March 2016. The credit interest is WIBOR 3M plus bank markup. The credit's security is open not, total mortgage worth 26,000 thousand zł and collateral mortgage worth 10,400 thousand zł for properties under land register signature OP1S/00040617/8, KW57525, KW41822, registered pledge on a production line of fi 1220 mm internal coatings with policy transfer rights, trade debts transfer, cash debt transfer from insurance contracts within the limit of property constituting security.
- Investment credit granted by BNP PARIBAS BANK POLSKA S.A. for an amount of 12,358 thousand zł. The credit is utilized for financing of construction of Research & Development Center for Technologies and Steel Products. The credit expires on 3.01.2014. The credit will be repaid in two equal monthly installments, beginning from January 2012 until January 2014. The credit interest is WIBOR 3M plus bank markup. The credit security is open note, general transfer of debts from selected debtors in an amount of 5.000 thousand zł. (it also constitutes legal security on credit in form of multi-purpose credit line granted by BNP PARIBAS BANK POLSKA S.A.), contractual mortgage to an amount of 18,536 thousand zł for property under land register signature OP1S/00040617/8, registered pledge on machines and devices as well as transfer of machines and devices of total value above 9,000 thousand zł., transfer of rights to insurance policies from fire and other random events related with machines and devices, borrower's statement of subjection for execution to the bank.
- Multi-purpose credit line granted by BNP PARIBAS BANK POLSKA S.A. for an amount of 5,000 thousand zł. The credit expires on 23th May 2013. The credit interest is WIBOR 1M plus bank markup. The credit security is open note together with note declaration and statement of note issuer, statement of subjection for execution from the borrower and general transfer of debts on account of trade receivables from selected debtors (also constitutes legal security of investment credit granted by BNP PARIBAS BANK POLSKA S.A.)
- Multi-currency credit on the current account granted by BRE Bank S.A. for an amount of 10,000 thousand zł. The credit expires on 31st January 2013. The credit interest is WIBOR O/N plus bank markup for part utilized in PLN and LIBOR O.N plus bank markup for part utilized in EUR. The credit security is open note and registered pledge on inventory, materials for production and end products in form of coated steel pipes of value equal 6,000 thousand zł, being the borrower's property, including transfer of insurance policy rights.
- Revolving credit in EUR granted by BNP PARTIBAS BANK POLSKA S.A. for an amount of 3,000 thousand EUR. The credit expires on 19th May 2013. Credit interest is EURIBOR 1M plus bank markup. Credit security is open note with promissory note declaration and statement of note issuer, borrower's statement of subjection to execution, general transfer of debt on account of trade receivables from selected debtors.
- Revolving credit granted by BRE Bank S.A. for an amount of 10,000 thousand zł. The credit expires on 28.08.2014. The credit interest is WIBOR 1M plus bank markup. Credit security is open note with promissory note declaration and registered pledge on inventory, materials for production and end products in form of coated steel pipes of value equal 10,000 thousand zł.

## Credits and loans as on 31.12.2012:

Specification	Repayment deadline	As on 31.12.2012	As on 31.12.2012		
			Total	including: short-term	including: long-term
Multi-purpose credit limit PKO BP	08.09.2013	0	0	0	0
Investment credit PKO BP	31.03.2016	17,027	12,788	4,152	8,636
Investment credit BNP Paribas Bank Polska SA	03.01.2014	12,407	6,454	5,960	494
Multi-currency current account credit	31.01.2013	3,222	7,905	7,905	0
Multi-purpose credit line BNP Paribas Bank Polska SA	23.05.2013	0	0	0	0
Working-capital credit BRE Bank SA	29.06.2012	6,159	0	0	0
Revolving credit BNP Paribas Bank Polska S.A.	19.05.2013	0	0	0	0
Revolving credit BRE Bank SA	28.08.2014	0	5,500	0	5,500
<b>Total</b>		<b>38,815</b>	<b>32,647</b>	<b>18,017</b>	<b>14,630</b>

Loans and credits balance presented in the table, as on 31.12.2012 include:

- Amount of utilized credit (32,619 thousand zł)

- Amount of accrued interest (28 thousand zł)

### 11. Other financial liabilities

The amount of other financial liabilities presented in the balance sheet for 31.12.2012 corresponds to lease commitments on account of lease (3,426 thousand zł) and financial instruments write-downs (285 thousand zł).

### 12. Income tax liabilities

As on 31.12.2012, income tax liabilities equaled 250 thousand zł. As on 31.12.2011, the Company did not hold any income tax liabilities.

### 13. Provisions

Deferred income tax provisions were also presented in the note.

As on the beginning of the period, established provisions equaled 533 thousand zł and included:

- provision for coverage of retirement bonuses and anniversary bonuses in amount of 239 thousand zł, out of which 224 thousand zł is a long-term provision, while 15 thousand zł. is a short-term provision,
- long-term provision for deferred income tax of 128 thousand zł,
- short-term provision for remunerations of 166 thousand zł.

As on 31.12.2012, amount of established provisions equaled 713 thousand zł, and included:

- provision for coverage of retirement bonuses and anniversary bonuses in amount of 314 thousand zł, out of which 294 thousand zł is a long-term provision, while 20 thousand zł. is a short-term provision,
- long-term provision for deferred income tax of 112 thousand zł,
- short-term provision for remunerations of 287 thousand zł.

Level of provisions as on 31.12.2012:

Specification	Warranty repair provisions	Restructuring provisions	Employee benefits provisions and alike	Other provisions	Total
<b>Value in the begin of the period, including:</b>	<b>0</b>	<b>0</b>	<b>405</b>	<b>128</b>	<b>533</b>
- short-term in the begin of the period	0	0	181	0	181
- long-term in the begin of the period	0	0	224	128	352
Increases	0	0	434	0	434
- established within the period and increase of existing	0	0	434	0	434
- procured from merge of business units	0	0	0	0	0
Decreases	0	0	238	16	254
- utilized within a year	0	0	238	16	254
- released but not utilized	0	0	0	0	0
Net currency variance adjustments from conversion	0	0	0	0	0
Discount rate adjustment	0	0	0	0	0
<b>Value at the end of the period, including:</b>	<b>0</b>	<b>0</b>	<b>601</b>	<b>112</b>	<b>713</b>
-short-term at the end of the period	0	0	307	0	307
-long-term at the end of the period	0	0	294	112	406

Level of provisions as on 31.12.2011:

Specification	Warranty repair provisions	Restructuring provisions	Employee benefits provisions and alike	Other provisions	Total
<b>Value in the begin of the period, including:</b>	<b>0</b>	<b>0</b>	<b>409</b>	<b>213</b>	<b>622</b>
- short-term in the begin of the period	0	0	238	0	238
- long-term in the begin of the period	0	0	171	213	384
Increases	0	0	654	0	654
- established within the period and increase of existing	0	0	654	0	654
- procured from merge of business units	0	0	0	0	0
Decreases	0	0	658	85	743
- utilized within a year	0	0	658	85	743
- released but not utilized	0	0	0	0	0
Net currency rate difference adjustments from conversion	0	0	0	0	0

Discount rate adjustment	0	0	0	0	0
<b>Value at the end of the period, including:</b>	<b>0</b>	<b>0</b>	<b>405</b>	<b>128</b>	<b>533</b>
-short-term at the end of the period	0	0	181	0	181
-long-term at the end of the period	0	0	224	128	352

#### 14. Retirement benefits provisions and alike

Pursuant to employee benefits code accepted by the Company, all employments are entitled to gratitude bonuses, retirement and pension bonuses in an amount equivalent to monthly remuneration, as well as service anniversary awards.

Provision estimations for retirement benefits and anniversary awards are performed by an actuary.

These estimations have been presented in the financial statement as the following figures:

Specification	As on 31.12.2012	As on 31.12.2012
Retirement benefits	30	29
Service anniversary awards	284	210
<b>Total</b>	<b>314</b>	<b>239</b>

Retirement benefit and service anniversary award provisions are adjusted at the end of each business year. During the business year, the amount of provisions is deducted by benefits granted.

To estimate the level of provisions as on 31.12.2012, the actuary has made the following assumptions:

- remuneration increase rate - the Company is not planning any remuneration increases for year 2013.
- probability of retirement - estimated basing on data regarding specific employees, such as: age, gender, data regarding retirement age (age in which the employee is entitled to retirement), as well as data regarding personnel movement of the enterprise within the last three years. The last data include information on reasons for termination of employment of employees, (for example for natural reasons, such as death).
- mobility - relative mobility indicators were estimated basing on the Company personnel's mobility in the recent years;
- technical interest rate - pursuant to IAS19, interest rate of discounting such liabilities should be determined basing on rate of return on bonds of good enterprises with a maturity period in accordance with estimated date of benefit. In case of absence of sufficient data on the market, return rates of treasury bonds should be applied. The actuary has adopted the return rate on a level of interest rate of long-term Treasury bonds for the end of 2012 (3,24%).
- retirement age - pursuant to legislation applicable as on 31.12.2012.

Valuation method adopted by the actuary was as follows:

- pursuant to IAS19, for determination of provision, Forecast Individual Entitlement method was adopted. The provision has been determined basing on information received, its correctness depends on the correctness of the information.
- for all benefits it was assumed that procurement of entitlement to benefits is linear from the moment of employment to the moment of reception of benefit,
- calculation of provisions for future liabilities was made basing on the quantity of personnel employed on the balance sheet date. The provision does not cover persons who were employed after the balance sheet date nor any changes in payment of benefits that may occur in the future.

#### 15. Warranties

The Company issues warranties for its products and services of duration contractually agreed for (e.g. 24 of 36 months) or pursuant to constructions law (24 months). The warranty includes:

- application of right materials whose type fits the application,
- delivery of materials of correct parameters and quality
- obedience of statutory provisions,
- replacement of batch of products or performance of service anew, in case contractor's fault is stated.

Within the recent years, the Company, thanks to high quality of the offered products has not performed any warranty repairs, therefore no provisions for that purpose were established.

## 16. Off-balance sheet items, including contingent liabilities

Company's contingent liabilities:

Specification	As on 31.12.2012	As on 31.12.2011
<b>1. Contingent liabilities</b>	<b>27,372</b>	<b>10,053</b>
1.1. For affiliates (on account of)	0	0
- issued warranties	0	0
1.2. For other units (on account of)	27,372	10,053
- issued warranties	27,372	10,053
- on bills of exchange	0	0
- transfer of liabilities from trade agreements for security of credits	0	0
<b>2. Other</b>	<b>120,925</b>	<b>105,716</b>
- claims not admitted to be resolved in way of legal proceedings	0	0
- security of property (mortgage lien, agreement on the transfer of ownership)	120,925	105,716
including: lien on fixed assets	27,489	18,280
including: lien on inventory	32,500	26,500
including: mortgage	60,936	60,936
<b>Out-balance items total</b>	<b>148,297</b>	<b>115,769</b>

The main item of the Company's property security is liabilities from taken credits and loans. The Company has not utilized any discount credits. The Company has not issued any guarantees.

The Company has issued the following warranties:

Beneficiary	Type of warranty	Expiration date	As on 31.12.2012	As on 31.12.2011	Change
OGP Gaz-System S.A.	removal of defects	01.04.2016	159	159	0
OGP Gaz-System S.A.	removal of defects	28.03.2016	129	129	0
OGP Gaz-System S.A.	removal of defects	03.02.2012	0	4,157	-4,157
		from 04.02.2012 to 03.02.2015	1,247	1,247	0
OGP Gaz-System S.A.	removal of defects	10.05.2012	0	4,688	-4,688
		from 11.05.2012 to 10.05.2015	1,407	1,407	0
Polskie Górnictwo Naftowe i Gazownictwo S.A.	tender fee guarantee	13.01.2012	0	920	-920
OGP Gaz-System S.A.	removal of defects	30.04.2014	2,374	0	2,374
		from 01.05.2014 to 15.02.2017	712	0	712
OGP Gaz-System S.A.	removal of defects	12.03.2013	4,676	0	4,676
		from 13.03.2013 to 25.02.2016	1,403	0	1,403
OGP Gaz-System S.A.	removal of defects	14.02.2013	6,829	0	6,829
		from 15.02.2013 to 31.01.2016	2,049	0	2,049
OGP Gaz-System S.A.	removal of defects	15.12.2012	0	0	0
		from 16.12.2012 to 01.12.2015	396	0	396
OGP Gaz-System S.A.	removal of defects	30.11.2012	0	0	0
		from 01.12.2012 to 15.11.2015	373	0	373
OGP Gaz-System S.A.	removal of defects	30.11.2012	0	0	0
		from 01.12.2012 to 15.11.2015	883	0	883
Polskie Górnictwo Naftowe i Gazownictwo S.A.	removal of defects	06.11.2012	0	0	0
		from 07.11.2012 to 07.11.2015	368	0	368
OGP Gaz-System S.A.	removal of defects	30.09.2013	3,097	0	3,097
		from 01.10.2013 to 15.09.2016	929	0	929
OGP Gaz-System S.A.	removal of defects	30.05.2013	5,434	0	5,434
		from 01.06.2013 to 15.05.2016	1,630	0	1,630

The above listed warranties have been issued by banks and insurance offices and constitute security of liability of Izostal S.A. from executed contracts and bids in which the Company took part. In case of warranty payment, the issuer has right of recourse to Izostal S.A.

## 17. Operating lease contracts

The Company has not entered into any operating lease contracts as on 31.12.2012.

## 18. Financial lease liabilities

As on 31.12.2012, Izostal S.A. is a party to 5 financial lease contracts (the Company being a beneficiary):

- contract made on the 6th January 2009 on lease of steel pipes internal coating line. Date of last installment payment is May 2016. Monthly installment net value is 89 thousand zł. Contract security is open note and a collateral mortgage of 6,000 thousand zł on item under land register no. OP1S/00040617/8.
- contract entered into on the 26th March 2009 for lease of a forklift. Date of last installment payment is March 2014. Monthly installment net value is 5 thousand zł. Contract security are two open notes.

- contract entered into on the 22th June 2009 for lease of a transport car. Date of last installment payment is May 2013. Monthly installment net value is 1,9 thousand zł. Contract security is one open note.
- Two contracts entered into on the 27th June 2010. Two cars were leased. Date of last installment payment is August 2013. Net monthly installment amount of each of the contract is 2,3 thousand zł. The contracts security are open notes with 'no protest' clause including promissory note.

Future minimum lease installments and their current value:

Specification	As on 31.12.2012		As on 31.12.2011	
	Current value of minimum installments	Minimum installments	Current value of minimum installments	Minimum installments
within a 1 year period	980	1,191	942	1,222
within a period of 1 to 5 years	2,446	2,673	3,425	3,864
within a period from 5 years up	0	0	0	0
<b>Total</b>	<b>3,426</b>	<b>3,864</b>	<b>4,367</b>	<b>5,086</b>

## 19. Bonds convertible into shares

The Company has not issued any bonds convertible into shares in year 2012.

## 20. Basic capital

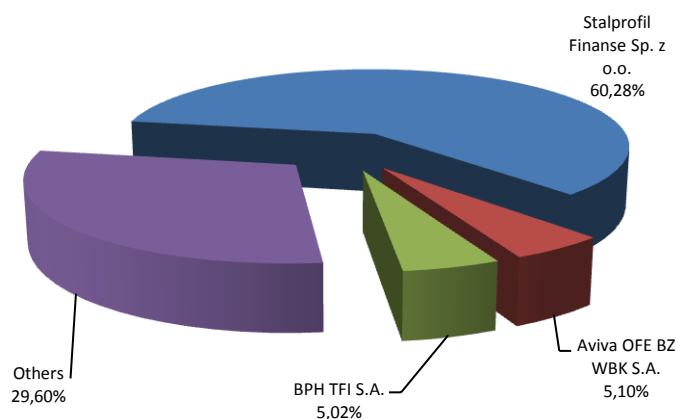
The Company's share capital (according to entries in the National Court Register) as on 31.12.2012 equaled 65,488 thousand zł and included 32,744,000 common bearer shares, 2.00 zł each. It includes the following emissions:

	Type of share	Type of preferred stocks	Type of limitations in share title	Amount of shares	Nominal value of one share	Issuance value acc. to nominal value (in thousand zł.)	Form of capital coverage	Registration date	Dividend title (since date)
A Series	bearer type	n/a	n/a	50,000	2,00 zł	100	contribution	1993-08-03	-
B Series	bearer type	n/a	n/a	1,150,000	2,00 zł	2,300	21 850 - cash contribution, 1 150 – other contribution	2/28/1994	11/30/1993
C Series	bearer type	n/a	n/a	150,000	2,00 zł	300	contribution	3/7/1995	-
D Series	bearer type	n/a	n/a	225,000	2,00 zł	450	contribution	9/19/1999	-
E Series	bearer type	n/a	n/a	1,025,000	2,00 zł	2,050	contribution	3/24/2003	3/24/2003
F Series	bearer type	n/a	n/a	1,950,000	2,00 zł	3,900	conversion of bonds into shares	2/19/2004	-
G Series	bearer type	n/a	n/a	3,412,500	2,00 zł	6,825	conversion of bonds into shares	3/21/2005	1/1/2005
H Series	bearer type	n/a	n/a	3,281,500	2,00 zł	6,563	conversion of bonds into shares	3/21/2005	1/1/2005
I Series	bearer type	n/a	n/a	3,500,000	2,00 zł	7,000	contribution	8/22/2007	1/1/2008
J Series	bearer type	n/a	n/a	6,000,000	2,00 zł	12,000	contribution	12/18/2009	1/1/2010
K Series	Bearer type	n/a	n/a	12,000,000	2,00 zł	24,000	contribution	1/28/2011	1/1/2010
<b>Share number total</b>				<b>32,744,000</b>					
<b>Share capital total</b>						<b>65,488</b>			

The following table and graph present the Company's shareholding structure as on 31.12.2012, according to knowledge possessed by the Board. The following data are based on information received from the shareholders, pursuant to art 69 par. 1 of public offers act of 29.07.2005

Shareholders	Possessed shares	Participation [%]
Stalprofil Finanse Sp. z o.o.	19,739,000	60,28%
Aviva OFE BZ WBK S.A.	1,669,877	5,10%
BPH TFI S.A.	1 644 021	5,02%
Others	9 691 102	29,60%
<b>Total</b>	<b>32,744,000</b>	<b>100,00%</b>





Pursuant to a note delivered to the Company on the 7th of September 2012, Stalprofil S.A. has declared transfer to its subsidiary - Stalprofil Finanse Sp. Z.O.O of the following: - title to 19,739,000 shares of Izostal S.A. Therefore, Stalprofil Finance Sp. z.o.o. is in possession of 19,739,000 shares (equal to the amount of votes in the general meeting), which constitutes 60,28% of Izostal S.A. share capital. As Stalprofil S.A. holds 100% shares of Stalprofil Finanse Sp. z.o.o as a result of the performed transfer, Stalprofil S.A. has become a parent company to Izostal S.A., hence holding a 60,28% amount of votes in Izostal S.A.

#### 21. Share premium

No share premium changes occurred in year 2012.

#### 22. Reserve capital and supplementary capital

In 2012, supplementary capital was increased by 13,567 thousand zł from profit division for year 2011.

#### 23. Equity shares

The Company does not hold any equity shares as on 2012.

#### 24. Proposals regarding division of profit for the business year

20,306 thousand zł of net profit was achieved for the period from 1st January to 31st December 2012.

The Board proposes to split the profit in the following way:

- payment of dividends to the shareholders in an amount of 5,894 thousand zł, which equals 0.18 zł/share. The proposal demands coverage of all 32,744,000 of the emitted shares by the dividend.
- supplementary capital of the Company of 14,412 thousand zł.

#### 25. Dividends

Shareholders Meeting of the 10th of May 2012 has issued a resolution on payment of dividends from profit achieved in 2011 in an amount of 5,567 thousand zł, which equals to 0.18 zł per each share. Deadline for determining dividend title was 10.08.2012, while payment deadline was 03.09.2012.

The dividend was paid in conformity with the Shareholders Meeting resolution.

Dividend for year 2012 proposed by the Board is presented in note 24.

#### 26. Risk of discontinuity of operation

The Company is not in possession of information suggesting risk of discontinuity of operation.

#### 27. Merge of business entities

No merges were made in year 2012.

#### 28. Trade income

Trade income divided as follows:

Specification	For a period of 1.1 to 31.12.2012		For a period of 1.1 to 31.12.2011	
	Amount	Structure	Amount	Structure
Insulated pipes	263,248	57,3%	158,447	61,0%
including: export sale	9,738	44,5%	19,175	68,9%
Coating services	5,885	1,3%	11,710	4,5%
including: export sale	3,006	13,7%	5,997	21,5%
Products, materials	189,543	41,2%	89,037	34,3%
including: export sale	8,803	40,2%	2,441	8,8%
Other sale	745	0,2%	538	0,2%
including: export sale	354	1,6%	222	0,8%
Total	459 421	100,0%	259,732	100,0%
including: export sale	21,901	100,0%	27,835	100,0%
Specification	For a period of 1.1 to 31.12.2012		For a period of 1.1 to 31.12.2011	
	Amount	Structure	Amount	Structure
Sales income	263,322	57,3%	158,505	61,0%
Services income	6,403	1,4%	12,030	4,6%
Material sale income	20	0,0%	351	0,2%
Products sale income	189,523	41,3%	88,686	34,1%
Rent services income	153	0,0%	160	0,1%
Total	459 421	100,0%	259,732	100,0%
including: non-monetary income on account of exchange of services or goods				

In year 2012, participation of export in total income amount was 4,77%.

Main receivers of products and services exported in year 2012 were companies from countries belonging to the European Union. The largest part of products was directed to Slovakia (39,16% of export), Germany (26,63% of export), Romania (9,29% of export).

Product and service prices are confidential and are individually agreed for with parties (except for small value orders).

## 29. Data regarding prime costs and employment costs

Basic data regarding prime costs and their comparisons in costs by function presented in the profits/losses account is presented by the following table:

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2011
Fixed assets depreciation	4,556	3,479
Non-tangible assets depreciation	64	71
Employee benefit costs	10,355	8,912
Use of raw materials, auxiliary materials and energy	226,763	149,610
Costs of outsourced services	8,937	4,996
Costs of taxes and fees	931	478
Other costs	1,362	1,022
Marketing costs	219	150
Product quantity change	-4,045	-17,918
Cost of manufacture of products for own needs	-2	-58
Value of sold products and materials	178,977	83,861
<b>TOTAL</b>	<b>428,117</b>	<b>234,603</b>
Value of sold products, materials and goods	407,922	220,946
Costs of sale	7,800	3,477
Overhead costs	12,395	10,180
<b>TOTAL</b>	<b>428,117</b>	<b>234,603</b>

The table of employment benefits cost presented above includes the following items:

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2011
Remuneration costs	8,566	7,501
Social insurance costs	1,506	1,161
Social Benefit Fund	150	135
Others	133	115
<b>TOTAL</b>	<b>10,355</b>	<b>8,912</b>

Remuneration costs include payables resulting from employment contracts entered into with employees. Social insurance costs include pension, retirement, emergency benefits as well as Guaranteed Employee Benefits Fund premiums as Labor fund premiums.

The Company is obliged to establish a Social Benefit Fund. Write-downs regarding the above mentioned fund are recorded into the Company's operating costs and lead to a necessity of freezing of funds on a separate bank account. The fund's assets and liabilities are presented in the statement as net values.

Provisions for retirement benefit and service anniversary awards are described in detail in the corresponding note.

### 30. Basic data regarding employment

Information on average employment during the year, divided into professions.

Specification	As on 31.12.2012	As on 31.12.2011
Blue-collar workers	95	82
White-collar workers	54	49
including Members of the Board	2	2
Students	0	0
<b>Employment total</b>	<b>149</b>	<b>131</b>

### 31. Financial revenue and costs

Main financial costs and revenue items:

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2011
<b>Financial costs</b>		
Interest costs, including:	2,759	1,437
- credits	1,445	831
- liabilities	1,002	242
- loans	0	0
- leasing	312	364
- public liabilities	0	0
Share emission costs - accounted into result	0	0
Costs of received guarantees	0	57
Costs of discounting of bills	0	0
Rate variance losses	2,563	1,027
Financial asset revaluation write-downs, including:	0	0
- assets and financial liabilities valued according to fair value	0	0
Fair value variance of financial instruments losses, including:	0	0
- security instruments	0	0
Factoring costs	0	53
Interest liabilities write-downs	220	991
Bank provisions	64	52
Others	60	53
<b>TOTAL</b>	<b>5,666</b>	<b>3,670</b>
<b>Financial revenue</b>		
Interest revenue	1038	1,638
Cancellation of received interest	1	0
Discount of bills	0	0
Rate variance profits	0	0
Reversal of financial asset revaluation write-downs, including:	0	0
- assets and financial liabilities valued according to fair value	0	0
Financial instrument fair value change profit	0	0
- assets and financial liabilities valued according to fair value	0	0
Reversal of interest receivables write-downs	686	135
Others	0	4
<b>TOTAL</b>	<b>1,725</b>	<b>1,777</b>
<b>Financial activity result</b>	<b>-3,941</b>	<b>-1,893</b>

Interest revenue, reversal of interest receivables write downs revenue and released financial provisions revenue are classified as financial revenue.

Costs of utilizing outside financing sources, payable interest from financial lease contracts, interest liability write-downs and rate variance losses are classified as financial costs.

Financial costs from financial lease contracts include contractual interest rates.

Exchange rate differences are presented in revenue or financial cost with as balance of profits and losses from exchange rate differences in a given business year.

### 32. Government grants

The Company, on the 30th of December 2008 has entered into an agreement no. UDA-POIG.04.04.00-16-002/08-00 with Polish Agency for Development of Enterprises as part of action 4.4 New investments of high innovations potential. The contract refers to granting of donation for execution of project named "Creation of innovative Center for Steel Pipes Anti-corrosion Coating". The subsidy contract was entered into by Izostal S.A. with Polish Agency for Development

of Enterprises. Project execution has ended in December 2009. The Company has received funds of total value equal 20.438 thousand zł.

Prepayments/accruals of income on account of the grant mentioned as on 31.12.2012 equaled 18.646 thousand zł.

On the 29th of April 2011, the Company has entered into a contract with the Ministry of Economy on a grant for a development of R&D Center for Technologies and Steel Products, as part of "Innovative Economy" Program 4, priority axis: Innovative enterprise investments, action 4.5.: Support for economically significant investments, sub-action 4.5.2.: Support for modern services investments. The project has been executed timely, ending on the 29th of February 2012. The Company has received funds of total value equal 7261 thousand zł. Prepayments/accruals of income on account of the grant mentioned as on 31.12.2012 equaled 7033 thousand zł.

Value of accruals on account of grants is booked as other operating costs, proportionally to period of depreciation of fixed assets covered by the grant.

### 33. Other operating costs and revenue

Main items of other operating costs and revenue include:

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2012
<b>Other operating costs</b>		
Write-downs for revaluation of receivables	242	13
Not accepted warranty claims	0	0
Inventory insufficiencies	9	0
Donations	14	14
Legal costs	55	15
Costs of compensation of random events	27	24
Not obligatory premiums for organizations	3	3
Provision for future operating costs	377	235
Indemnities, penalties, fines	0	2
Inventory value write-downs	2,711	548
Others	25	11
<b>TOTAL</b>	<b>3,463</b>	<b>865</b>
<b>Other operating costs</b>		
Profit from sale of fixed tangible assets	98	164
Reversal of receivables revaluation write-downs	4	119
Return of legal costs	3	8
Fines and indemnity claims received	43	108
Donations	837	614
Release of provisions	182	238
Assets obtained free of cost	29	47
Write-off of time-barred receivables	0	0
Others	110	104
<b>TOTAL</b>	<b>1,306</b>	<b>1,402</b>
<b>Result on other operating activity</b>	<b>-2,157</b>	<b>537</b>

The Company includes other costs and losses not directly related with the operating activity as other costs. This category includes mainly provisions established for cost of operating activity, provisions for the risk of lost judiciary cases, non-financial assets write-downs and not paid insurance costs.

The Company includes profits and losses indirectly related with operating activity into other revenue. This category mainly includes revenue from reversal of receivables revaluation write-downs, obtained governmental grants, remunerations and contractual penalties as well as released provisions.

Write-downs were performed upon appearance of risk of failing to satisfy liability by the counterpart. Reversal of receivables revaluation write-downs was performed upon payment of all debts by debtor, or upon legal execution.

### 34. Income tax

Main tax burden/return items in the profit/loss account:

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2012
<b>Current income tax</b>	<b>5,495</b>	<b>4,751</b>
- current income tax burden	5,495	4,751
- adjustments regarding current income tax from previous years	0	0
<b>Deferred income tax</b>	<b>-595</b>	<b>-112</b>
- deferred income tax burden/returns regarding establishment and reversal of interim differences	-595	-112
- deferred income tax burden/returns regarding change of tax rates	0	0

<b>Tax burden/returns presented in the profits/losses account, including:</b>	<b>4,900</b>	<b>4,639</b>
- assigned to continued activity	4,900	4,639
- assigned to ceased activity	0	0

### Current income tax

Current tax burden is calculated using applicable and up to date regulations. Application of such regulations enforces variance between net tax profit (loss) and book profit (loss), in relation to exclusion of non-taxable income and non-base costs as well as non-taxable cost/income items. Tax burdens are calculated using tax rates applicable for a given business year.

Main items varying income tax base from gross financial result:

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2011
Gross financial result without tax from continued activity	25,206	23,773
Profit/loss without tax from ceased activity	0	0
Gross financial result without tax	25,206	23,773
<b>Non-tax-deductible costs, including:</b>	<b>6,536</b>	<b>4,053</b>
- provisions for future costs	561	295
- receivables write-downs	462	1,006
- provisions write-downs	3,375	548
- PFRON	114	122
- interest	36	255
- non-paid ZUS (Social Insurance Fund)	274	246
- representation costs	98	83
- non-paid remuneration	25	52
- depreciation of fixed assets covered by donation	837	614
- market operating costs	115	136
- others	639	696
<b>Inclusion into costs</b>	<b>1,131</b>	<b>857</b>
- interest paid in previous years	240	1
- leasing capital installments	85	116
- paid within remuneration period from previous year	52	247
- paid within ZUS period from previous year	246	249
- cost of sold financial assets	0	0
- emission costs	0	126
- others	508	118
<b>Non-taxable income</b>	<b>1,687</b>	<b>2,115</b>
- exchange rate differences from valuation		0
- release of provisions	182	238
- not paid interest	227	993
- release of write-downs	114	123
- contractual penalties not paid	0	0
- received grants	837	614
- others	327	147
<b>Additions to income</b>	<b>0</b>	<b>150</b>
- received interest	0	0
- received penalties	0	150
- exchange rate differences	0	0
<b>Result after deductions</b>	<b>28,924</b>	<b>25,004</b>
Deductions of losses from previous years income	0	0
<b>Result after deductions</b>	<b>28,924</b>	<b>25,004</b>
Tax rate (in %)	19	19
<b>Tax burdens/returns presented in the profit/loss account</b>	<b>5,495</b>	<b>4,751</b>

### Deferred income tax

Deferred tax presented in the balance sheet and profit/loss account:

Specification	Financial statement as on 31.12.2012	Total income statement for the period of 01.01 to 31.12.2012	Financial situation 31.12.2011	Total income statement for the period of 01.01 to 31.12.2011
Deferred income tax liability				
Exchange rate differences	0	0	0	0
Valuation of fixed assets	65	-1	66	-2
Value of fixed assets in lease	42	-20	62	-55
Interest not adjusted/penalties	5	5	0	-28

<b>Gross deferred income tax provision</b>	<b>112</b>	<b>-16</b>	<b>128</b>	<b>-85</b>
Deferred income tax assets				
Receivables write-down	52	40	12	-27
Financial assets revaluation	0	0	0	0
Exchange rate differences	0	0	0	0
Booked interest	6	-43	49	46
Employee benefit provisions	114	29	85	44
Interest provisions	0	0	0	0
Lease liabilities value	19	-16	35	-50
Not paid remuneration	5	-5	10	-37
Not invoiced costs	0	0	0	0
Not paid ZUS (social insurance)	52	5	47	-1
Others	677	569	108	52
Deductible tax loss	0	0	0	0
<b>Gross deferred income</b>	<b>925</b>	<b>579</b>	<b>346</b>	<b>27</b>
<b>Deferred income tax debits/credits</b>	<b>0</b>	<b>-595</b>	<b>0</b>	<b>-112</b>

### 35. Construction contracts

The Company does not operate within this area.

### 36. Transactions with affiliates

The entity drawing up consolidated financial statement is:

Stalprofil S.A.

41-308 Dąbrowa Górnicza; ul. Roździeńskiego 11a

Within the period of the financial statement, Izostal S.A. has not granted any loans or services alike neither to the Members of the Management Board nor Members of the Supervisory Board.

Data regarding Board Members' remuneration:

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2011
Paid within the year short-term social benefits regarding this year	1,198	1,336
Paid within the year short-term benefits from previous years	48	263
Established remuneration provisions	241	139
Not paid remuneration	54	49
Other long-term provisions	0	0
Termination of employment benefits	0	0
Employee benefits in form of equity shares	0	0

Data regarding Supervisory Board Members' remuneration:

Specification	For a period of 1.1 to 31.12.2012	Range from 1.1. to 31.12.2011
Paid within the year short-term social benefits regarding this year	254	238
Paid within the year short-term benefits from previous years	24	21
Established remuneration provisions	0	0
Not paid remuneration	24	22
Other long-term provisions	0	0
Termination of employment benefits	0	0
Employee benefits in form of equity shares	0	0

Basic amounts of transactions with affiliates (net):

Affiliate	Sales to affiliates		Purchases from affiliates		Loans granted/transfer of liabilities		Level of provisions as on	
	Period from 01.01 to 31.12.2012	Period from 01.01 to 31.12.2011	Period from 01.01 to 31.12.2012	Period from 01.01 to 31.12.2011	Period from 01.01 to 31.12.2012	Period from 01.01 to 31.12.2011	12/31/2012	12/31/2011
Dominant entity	57	13	46,825	67,502	7	0	268	377
Entities having significant influence	0	0	0	0	0	0	0	0
Subsidiaries	0	0	0	0	0	0	0	0
Associated entities	1,378	6,126	7,318	11,241	7,351	0	729	1,496
Other affiliated entities	0	0	0	0	0	0	0	0

Amounts of settlements with affiliated entities (gross):

Affiliate	Receivables from affiliates as on		Liabilities to entities	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Dominant entity	0	0	6,721	4,799
Entities having significant influence	0	0	0	0
Subsidiaries	0	0	0	0
Associated entities	7,475	928	8,501	2,045
Other affiliated entities	0	0	0	0

### Transactions with dominant entity

Dominant entity is Stalprofil S.A. on behalf of Stalprofil Finanse Sp. z.o.o. ,of which it is a 100% shareholder.

The Company has not made any transactions with Stalprofil Finanse Sp. z.o.o.

The Company has made purchases from the dominant entity of mostly steel pipes and iron products.

The sale related mostly to steel pipes.

In 2012, Izostal S.A. made transactions with the dominant entity on market conditions.

### Associated entities

Data presented in "Associated entities" mostly refer to transactions made between the Company and ZRUG Zabrze S.A. seated in Zabrze and KOLB Sp. z.o.o. seated in Kolonewskie.

The Company has been selling to ZRUG Zabrze S.A. mostly coated pipes, the purchases were mostly for pipes and construction services. The Company has granted a loan to ZRUG Zabrze S.A., which was described in note 5 of additional information to the Financial Statement. Izostal SA. has raised revenue of 112 thousand zł on account of the loan.

Izostal S.A. purchases from KOLB Sp. z.o.o. were mostly for services related with the Company's current activity, as well as development of production plant in Kolonewskie, while the sale was mostly for iron products.

Transactions with associated entities were made on market conditions.

## 37. Profit per one share

Information necessary for calculation of profit per one share and estimated profit are presented in the following tables.

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2012
Net profit/loss from continued activity	20,306	19,134
Profit/loss from ceased activity	-	0
Net profit/loss	20,306	19,134
Net profit/loss used to calculate estimated profit/loss per one share	20,306	19,134

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2012
Weighted average quantity of emitted common shares used to calculate basic profit/loss per one share	32,744,000	31,856,329
Influence of estimation	0	887,671
Adjusted weighted average quantity of common shares used to calculate estimated profit/loss per one share	32,744,000	32,744,000

Specification	For a period of 1.1 to 31.12.2012	For a period of 1.1 to 31.12.2012
Calculation of basic net profit/loss per one share (in zł.)	0.62	0.60
Calculation of estimated net profit/loss per one share (in zł.)	0.62	0.58

Profit per one share is calculated by dividing net profit per business year per common shareholders of the Company by weighted average quantity of emitted common shares within the business year.

Estimated profit per one share was calculated by dividing net profit for business year per one common shareholder of the Company by sum of weighted average of emitted common shares within the business year, and quantity of offered/emitted shares.

For calculating basic profit per one share, weighted average quantity of common shares in given statement period was calculated, taking into consideration changes in quantity of common shares in particular years.

## 38. Cash and equivalents

Data regarding cash and cash equivalents in possession of the Company:

Specification	As on 31.12.2012	As on 31.12.2011
Cash in bank and in hand	2,208	1,355
Short-term investments	21,665	34,328
Other	0	0
Total, including:	23,873	35,683
- cash in bank and in hand related to ceased activity	0	0

Data regarding cash and cash equivalents on cash flow account:

Specification	As on 31.12.2012	As on 31.12.2011
Cash in bank and in hand	23,873	35,683
Overdrafts	-7,904	-3,220
Profit/loss from exchange rate differences regarding valuation of cash, equivalents and overdraft	88	-22
Total	16,057	32,441

Cash flows presented in this statement do not illustrate non-monetary transactions excluded from investment and financial activity.

As on 31.12.2012, no limited usability cash was in possession.

Cash in bank bears interest according to variable interest rates.

The Company has taken a multi-purpose credit limit with sublimit overdraft in PKO BP S.A. for an amount of 22,000 thousand zł. (as on 31.12.2012 credit not utilized), from BRE Bank S.A. for an amount of 10,000 thousand zł. (as on 31.12.2012 not utilized credit amount was 2,095 thousand zł) and from BNP PARIBAS BANK POLSKA S.A. in an amount of 5,000 thousand zł. (as on 31.12.2012 credit not utilized).

Fair value of cash and cash equivalents equals its balance value.

### 39. Financial instruments

#### Financial instruments constituting foreign exchange risk security:

The Company secures cash flow related to purchases in EUR for risk of EUR/PLN exchange rate change, within the scope of established open position (surplus to income). FORWARD type instruments and options are used.

As on 31.12.2012 the Company held the following transactions open:

Bank	Type of security	Value of transaction	Mean weighted rate	Maturity date	Valuation as on 31.12.2012
BRE Bank S.A.	FX EUR PLN purchase	8,400	4.13	3/28/2013	-188
BNP Paribas Bank Polska S.A.	FX EUR PLN purchase	4,000	4.12	3/28/2013	-24
Getin Noble Bank S.A.	FX EUR PLN purchase	12,500	4.12	2/28/2013	-74

Analysis of sensitivity of financial instruments according to rate risk:

As on 31.12.2012	Balance sheet value	Increase/decrease by percentage points	Influence on gross financial result
<b>Financial assets</b>	<b>31,224</b>		<b>78</b>
Cash	2,208	0,25%	6
Granted loans receivables	7,351	0,25%	18
Marketable financial assets	0		0
Other financial assets	0		0
Short-term investments	21,665	0,25%	54
<b>Financial liabilities</b>	<b>35,954</b>		<b>90</b>
Bank credits and loans	32,619	0,25%	82
Lease financial liabilities	3,335	0,25%	8

As on 31.12.2011	Balance sheet value	Increase/decrease by percentage points	Influence on gross financial result
<b>Financial assets</b>	<b>35,607</b>		<b>89</b>
Cash	35,607	0,25%	89
Granted loans receivables	0	0	0
Marketable financial assets	0	0	0
Other financial assets	0	0	0



Short-term investments	0	0	0
<b>Financial liabilities</b>	<b>42,892</b>		<b>108</b>
Bank credits and loans	38,678	0,25%	97
Lease financial liabilities	4,214	0,25%	11

## Analysis of sensitivity of financial instruments by foreign risk:

As on 31.12.2012	Balance sheet value	Increase/decrease of rate in percents	Influence on gross financial result
<b>Financial assets</b>	<b>7,787</b>		<b>79</b>
Cash in EUR	2,161	1,00%	22
Cash in USD	0	1,00%	0
Granted loans receivables	1,753	1,00%	18
Trade receivables and others in EUR	3,873	1,00%	39
Trade receivables and others in USD	0	1,00%	0
<b>Financial liabilities</b>	<b>35,956</b>		<b>360</b>
Overdraft in EUR	0	1,00%	0
Short-term credits in EUR	0	1,00%	0
Trade liabilities in EUR	35,671	1,00%	357
Trade liabilities in USD	0	1,00%	0
Currency options	285	1,00%	3

As on 31.12.2011	Balance sheet value	Increase/decrease of rate in percents	Influence on gross financial result
<b>Financial assets</b>	<b>25,879</b>		<b>258</b>
Cash in EUR	1,089	1,00%	11
Cash in USD	0	0	0
Granted loans receivables	0	0	0
Trade receivables and others in EUR	23,341	1,00%	233
Trade receivables and others in USD	908	1,00%	9
Currency options	541	1,00%	5
<b>Financial liabilities</b>	<b>52,751</b>		<b>528</b>
Overdraft in EUR	3,221	1,00%	32
Short-term credits in EUR	6,159	1,00%	62
Trade liabilities and others in EUR	42,577	1,00%	426
Trade liabilities and others in USD	794	1,00%	8

## Fair values of financial instruments

	Category in conformity with IAS 39	Balance sheet value		Fair value	
		As on 31.12.2012	As on 31.12.2011	As on 31.12.2012	As on 31.12.2011
<b>Financial assets</b>		<b>82,660</b>	<b>94,153</b>	<b>82,660</b>	<b>94,153</b>
Cash	Financial assets/liabilities in fair value by financial result	23,873	35,683	23,873	35,683
Trade receivables and other receivables	P&N	51,411	57,929	51,411	57,929
Granted loans receivables	P&N	7,376	0	7,376	0
Marketable financial assets	Marketables	0	0	0	0
Currency options		0	541	0	541
<b>Financial liabilities</b>		<b>99,362</b>	<b>107,085</b>	<b>99,362</b>	<b>107,085</b>
Financial lease liabilities	Financial liabilities according to depreciated cost	3,426	4,367	3,426	4,367
Trade liabilities and other liabilities	Financial	63,032	64,040		64,040

	liabilities according to depreciated cost			63,032	
Bank credits and loans	Financial liabilities according to depreciated cost	32,619	38,678	32,619	38,678
Currency options		285	0	285	0

## Financial instruments - revenue, costs, profits and losses:

For a period of 1.1 to 31.12.2012					
	Category in conformity with IAS 39	Interest profits/losses	Exchange rate difference profits/losses	Establishment/release of write-offs	Profits/losses from sale of financial instruments
<b>Financial assets</b>		<b>1,504</b>	<b>-1,597</b>	<b>467</b>	<b>0</b>
Cash	Financial assets/liabilities in fair value by financial result	283	-44	0	0
Trade receivables and other receivables	P&N	1,109	266	467	0
Granted loans receivables	P&N	112	-223	0	0
Marketable financial assets	Marketables	0	0	0	0
Currency options		0	-1,596	0	0
<b>Financial liabilities</b>		<b>-2,759</b>	<b>-966</b>	<b>0</b>	<b>0</b>
Financial lease liabilities	Financial liabilities according to depreciated cost	-312	0	0	0
Trade liabilities and other liabilities	Financial liabilities according to depreciated cost	-1,002	-860	0	0
Bank credits and loans	Financial liabilities according to depreciated cost	-1,445	-106	0	0

For a period of 1.1 to 31.12.2012					
	Category in conformity with IAS 39	Interest profits/losses	Exchange rate difference profits/losses	Establishment/release of write-offs	Profits/losses from sale of financial instruments
<b>Financial assets</b>		<b>786</b>	<b>523</b>	<b>156</b>	<b>0</b>
Cash	Financial assets/liabilities in fair value by financial result	619	529	0	0
Trade receivables and other receivables	P&N	167	-6	156	0
Granted loans receivables	P&N	0	0	0	0
Marketable financial assets	Marketables	0	0	0	0
Currency options		0	0	0	0
<b>Financial liabilities</b>		<b>-1,437</b>	<b>-1,550</b>	<b>0</b>	<b>0</b>
Financial lease liabilities	Financial liabilities according to depreciated cost	-364	0	0	0
Trade liabilities and other liabilities	Financial liabilities	-242	-1,657	0	0

	according to depreciated cost				
Bank credits and loans	Financial liabilities according to depreciated cost	-831	107	0	0

Difference between values of establishment/release of write-offs presented in the above table and balance of these write-offs presented in financial profit/loss and other profit/loss notes results from receivables written-down, for which write-downs were established in the previous period, of which value as on 31.12.2012 equaled 239 thousand zł, and 904 thousand zł on 31.12.2011.

#### 40. Explanations regarding adoption of IFRS principles and information on comparability of presented data

The Company, beginning from year 2005, pursuant to resolution of Meeting of Izostal S.A. shareholders maintains its books pursuant to IFRS and IAS principles and interpretations issued in form of European Committee orders, and for the issues not regulated by the IAS it adopts provisions stated in the accountancy act of 29.09.1994 and its secondary legislation.

#### 41. Events past the balance sheet date

No significant events took place past the balance sheet date that might influence the content of the statement for year 2012.

#### 42. Expert Auditor's remuneration

Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Sp. z o.o. is the authorized entity for auditing the Company's financial statement for the given business year. The contract was signed on 11.05.2011 and covers review and audit of financial statements for years 2011 and 2012.

Remuneration of the authorized entity, payable or paid, equaled, accordingly:

Type of financial statement	For a period of 01.01 to 31.12.2012	For a period of 01.01 to 31.12.2012
Review of IZOSTAL S.A. financial statement for a period of half a year.	13	13
Audit of IZOSTAL S.A. financial statement for a period of one year	18	18
TOTAL	31	31

#### 43. Approval for publication of the financial statement

This financial statement has been approved by the Izostal S.A. Management for publication on the 21st of March 2013.

Zawadzkie, 21st March 2013

.....  
Chief Accountant  
Marek Matheja

.....  
President of the Board  
Marek Mazurek

.....  
Vice President of the Board  
Jacek Podwiński



IZOSTAL S.A. MANAGEMENT ACTIVITY REPORT  
FOR YEAR 2012

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## I. DESCRIPTION OF BASIC FINANCIAL AND ECONOMIC FIGURES PRESENTED IN THE YEARLY FINANCIAL STATEMENT

### Assessment of factors and irregular events influencing the financial statement of Izostal S.A.

Investment plants adopted in the previous years by main national gas market investors, ie. OGP Gaz-System S.A. and PGNiG caused that, despite slight national recession, the gas market featured significant investments. Within the presented period, as well as in the previous years, the Company has been competing on the Polish market with other, national and foreign entities. In 2012, the Company has entered into a contract with OGP Gaz-System S.A. on delivery of 297 km of pipes for a total amount of 253 million zł. Thanks to bids won, the Company is in possession of numerous orders for the first half of year 2013.

The Company strategy's success is evident also due to the fact that it will deliver 47% of coated pipes for OGP Gaz-System S.A. as part of a contract concluded on 26.01.2011 (entered into by the ordering party with 4 potential contractors).

In 2012, the Company achieved sale profit income increase by 76,9%, as compared to year 2011. Sale of pipes and anti-corrosion coated services increased by 58,2% (as compared to year 2011), to a level of 269,133 thousand zł. Within this period, the Company has been performing deliveries for OGP Gaz-System S.A. as well as for other executive entities, however the former was the most significant.

A large increase of sale was also noted for goods - an increase by 112.9% to a level of 189,543 thousand zł, which is related to deliveries of drill pipes to PGNiG S.A. and companies dealing with conventional/shell gas explorations.

On the 09th of January 2012 the Company made an agreement with PGNiG S.A. on sale of pipes with equipment for four out of twelve sections of a public order named "Purchase of pipes with equipment for drill holes for year 2011 and 2012". Total net contract price equaled 50.232 thousand zł. The deliveries were performed within the 6 month deadline from signing of the agreement, as agreed for. Signing of the contract is an evidence for a success in achieving the Company's goal, which was involvement into the pipe and producing well fittings markets.

Another significant contract made with PGNiG S.A. is a contract from 20.08.2012 for delivery of steel pipes with external triple-layer anti-corrosion coating and external coat as part of public order named "Gas piping to Nitrogen Removal Plant Grodzisk - construction of high pressure gas piping DN300 TE Wierzbno-KGZ Paproć - purchase of pipes". Contract net value equaled 19,956 thousand zł, the delivery was made in whole in year 2012.

On 02.02.2012 the Company concluded an annex to a multi-currency overdraft for an amount of 10,000 thousand zł, granted by BRE Bank S.A. The annex was on extension of expiration date of the overdraft from 18.04.2012 to 31.01.2013. Other contractual provisions were not changed.

Moreover, in order to secure current needs of the Company related to performance of coated pipes delivery contracts, Izostal S.A. has entered into a revolving credit contract with BRE Bank S.A. in an amount of 10,000 thousand zł. The credit expires on 28.08.2014.

Due to an increase in import value and purchases in EURO currency, the Company has entered into a revolving credit contract of 3,000 thousand zł with BNP PARIBAS Bank Polska S.A. The credit expires on 19.05.2013.

In February 2012, the Company has completed construction of R&D Center for Steel Technologies and Products. The project's aim was development of own Research and Development Center within the Company that would deal with works previously outsourced. The project has led to initiation of R&D activity within the Company. Moreover, the R&D Center performs functions related with security of R&D section of the Stalprofil Capital Group, a leading steel distributor for Poland.

The newly developed R&D Center conducts works in the following fields:

- control of technological processes,
- conducting research and analyses of raw materials used for manufacturing, in order to optimize products' parameters,
- development of new technological and structural solutions (among others - development of product prototypes),
- optimization of research & development processes and production diversification,
- publication of results of scientific research and development works, execution of research projects supporting transfer of technologies and exchange of information between the Company and scientific institutes and alike.

Thanks to the created R&D Center, the Company is able to develop new technologies applied in manufacture of drill pipe coatings used for, among others, production of shell gas. In 2012, the Company has introduced a DFBE coating into its offer, as well as a number of research services, which may be provided within the R&DC grounds as well as within the construction site.

The Ministry of Economy has granted the Company in an amount of 7,263 thousand zł for the purpose of realization of the investment, as part of Innovative Economy Operating Program 4. Priority axis: Innovative enterprise investments, action 4.5.: Support for economically significant investments, sub-action 4.5.2.: Support for modern services investments. The Ministry of Economy has accepted the final payment proposal of the Company. The Company has been granted 7,261 thousand zł total.

In 2012 the Company implemented a Safety and Hygiene at work management system that conforms with PN-N 18001:2004 standard. The standard is addressed to all companies, whose aim is increase of safety and hygiene at work standard level. The system's purpose is making constant improvements within the field of safety and hygiene at work. The Company has received a certificate of conformity with the standard from Bureau Veritas Certification Polska Sp. z.o.o, dated 04.09.2012.

A significant event for the Company and its shareholders was a decision of the General Meeting of the Shareholders on 10.05.2012 to direct a profit achieved in 2011 in an amount of 5,567 thousand zł for payment of dividend. The dividend equaled 0.17 thousand zł per share and covered all emitted shares. Deadline for determination of dividend titles was 10.08.2012, while the payment deadline was 03.09.2012. The dividend was paid in accordance with the issued resolution.

### **Analysis of total income statement**

In 2012, the Company achieved income in an amount of 459,421 thousand zł, i.e. 76,9% more than in 2011. The largest increase was noted within the goods sale section (i.e. 112.9% more than previous year) and sale of products and coating services, where a sale larger by 58.2% was achieved than in the previous year. Costs of sold products, goods and materials increased by 84.6% (larger dynamics than income from sales), which is caused by participation of goods in the sale, which in 2012 equaled 41.3%, as compare to 34.3% in the previous year.

Costs of sale increased by 124.3% in year 2012, which was caused by performance of contracts for OGP Gaz-System SA. and pipe transports to northern Poland related to it.

General administration costs increased by 21.8%, which was caused mainly by the necessity to maintain warehouse infrastructure as well as property tax, whose amount has increased for the Company in the previous year as a result of fully using all investment allowances granted to it in the previous years.

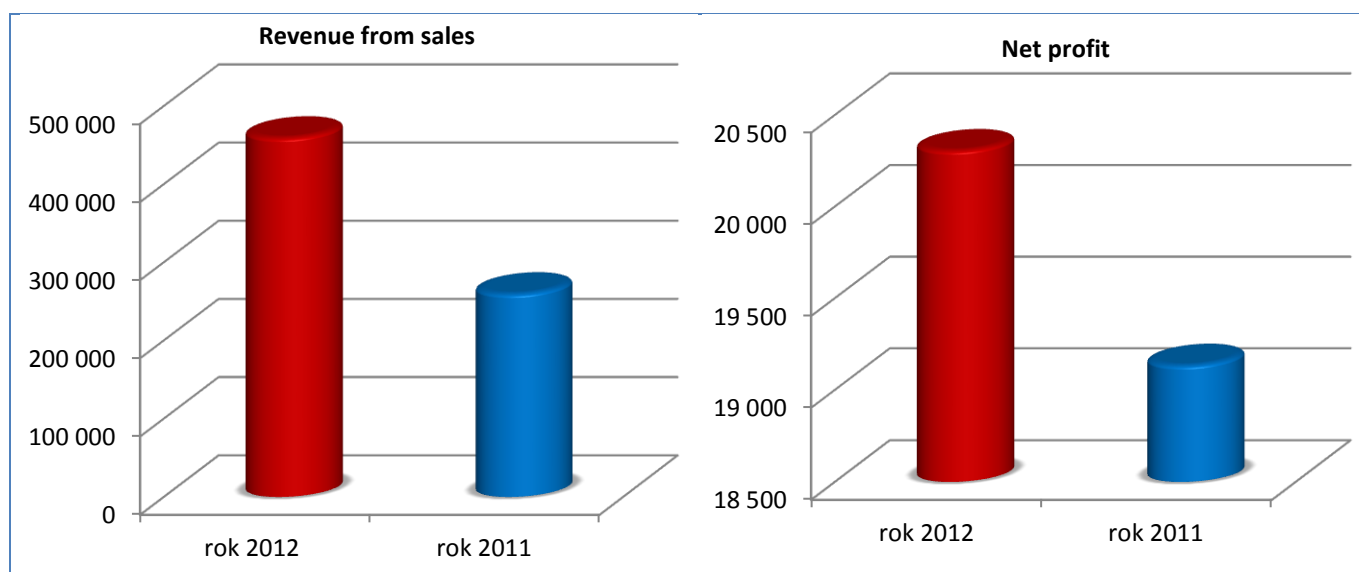
A loss of 2,157 thousand zł was booked for other operating activity, reason for this being mostly working capital write-downs. The Management Board values its property with utmost caution, leading to presentation of its

real value. If an increase in prices of offered products occurs in year 2013, it may appear that the write-offs will not be utilized.

The Company has recorded a 3,941 thousand zł loss on its financial activity for year 2012, i.e. 108.2% more than in the previous year. The difference was mostly due to:

- higher interest costs - an increase by 1,322 thousand zł.
- higher exchange rate costs (mostly regarding balance-sheet-date valuation) - an increase by 1,536 thousand zł.

The above mentioned factors have lead to achieving net profit for year 2012 of 20,306 thousand zł, which is higher by 6.1% than the previous year.



#### Analysis of selected items from the statement of financial position - assets

In 2012, the Company's assets increased by 8,377 thousand zł.

The value of fixed tangible assets increased by 4,849 thousand zł, as compared to its level from the end of year 2011. (by 3.7%), mainly due to increased capital expenditures in an amount of 12,449 thousand zł. (the largest item is completion of construction of the Research & Development Center). In 2012, the Company sold a production house with storage place in Zawadzkie with profit, whose net value on the date of sale equaled 2,672 thousand zł. Moreover, the Company has liquidated fixed assets whose utilization was unjustified upon completion of construction of the Kolonewskie plant. Completion of the construction enabled to direct the entire production to Kolonewskie and complete production in Zawadzkie, within the premises of Walcownia Rur Andrzej Sp. z o.o.

Working assets have not changed significantly, allocations between its items may be observed, however. Inventory level for year 2012 equaled 59,975 thousand zł, i.e. by 30.6% more as compared to year 2011, which is caused by purchases of pipes for contracts which will be performed in year 2013.

Short-term financial assets of 7,376 thousand zł relate to a loan granted in May 2012 to ZRUG Zabrze S.A. The granted loan was described in detail in note 5 of the Financial Statement.

#### Analysis of selected items from the statement of financial position - liabilities

An increase in the Company's equity by 14,739 thousand zł resulted from a profit made in an amount of 20,306 thousand zł and directing 5,567 thousand zł to payment of dividends to the shareholders.

Long-term liabilities of the Company have decreased by 3,983 thousand zł, affected mostly by:

- due repayment of investment credits of total value 10,084 thousand zł.
- taking a long-term revolving credit of 5,500 thousand zł. (credit taken on 31.08.2012, granted by BRE Bank S.A.)

Short-term liabilities have not changed significantly. At the end of year 2012 they equaled 83,479 thousand zł. which is 2.8% less than in the previous year.

## II. DESCRIPTION OF SIGNIFICANT RISK AND DANGER FACTORS

### 1. Risk related with dependency on receivers

Due to its dominant position on the gas market which is held by OGP Gaz-System S.A and PGNiG S.A., there is an indirect risk of strict dependency of the Issuer on these companies: PGNiG S.A. (exploration, production and distribution of gas) and OGP Gaz-System S.A (conveyance system operator) and its operations, consequently. Apart from sale to OGP Gaz-System S.A and PGNiG S.A. the Company provides services to firms being contractors or subcontractors for investments.

In order to minimize the risk, Izostal S.A. is constantly searching for new receivers in Poland (private gas companies) as well as abroad. One of elements of the Company's strategy is involvement in casing strings and exploration pipes market. Moreover, due to the opening of Research & Development Center for Steel Products and Technologies, the Company's offer has been broadened by performance of analyses and examinations of raw materials, development of new structural and technological solutions as well as development of new products and services (DFBE coat) for gas, construction and steel companies.

### 2. Risk related to assuring services' quality

Receivers of the services and products offered by the Company are entities operating on gas and petrochemical markets, which are known for their strict quality requirements.

The quality of services offered by the Company is assured by the implemented and followed principles underlying the Quality Management System according to ISO 9001-2000 and compliance certificates for products admitted for use in the construction industry, issued and supervised by authorized certification authorities who confirm the observance of requirements. The Company has also implemented ISO 14001 standard.

Coating produced by the Company meets the highest requirements of quality standards.

### 3. Risk of general macroeconomic situation in Poland

Company's financial standing is correlated with the macroeconomic situation of Poland. The financial results obtained by the Issuer are influenced by such general factors as GDP growth rate, investments growth rate, changes in inflation level, changes in exchange rates, unemployment rates and personal income of people. There is a risk that in case the economic growth rate goes down in Poland or globally, or some protectionist instruments are used that can have negative impact on the Company's functioning, the financial results obtained by the Issuer may change. What can be especially detrimental to the operations of Izostal S.A. is the reduction in investment expenditure in economy, slowdown in GDP growth dynamics, uncontrolled inflation increase, and more restrictive fiscal and monetary policy of the state.

This risk is mitigated by the strategy of diversifying gas supply sources adopted by Poland and by restrictive regulations imposed by the EU in scope of environment protection and CO2 emissions. These factors somehow enforce the commencement of large gas and petroleum sector investments in Poland, which makes it possible for the Issuer to increase the level of products sold. Additionally, this risk is limited by a necessity to utilize the aid funds timely, said funds coming from different sources, e.g. European Energy Program for Recovery (EEPR,



the so-called Recovery Plan), Operational Program: Infrastructure and Environment 2007-2013, Trans-European Networks – Energy (TEN-E) and Operational Program Innovative Economy. Exploration of shale gas deposits in Poland also confirms the high potential of the gas industry in Poland.

#### 4. Risk of changeable prices of production resources

Profitability of anti-corrosion coating services provided by the Company depends on the changes in the prices of production resources, including mainly prices of chemical components, mainly polyethylene and polypropylene. Share of these resources in the cost structure is around 20%. Prices of chemical raw materials are highly correlated with oil prices in global markets, which due to the current political and economic situation may be subject to significant fluctuations. Aforesaid cost factors may contribute to periodic deterioration of the Issuer's financial results and profitability levels.

To mitigate the risk of changeable prices of production resources, the Issuer follows the sources diversification strategy through cooperation with several entities at each production stage. High financial potential of the Company also allows to make purchases of materials for storage in low-price periods.

#### 5. Risk of changeable prices of steel pipes

Steel pipe price in the product "coated steel pipe" is around 70% of the product's value. The recent fluctuations in steel pipes market have influence on company margins and results. In order to avoid the risk of changeable prices of steel pipes, the Issuer optimizes its stock levels adapting them to the scope of operations.

In special cases, steel pipes are purchased at current prices for restocking purposes in volumes that let the Company sell goods with profit.

As for the purchasing of pipes for large projects, the Issuer negotiates prices with customers and concludes contracts that make it possible to maintain the negotiated price irrespective of the situation in the steel market.

Changes in pipes prices can influence Company's revenues and profitability, both in the core coating segment and in the sale of goods. The Company secures itself against changeable prices in specific contracts and on a short-term basis changes in pipe prices have a limited influence on the profitability of individual contracts. Nevertheless, on a long-term basis high prices of pipes are favorable for the Company (at the income and margins level), and on the other hand, reduction in pipes' prices may lead to lower income and profit on the sale of pipes.

#### 6. Risk of changeable exchange rates

Due to the export and import activity, the Company is exposed to the risk of changeable exchange rates. The second most frequently used currency for settling commercial transactions after PLN is EUR. To reduce the risk of changeable exchange rate, the Company concluded treasury limit agreements which enable it to conduct transactions securing against foreign exchange risk with banks without security, moreover the Company has access to currency credits which are utilized in case of depreciation of PLN against EUR. The Company actively secures exchange rate risk on currency markets.

#### 7. Risk of trade credit

The company sells products with deferred payment, which exposes it to risk of insolvency of its receivers. Recent years have shown financial difficulties of companies operating on general construction and road construction markets. In order to maximally secure the risk, the Company insures its receivables and sells within limits stated by the insurance company. Sale to O.G.P. Gaz-System S.A. is an exception, as the Company has excluded it from the insurance policy. This receivers stable financial position guarantees minimum risk of insolvency, the exclusion also significantly reduces insurance costs.

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

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

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

Company's basic products include anti-corrosion coating of the following types of steel pipes:

1. External coating:
  - triple-layer polyethylene coating 3LPE
  - triple-layer polypropylene coating 3LPP
  - single-layer epoxy coating
  - DFBE coating
2. LAYTEC® internal coating

The Company applies said coatings to the purchased pipes and provides the customers with the finished product – coated steel pipe, or provides service for pipes delivered by the customer.

The Company also offers drill pipe used in gas exploration wells. Moreover, to have the order-book of products, the Company sells steel products.

Income from sale in 2012 equaled 459.421 thousand zł, i.e. by 76.9% more than in 2011. Total sale of coated pipes and coating services in 2012 increased by 98.976 thousand zł. (by 58.2%) Deliveries to OGP Gaz-System S.A. have considerably increased the sales.

Income from sales of goods increased by 100,506 thousand zł. in 2012 (by 112.9%), mostly due to deliveries of drill pipes to PGNiG S.A.

#### Sales structure - value

	2012		2011	
	value	share	value	Share
Coated pipes	263,248	57,3%	158,447	61,0%
Coating services	5,885	1,3%	11,710	4,5%
Products, materials	189,543	41,2%	89,037	34,3%
Other sales	745	0,2%	538	0,2%
<b>Total</b>	<b>459 421</b>	<b>100%</b>	<b>259,732</b>	<b>100,0%</b>

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

The increased sales level recorded in 2012 was mainly the result of an increased domestic demand. Domestic sales income in 2012 increased by 88.67% as compared to the same period of the previous year (increase by PLN 111,369 thousand zł)

Company's export revenues in 2012 decreased by 21.3%. The Company has been exporting its products to the EU countries. The main export directions were Slovakia (39.16% of exports), Germany (26.63% of exports) and Romania (9.29% of exports).

Sales revenue split to domestic and export markets:

	2012		2011	
	value	share	Value	share
Country	437,520	95,2%	231,897	89,3%
Export	21,901	4,8%	27,835	10,7%
Total	459 421	100,0%	259,732	100,0%

Main receivers in 2012 included:

- O.G.P. Gaz-System S.A. (46.2% share in sales)
- Ferrum S.A. (11.7% share in sales)
- PGNiG S.A. (10.9% share in sales)

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

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

Main suppliers in 2012 included:

- ArcelorMittal Tubular Products Ostrava a.s. (24.2% share in sales)
- Impexrur S.A. (19.9% share in sales)
- Ferrum S.A. (10.6% share in sales)

The Company has not a capital relationship with any of the above mentioned entities.

## VI. INFORMATION ON CONSOLIDATED CONTRACTS WHICH WERE IMPORTANT FOR THE ISSUER'S ACTIVITY

### Commercial contracts and transactions.

1. Contract concluded on 19.01.2012 with PGNiG S.A. for delivery of four out of twelve sections of public order named "Purchase of pipes with equipment for extraction boreholes for year 2011 and 2012". Total net contract value was 50,232 thousand zł. Contract performance deadline is 180 days from conclusion date. Specific contract conditions are presented in the Company current report 1/2012.
2. Orders and contracts concluded with Impexrur S.A. for delivery of coated pipes, coating services and steel pipes. Total value of transactions between Izostal S.A. and Impexrur S.A. (sale and purchase transactions) in 2012 equaled 117,207 thousand zł. Orders and contracts concluded by the parties do not include contractual penalties except for a contract concluded on 07.08.2012 for a delivery of steel pipes of total value 43,859 thousand zł. Specific contract conditions are presented in the Company current report 40/2012. On 20.12.2012 the Company has made an annex (RB 53/2012) to a contract, which has increased the contract value to 36,044 thousand zł due to an increase in quantity of ordered pipes. (total contract value equals 79,903 thousand zł.). Terms of orders and contracts concluded with Impexrur S.A. do not vary from the commonly applied.
3. Orders and contracts concluded with Stalprofil S.A. for delivery of steel products. Total value of transactions between Izostal S.A. and Stalprofil S.A. (sale and purchase transactions) in 2012 equaled 46,882 thousand zł. Orders and contracts do not include contractual penalties, their terms do not vary from the commonly applied.
4. Orders and contracts concluded with mH Biuro Przedstawicielskie Zbigniew Kania for a purchase of drill pipes by Izostal S.A. Total value of purchases between Izostal S.A. and MH Biuro Przedstawicielskie Zbigniew Kania in 2012 equaled 18,069 thousand zł. Orders and contracts between the parties do not include contractual penalties, their terms do not vary from the commonly applied for this type of contracts and orders.
5. Orders and purchases concluded with Proma Sp. z.o.o. for a purchase of pipes by Izostal S.A. Total value of purchases between Izostal S.A. and Proma Sp. z.o.o in 2012 equaled 13,352 thousand zł.

Orders and contracts between the parties do not include contractual penalties, their terms do not vary from the commonly applied for this type of contracts and orders.

6. Contracts and orders concluded with Arcelor Mittal Tubular Products Ostrava a.s. for a delivery of steel pipes by Arcelor Mittal Tubular Products Ostrava a.s. Total value of purchases in 2012 equaled 106,410 thousand zł. Orders and contracts between the parties do not include contractual penalties, their terms do not vary from the commonly applied for this type of contracts and orders.
7. Task agreement concluded on 10.05.2012 with OGP Gaz-System S.A. for a delivery of coated steel pipes by Izostal S.A. (consortium leader) for investment task: Szczecin-Gdańsk gas line: Stage II Karlino - Koszalin, Stage III Koszalin - Słupsk. Net contract value equaled 46,765 thousand zł, performance date is 01.08.2012 to 31.12.2012. The task agreement will be performed as part of framework agreement announced by the Company in current report no. 9/2011 of 26.01.2011.
8. Task agreement made on 12.06.2012 with OGP Gaz-System S.A. for a delivery of coated steel pipes by Izostal S.A. (consortium leader) for investment task: gas pipeline Rembelszczyzna - Gustorzyn. Net contract value is 68,287 thousand zł, performance deadline is 13.08.2012 to 28.12.2012. The task agreement will be performed as part of framework agreement announced by the Company in current report no. 9/2011 of 26.01.2011.
9. Contract concluded on 15.06.2012 with OGP Gaz-System S.A. for a delivery of coated steel pipes DN 800 for a construction of Świnoujście - Szczecin pipeline. Total net contract value was 10,736 thousand zł. Contract performance deadline is 4 months from conclusion date. Specific contract conditions are presented in the Company current report 34/2012.
10. Two task agreements concluded on 2.206.2012 with OGP Gaz-System S.A. for a delivery of coated steel pipes by Izostal S.A. (consortium leader) for investment tasks: Gustorzyn - Odolanów gas line and Szczecin - Gdańsk, Stage I Płoty - Karlino gas line. Total net value of the contracts equals 41,872 thousand zł, its performance deadline is 01.08.2012 to 31.10.2012. Task agreements will be performed as part of concluded framework agreement which was announced by the Company in a current report no. 9/2011 of 26.01.2011.
11. Orders and contracts concluded with Ferrum S.A. for delivery of coated pipes, providing coating services and steel pipes. Total value of transactions between Izostal S.A and Ferrum S.A (sale and purchase transactions) in 2012 equaled 89,932 thousand zł. Orders and contracts concluded by the parties do not include contractual penalties. Terms of the concluded orders and contracts do not vary from the commonly applied.
12. Orders and contracts concluded with Salzgitter Mannesmann Grossrohr GmbH seated in Germany on purchase of steel pipes. In 2012, the largest contract was one concluded on 25.07.2012 for a total value of 18,808 thousand zł. Performance deadline is 29.08.2012 to 31.10.2012. Specific contract conditions are presented in the Company current report 38/2012. Total value of transactions between Izostal S.A. and Salzgitter Mannesmann Grossrohr (sales and purchases) i 2012 equaled 28,777 thousand zł.
13. Contract concluded on 20.08.2012 with PGNiG S.A. for a delivery of steel pipes with triple-layer external anti-corrosion coating and internal coating as part of public order named "Gas piping to Nitrogen Removal Plant Grodzisk - construction of high pressure gas piping DN300 TE Wierzbno-KGZ Paproć - purchase of pipes". Total net contract value was 19,956 thousand zł. Contract performance deadline is 84 days from conclusion date. Detailed terms of the contract were presented in current report no. 42/2012.
14. Task agreement concluded on 28.06.2012 with OGP Gaz-System S.A. for a delivery of coated steel pipes by Izostal S.A. (consortium leader) for investment task: gas pipeline Rembelszczyzna - Gustorzyn. Net value of the contract is 30,975 thousand zł, performance deadline is 18.02.2013 to 31.08.2013. The partial agreement will be performed as part of framework agreement announced by the Company in current report no. 9/2011 of 26.01.2011.
15. Task agreement concluded on 21.11.2012 with OGP Gaz-System S.A. for a delivery of coated steel pipes by Izostal S.A. (consortium leader) for investment task: Szczecin - Lwówek Stage 2 Gorzów

Wielkopolski - Lwówek gas pipeline. Net contract value is 54,345 thousand zł, performance deadline is 01.02.2013 to 30.04.2013. The partial agreement will be performed as part of framework agreement announced by the Company in current report no. 9/2011 of 26.01.2011.

### Financial contracts

1. Annex concluded on 02.02.2012 to a multi-currency overdraft agreement with BRE BANK S.A. for an amount of 10,000 thousand zł, which extended the expiration period from 18.04.2012 to 31.01.2013. Other terms were not changed. Important contractual terms were described in note 10 of additional information to the Financial Statement.
2. Loan agreement concluded on 15.05.2012 with ZRUG Zabrze S.A. (belonging to Stalprofil S.A. capital group). The loan was granted for an amount of 10,000 thousand zł. Important loan terms were described in note 5 of additional information to the Financial Statement.
3. Annex concluded on 24.05.2012 to a multi-purpose credit line agreement with BNP PARIBAS BANK POLSKA S.A. for an amount of 5,000 thousand zł, which extended the expiration period to 23.05.2013. Other terms were not changed. Important contractual terms were described in note 10 of additional information to the Financial Statement.
4. Revolving credit contract concluded with BNP PARIBAS BANK POLSKA S.A. on 24.05.2012. The bank has granted a revolving credit in an amount of 3,000 thousand EUR. The credit expires on 19.05.2013. Important contractual terms were described in note 10 of additional information to the Financial Statement.
5. Revolving credit contract concluded with BRE BANK S.A. on 31.08.2012. The bank has granted a revolving credit in an amount of 10,000 thousand zł. The credit expires on 28.08.2014. Important contractual terms were described in note 10 of additional information to the Financial Statement. In relation to the credit agreement, the Company has concluded an annex to pledge contract and by it increased value of registered pledge on movables in form of inventory, materials for production and end products in form of coated steel pipes from 10,000 thousand zł to 16.,000 thousand zł, however; security of this credit is pledge of 10,000 thousand zł, while pledge being security of multi-currency overdraft of 10,000 thousand granted by BRE BANK S.A. has been decreased from 10,000 thousand zł to 6,000 thousand zł.

### Insurance agreements

The Company is a party to insurance agreements concluded with STU Ergo Hestia S.A. regarding property in possession and business activity risk.

Policy number	Subject and scope of insurance	Total amount of insurance
901006514021	Property insurance against fire and other random events	188838551,31 zł
	Insurance of stationary electronic equipment	677035,95 zł
	Insurance of mobile electronic equipment, not older than 7 years	709908,97 zł
	Insurance of machines and devices against electrical damage	5000000,00 zł
901006505404	Insurance of machines and devices against damage	52191352,85 zł
	Liability insurance on account of business activity or property use including liability insurance (Companies co-insured within the contract: Stalprofil S.A., Izostal S.A., Kolb Sp. z o.o.)	30000000,00 zł
901006505405	Insurance of machines, devices and equipment (including electronics and low powered vehicle) against theft with burglary and robbery	200000,00 zł
	Insurance of working, equity and third-party assets against theft with burglary and robbery	500000,00 zł
	Insurance of cash against theft with burglary	50000,00 zł
	Insurance of cash against robbery on premises	50000,00 zł
	Insurance of cash in transport	50000,00 zł
	Insurance of data recovery costs	200000,00 zł
	Insurance of additional costs incurred to mitigate losses from business interruptions	105000,00 zł

The above mentioned policies expired on 31.12.2012. The Company has concluded insurance contracts for property and third party liability with TUIR Allianz Polska S.A.

Moreover, the Company is a party to receivable insurance contract concluded with KUKI. The Company's sales is insured in amounts assigned to particular credit limit receivers by the insurance company.

Transactions with affiliates are described in note no. 36 of additional information to the Financial Statement for year 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
- Stalprofil Finanse Sp. z.o.o. seated in Dąbrowa Górnicza
- Kolb Sp. z.o.o seated in Kolonowskie
- ZRUG Zabrze S.A. seated in Zabrze

The dominant entity of the capital group - Stalprofil S.A. held 60.28% share in the Company's share capital as on 31.12.2011. Stalprofil S.A. holds 100% share in Stalprofil Finanse Sp. z.o.o

The Company has not invested in securities, non-tangible or legal assets and property in year 2012.

As investment in financial instruments, the Company has granted a loan to ZRUG Zabrze S.A. (affiliated entity) which was described in point X. of this Management Statement. The loan was financed from the Company's equity.

**VIII. INFORMATION ON IMPORTANT TRANSACTIONS MADE BY THE ISSUER OR SUBSIDIARY WITH AFFILIATED ENTITIES ON CONDITIONS OTHER THAN MARKET CONDITIONS**

The Company has not made transactions with affiliated entities on conditions different than market conditions in the period reported.

Information on important transactions made with affiliated entities are presented in note 36 of additional information to the Financial Statement for year 2012.

**IX. INFORMATION ON CONTRACTS MADE AND TERMINATED REGARDING LOANS AND CREDITS IN THE REPORTED YEAR**

In 2012 the Company was party to the following credit and loan contracts:

1. Investment credit of 10.07.2009 granted by PKO BP S.A. in Polish currency in an amount of 26,000 thousand zł. WIBOR 3M credit plus bank markup. Credit expires on 31.03.2016.
2. Multi-purpose credit line of 08.09.2010 granted by PKO BP S.A. in an amount of 22,000 thousand zł, used for overdraft, revolving credit, bank guarantees, letters of credit. The credit may be utilized in EUR in PLN. WIBOR 3M credit plus bank markup. Credit expires on 08.09.2013.
3. Investment credit of 04.01.2011 granted by BNP PARIBAS BANK POLSKA S.A. in Polish currency in an amount of 12,358 thousand zł. WIBOR 3M credit plus bank markup. Credit expires on 03.01.2014.
4. Multi-currency overdraft of 01.12.2011 granted by BRE BANK S.A. in PLN and EUR in an amount of 10,000 thousand zł. WIBOR/ON interest rate plus bank mark up for part utilized in PLN and LIBOR /N plus bank markup for part utilized in EUR. Credit expires on 31.01.2013.

5. Multi-purpose credit line of 27.05.2011 granted by BNP PARIBAS BANK POLSKA S.A. in PLN in an amount of 5,000 thousand zł, utilized for overdraft and bank guarantees. WIBOR 3M credit plus bank markup. Credit expires on 23.05.2013.
6. Revolving credit in EUR of 24.05.2012 granted by BNP PARIBAS BANK POLSKA S.A. in an amount of 3,000 thousand EUR for working purposes. The credit expires on 19th May 2013. Credit interest is EURIBOR 1M plus bank markup.
7. Revolving credit of 31.08.2012 granted by BRE BANK S.A. in an amount of 10,000 thousand zł, for financing current activity. WIBOR 1M credit plus bank markup. Credit expires on 28.08.2014.

Level of bank credits as on 31.12.2012 (without long-term debt interest).

	Contractual credit amount	Credit engagement as on 31.12.2012.
Multi-purpose credit limit PKO BP (thousand PLN)	22,000	0
Investment credit PKO BP (thousand PLN)	26,000	12,788
Investment credit BNP Paribas Bank Polska S.A. (tys. PLN)	12,358	6,426
Multi-currency overdraft BRE Bank S.A. (tys. PLN)	10,000	7,905
Multi-purpose credit line BNP Paribas Bank Polska S.A. (tys. PLN)	5,000	0
Revolving credit in BNP Paribas Bank Polska S.A. in thousand EUR)	3,000	0
Revolving credit in BRE Bank S.A. in thousand PLN)	10,000	5,500

Specific information regarding credit security as on 31.12.2012 were presented in note 10 of additional information to the Financial Statement.

#### X. INFORMATION ON LOANS GRANTED IN THE BUSINESS YEAR

On 15.05 2012 the Company has granted a loan to ZRUG Zabrze S.A. for an amount of 10 million zł. The loan has been granted exclusively for financing of construction of DN 700 Szczecin - Gdańsk gas line performed by consortium comprising of ZRUG Zabrze S.A. seated in Zabrze (leader), Stalprofil S.A. seated in Dąbrowa Górnicza (member) and Nafta - Gaz - Serwis S.A. seated in Sanok (member) for Operator Gazociągów Przesyłowych Gaz-System S.A. Stage II DN 700 Karlino - Koszalin pipeline, Stage III DN 700 Koszalin - Słupsk pipeline, Stage IV DN 700 Słupsk - Wiczlino pipeline.

The loan is paid in in tranches and may also be paid in EUR. The loan has been granted on market conditions, its interest is WIBOR 1M increased by mark-up for the PLN part and EURIBOR 1M increased by mark-up for the EUR part. The loan's security is an open note together with a bill of exchange. The loan's repayment deadline is 31.12.2013. Value of granted loan as on 31.12.2012 was 7,351 thousand zł. (without accrued and not paid interest as on 31.12.2012).

#### XI. INFORMATION ON GRANTED AND RECEIVED BANK GUARANTEES AND SURETIES

List of guarantees granted by the Company: as on 31.12.2012

Beneficiary	Type of warranty	Expiration date	As on 31.12.2012	As on 31.12.2011	Change
OGP Gaz-System S.A.	removal of defects	4/1/2016	159	159	0
OGP Gaz-System S.A.	removal of defects	3/28/2016	129	129	0
OGP Gaz-System S.A.	to be perf. removal of defects	2/3/2012 from 04.02.2012 to 03.02.2015	0 1,247	4,157 1,247	-4,157 0
OGP Gaz-System S.A.	to be perf. removal of defects	5/10/2012 from 11.05.2012 to 10.05.2015	0 1,407	4,688 1,407	-4,688 0
Polskie Górnictwo Naftowe i Gazownictwo S.A.	tender fee guarantee	1/13/2012	0	920	-920
OGP Gaz-System S.A.	to be perf. removal of defects	4/30/2014 from 01.05.2014 to 15.02.2017	2,374 712	0 0	2,374 712
OGP Gaz-System S.A.	to be perf.	3/12/2013	4,676	0	4,676

	removal of defects	from 13.03.2013 to 25.02.2016	1,403	0	1,403
OGP Gaz-System S.A.	to be perf. removal of defects	2/14/2013 from 15.02.2013 to 31.01.2016	6,829	0	6,829
			2,049	0	2,049
OGP Gaz-System S.A.	to be perf. removal of defects	12/15/2012 from 16.12.2012 to 01.12.2015	0	0	0
			396	0	396
OGP Gaz-System S.A.	to be perf. removal of defects	30.11.2012 from 01.12.2012 to 15.11.2015	0	0	0
			373	0	373
OGP Gaz-System S.A.	to be perf. removal of defects	30.11.2012 from 01.12.2012 to 15.11.2015	0	0	0
			883	0	883
Polskie Górnictwo Naftowe i Gazownictwo S.A.	to be perf. removal of defects	11/6/2012 from 07.11.2012 to 07.11.2015	0	0	0
			368	0	368
OGP Gaz-System S.A.	to be perf. removal of defects	9/30/2013 from 01.10.2013 to 15.09.2016	3,097	0	3,097
			929	0	929
OGP Gaz-System S.A.	to be perf. removal of defects	5/30/2013 from 01.06.2013 to 15.05.2016	5,434	0	5,434
			1,630	0	1,630

The above listed warranties have been issued by banks and insurance offices and constitute security of liability of Izostal S.A. from executed contracts and bids in which the Company took part. In case of warranty payment, the issuer has right of recourse to Izostal S.A.

As on 31.12.2012 the Company has not received any guarantees.

As on 31.12.2012 the Company has not issued not received any sureties. Moreover, as on 31.12.2012, no entity guarantees the Company's liabilities.

## XII. INFORMATION ON THE USE OF FUNDS OBTAINED BY THE ISSUER FROM EMISSION OF SHARES UNTIL THE PREPARATION OF THE FINANCIAL STATEMENT

The Company has not emitted any securities in year 2012.

## XIII. EXPLANATION OF DIFFERENCES BETWEEN FINANCIAL RESULTS PRESENTED IN THE ANNUAL REPORT AND PREVIOUSLY PUBLISHED ANNUAL FORECASTS

The Company has not published any forecasts for year 2012.

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

### Debt ratios

Specification	Year 2012	Year 2011
Total debt ratio	35,6%	39,6%
Long-term debt	6,1%	8,3%
Debt to equity ratio	81,1%	94,2%
Equity to total assets ratio	55,2%	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.

Debt ratios have decreased in year 2012.



Total debt ratio decreased to a level of 35.6% from 39.6% at the end of the previous year. General Company indebtedness equaled 100,103 thousand zł and was reduced in 2012 by 7,651 thousand zł, with an increase of assets by 8,377 thousand zł. Repayment of credits for a total amount of 6,168 thousand zł mostly contributed to the decrease of indebtedness. The Company, apart from repayment of investment credits according to schedules agreed for, due to increase of PLN value, has also repaid foreign exchange credits.

Long-term debt ratio decreased to a level of 6.1% at the end of 2012.

Equity to debt ratio decreased to a level of 81.1% due to decrease of indebtedness (by an amount of 6,362 thousand zł) and increase of equity by profit raised. The Company's equity increased by a value of profit in an amount of 20,306 thousand zł. and decreased due to a decision to pay dividends in an amount of 5,567 thousand zł.

The Company presents stable financial position. The possessed capital assure stability and safety of maintained economic activity. Moreover, the Company has access to revolving credits that may be utilized according to current needs. The Company diversifies its credit engagement in banks. Izotal S.A. adjusts the level of maintained inventory to performed contracts on current basis, access to external financing sources is optimized to forecast turnover.

### Liquidity ratios

Specification	Year 2012	Year 2011
Current liquidity	1.74	1.66
Quick liquidity	1.01	1.12

Rules for calculating ratios:

- 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,
- 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 2012 equaled 1.74, as compared to 1.66 at the end of year 2011. Lower quick liquidity ratio is an effect of increased level of inventory (by 30.6% more than in the previous year). In the Management's Opinion, current/quick liquidity ratios at the end of the period are of safe value.

### Working capital management efficiency

Specification	Year 2012	Year 2011
DIO	47.0	63.6
DSO - deliveries and services	37.5	74.8
DPO - supplies and services	44.4	83.9
Operating cycle	84.5	138.4
Cash conversion cycle	40.1	54.5

Rules for calculating ratios:

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

DIO has significantly decreased in year 2012. Shortening of DIO by almost 17 was possible due to optimization of chain of material deliveries for production and for end products.

The Company may, however, not be able to maintain such low DIO in the future periods due to contract performance schedules, but this has been taken into consideration in the Company's working capital accounts.

DSO on account of deliveries and services was shortened to a level of 37.5 days (by 37 days) in 2012. The improvement in this field is due to an increase in sales of the Company directly to OGP Gaz-System S.A. and PGNiG S.A. which bear a 30-day payment term. In case of sales to executing companies performing constructions for the investors, much longer payments terms are adopted, due to long periods of execution, commissioning and payment by the investor for the constructed pipeline section. The Company takes long DSO into consideration in the working capital accounts. Moreover, larger part of the Company's property is insured.

Shortening of DIO/DSO allowed the Company to make quicker payments to their clients, achieving more profitable prices. The Company executes its liabilities within payment terms agreed for with receivers.

Operating cycle has significantly decreased from a level of 138.4 days to 84.5 days in 2011. Due to significant change in DIO, cash conversion cycle has decreased to a level of 14 days.

#### **XV. EVALUATION OF INVESTMENT PROJECTS FEASIBILITY**

The Company is not planning any capital investments.

As far as investments in the tangible fixed assets are concerned, the Company's plan for 2012 shows the amount of 7.710 thousand zł. The main item of the plan is construction of steel, non-coated pipes' warehouse. The warehouse's purpose will be mostly storage of small-dimension pipes intended for trading. Storage of pipes purchased as trade goods requires roofing, in order to assure protection from corrosion. Execution of the investment has been postponed to 2012, which was announced by the Company in its report for the first half of 2012. Other important items of the schedule is creation of building for dispatch, storage and logistics of replacement parts (total value 800 thousand zł) and purchase of storage racks (500 thousand zł.).

In the Board's pinion, execution of the said investments is not in danger. The scheduled investments will be covered from the Company's equity.

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

The most important factor influencing Izostal S.A. development prospects is gas grid market situation. All forecasts regarding this situation are very promising. Decisions made by Poland and the EU lead to significant changes on the global gas market, which are related to globalization of the EU economy and creation of a common gas market.

An important factor determining development in this field is also a pursue to diversify sources of gas, as well as environmental policy adopted by the EU that forces Poland to increase share of gas in national energetic balance.

Power sector in Poland will be funded with over 100 bln zł in the years to come. New power blocks and transmission grids as well as gas yard in Świnoujście and oil yard in Gdańsk will be constructed for 60 bln zł. At least 5 bln zł are to be invested in production of shell gas. 40 bln zł are to be directed for nuclear energy investments.

Gas market in Poland is now seeing strategic projects for the national power safety, the good situation is to last, according to the Board, for at least another few years, which is confirmed by information obtained from the key industry investors - OGP Gaz-System S.A and PGNiG S.A. 18 bln zł is to be directed for gas infrastructure investments. Enterprises of a total value of 9,9 bln zł have already been launched, their completion is scheduled for the end of 2014. Investments scheduled for years 2014-2017 worth 8,9 bln zł. include: construction of gas storage plants, 1300 km of new gas lines and Poland - Lithuania interconnecting facility (560 km). 1,6 bln zł is to be directed in 2015 for extension of oil infrastructure and oil yard in Gdańsk.

Construction of LNG yard in Świnoujście, whose completion is scheduled for the second half of 2014, is a sign of another meaningful investments within the branch. In relation to construction of the yard, a gas transmission line North - South is being constructed, whose purpose, except for domestic distribution, is to distribute gas also to Czech Republic, Austria, Hungary and Slovakia, as well as connect to scheduled Adria LNG yard and the Northern Gas Line projects, utilizing internal gas transmission infrastructure of Middle Europe. To commission the line, another 880 km of gas lines have yet to be constructed in Poland, worth 5 bln zł total. The construction may end in years 2016/2017.

OGP Gaz-System S.A. is also planning to construct a gas link between Poland and Lithuania, which is to ensure broader access of the Baltic states to gas and enable use of Lithuanian storage facilities. The project's purpose is further integration of the European gas industry system and establishment of liberated gas market in north-easter part of Europe. A system link may be established in 2017/2018. Total gas line length will equal 560 km. A decision in this matter is to be made in 2013, but it is evident that it has been widely accepted in the EU.

According to the recent information, Gaz-System S.A. is planning to spend 8 bln zł on investments for years 2011-2014, and then another 5 bln zł for investments in years 2015-2018.

The necessity of construction distribution infrastructure is also determined by plans of constructing low-emission power plants and gas heating plants, being a relatively clean source of energy. An increase of the national power output is vital due to the fact that obsolete power plants will be decommissioned, with power consumption raising at the same time.

Another positive information confirming further investments in the gas branch is awareness of the EU politicians of the necessity to further integrate the European power market, including gas market. It is one of the more important aims that is being considered in the EU budget for years 2014-2020. Access to safe, integrated and competitive source of energy is one of the basic conditions for stable growth of the European economy, but to achieve this, trans-national bandwidth of the gas lines must be increased.

Another stage of implementation of strategic investments on the gas transmission market will be construction of a low-pressure distribution gas line system, which also creates demand for products offered by the Company.

Izotal S.A. will continue taking part in all significant tenders for products offered, competing with other, both national and foreign companies. The Company strategy's efficiency is also proven by the fact that Izotal S.A. is to deliver 47% of coated pipes from demand of OGP Gaz-System pursuant to a framework agreement of 26.01.2011 (concluded with four other suppliers). The Company high position as compared to its competition results from access to modern pipe coating technologies (such as LAYTEC coats, which are offered only by Izotal S.A. on the national scale), high quality of the offered products, purchase terms flexibility and developed pipe storage infrastructure.

Also, a significant increase in expenditures for gas (both shell and conventional) production well investments is noted. The Company successfully partakes in drill pipe deliveries. Development of this market segment also creates possibility of further expansion of the Company, especially after confirmation of profitability of production of gas, when a necessity to construct conveyance infrastructure will be created.

It is worth noting that recent gas shell reports in Poland estimate the total worth of available resources to be 346-768 bln m<sup>3</sup>, i.e. 2,5 - 5,5 times more than conventional resources. The research confirms that the resources are sufficient for at least 35-65 years exploration.

When assessing prospects for the branch, an important factor having influence on the investments should also be considered, which is the economic condition of the European Union. Macroeconomic situation has also its influence on PLN - EUR exchange rate variations. The PLN-EUR exchange rate is a crucial factor having influence on results achieved by the Company, as major part of its purchases is settled in EUR. The Company effectively secures exchange rate risk.

In the Management's opinion, considering all the above mentioned factors, a significant increase in demand for the Company's products is to be expected.

#### **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.

Within the reported period, the Company ceased production activity in leased rooms of Walcownia Rur Andrzej Sp. z o.o. in Zawadzkiem. The entire production is carried out within the Kolonewskie plant. The Company's seat as well as its main office remain located in Zawadzkie.

Due to completion of the Research & Development Center for Steel Technologies and Products, the following were established: Department for New Technologies and Department for Technological Research and Production.

The Company's organizational structure incorporates organizational blocks grouping the organizational units of the Company by its range of activity and subordination to the Management. Members of the Board maintaining direct supervision of functioning of particular blocks. President of the Board is also Financial Director, while the Vice President - Commercial Director is directly subject to the former.

Pursuant to commonly adopted organizational scheme, the following are subject to Director-General:

- Research & Development Center
- Production & Technical Director with subordinate bodies
- Quality Management Office
- Management and Personnel Office
- Management Agent for Integrated Management System
- Safety at Work 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

Employment structure in Izostal S.A. split into organizational divisions.

Specification	12/31/2012	
	Number of FTEs	Share
Management Board	2	2%
General Director Division	12	8%
Financial Director Division	8	5%
Commercial Director Division	12	8%
Production and Technical Director Division	93	62%
<b>Research &amp; Development Center</b>	22	15%
<b>TOTAL</b>	149	100%

Employment structure of Izostal S.A. according to the type of performed job, 31.12.2012.

Specification	12/31/2012	
	Number of FTEs	Share
White-collar employees	54	36%
Blue collar employees	95	64%

Total	149	100%
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**XVIII. ALL AGREEMENTS CONCLUDED BETWEEN THE ISSUER AND THE MANAGEMENT, WHICH ALLOW FOR COMPENSATION IN THE EVENT OF RESIGNATION OR DISMISSAL FROM THE POST**

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

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

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

	Total	Salaries - fixed part	Salaries - variable part	Other benefits
<b>MAREK MAZUREK, incl.:</b>				
Benefits paid in this business year	645	283	346	16
Employee benefits paid in this business year, but referring to previous years	26	25	0	1
Established remuneration provisions	129	0	129	0
Not paid remuneration	27	26	0	1
<b>JACEK PODWIŃSKI, including:</b>				
Benefits paid in this business year	553	242	297	14
Employee benefits paid in this business year, but referring to previous years	22	21	0	1
Established remuneration provisions	112	0	112	0
Not paid remuneration	27	26	0	1
<b>TOTAL, including:</b>				
Benefits paid in this business year	1,198	525	643	30
Employee benefits paid in this business year, but referring to previous years	48	46	0	2
Established remuneration provisions	241	0	241	0
Not paid remuneration	54	52	0	2

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

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

	Total
<b>JERZY BERNHARD, including:</b>	
Benefits paid in this business year	41
Employee benefits paid in this business year, but referring to previous years	4
Established remuneration provisions	0
Not paid remuneration	4
<b>ZDZISŁAW MENDEŁAK, including:</b>	
Benefits paid in this business year	41
Employee benefits paid in this business year, but referring to previous years	4
Established remuneration provisions	0
Not paid remuneration	4
<b>JAN KRUCZAK, including:</b>	
Benefits paid in this business year	43

Employee benefits paid in this business year, but referring to previous years	4
Established remuneration provisions	0
Not paid remuneration	4
<b>JAN CHEBDA, including:</b>	
Benefits paid in this business year	43
Employee benefits paid in this business year, but referring to previous years	4
Established remuneration provisions	0
Not paid remuneration	4
<b>LECH MAJCHRZAK, including:</b>	
Benefits paid in this business year	43
Employee benefits paid in this business year, but referring to previous years	4
Established remuneration provisions	0
Not paid remuneration	4
<b>ADAM MATKOWSKI, including"</b>	
Benefits paid in this business year	43
Employee benefits paid in this business year, but referring to previous years	4
Established remuneration provisions	0
Not paid remuneration	4
<b>TOTAL, including:</b>	
Benefits paid in this business year	254
Employee benefits paid in this business year, but referring to previous years	24
Established remuneration provisions	0
Not paid remuneration	24

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

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

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

Management Board	Total number of shares of Izotal S.A. held by persons responsible for management and supervision	Nominal value of all shares of Izotal S.A. held by persons responsible for supervision or management (zł.)
Marek Mazurek	5,314	10,628.00
Jacek Podwiński	738	1,476.00
<b>Supervisory Board</b>		
Zdzisław Mendelak	3,489	6,978.00

**XXI. INFORMATION ON CONTRACTS KNOWN TO THE ISSUER WHICH MAY LEAD IN THE FUTURE TO CHANGE IN PROPORTION OF POSSESSED SHARES BY CURRENT SHAREHOLDERS**

As on the report date, the Company has no information on the above mentioned.

**XXII. INFORMATION ON THE CONTROL SYSTEM OF EMPLOYEE SHARE SCHEMES**

The Company did not organize employees shareholding schemes.

**XXIII. INFORMATION ON THE CONTRACT WITH THE ENTITY AUTHORIZED TO AUDIT FINANCIAL STATEMENTS**

Information on the contract with the entity authorized to audit financial statements is included in note 42 of additional information to the Financial Statement.

Zawadzkie, 21st March 2013

.....  
Board President  
Marek Mazurek

.....  
Board Vice President  
Jacek Podwiński

**XXIV. MANAGEMENT BOARD STATEMENT**

(made in line with §91 clause 1 item of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information submitted by issuers of securities, and conditions of recognizing information required by law of a non-EU state as equivalent).

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

Zawadzkie, 21st March 2013

.....

Board President

Marek Mazurek

.....

Board Vice President

Jacek Podwiński

**XXV. MANAGEMENT BOARD STATEMENT**

(made in line with §91 clause 1 item 6 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information submitted by issuers of securities, and conditions of recognizing information required by law of a non-EU state as equivalent).

The Management Board of Izostal S.A. declares that the entity authorized to examine financial statements i.e. Kancelaria Porad Finansowo – Księgowych dr. Piotr Rojek Sp. z o.o., which examined the annual financial statement, was selected in line with legal regulations. Both the entity and the auditors, who performed the audit, met the conditions necessary to prepare an independent opinion on the examined annual financial statement in line with relevant professional regulations.

Zawadzkie, 21st March 2013

.....

Board President

Marek Mazurek

.....

Board Vice President

Jacek Podwiński



**XXVI. CORPORATE GOVERNANCE****A. Statement on observing corporate governance principles**

Izotal S.A., since admittance of its shares on a regulated market adopted principles stated in a document titled "Dobre Praktyki Spółek Notowanych na GPW" approved on 4.07.2009 by Giełda Papierów Wartościowych S.A. by resolution no. 12/1170/2007 with later amendments.

In 2012 Izotal S.A. followed only corporate governance principles specified in the document titled "Dobre Praktyki Spółek Notowanych na GPW" [Good practices of listed companies], adopted on 19.10.2011 by the Supervisory Board of Giełda Papierów Wartościowych S.A. in Warszawa by resolution no. 17/1249/2010, available to the public at the Exchange website: [www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl).

The Company publishes information related to its corporate governance on its website [http://www.izotal.com.pl/tad\\_korporacyjny](http://www.izotal.com.pl/tad_korporacyjny)

In 2012 the Company did not apply the following recommendations and rules specified in the above-mentioned document:

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

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

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

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

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

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

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

RULE: „6. At least two members of the supervisory board should be independent of the company and entities related to the company. Enclosure II to the Recommendation of the European Commission of February 15,

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

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

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

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

Izostal S.A. has a Supervisory Board Audit Committee appointed on 16.02.2011. Composition of the Audit Committee is not in line with Enclosure I to the Recommendation of the European Commission of February 15, 2005 on the role of non-executive directors (...) since none of its members meets the criteria of independence (referred to in the previous item).

The Audit Committee functions on the basis of its Regulations approved by the Supervisory Board on 28.02.2011. Adoption of the Audit Committee's Regulations, drawn up on the basis of the said Enclosure I to the Recommendation of the European Commission is the first stage of implementing the functioning principles and tasks for the review committees specified therein.

Full implementation of Enclosure I to the Recommendation of the European Commission of February 15, 2005 may occur upon obtaining information on the appointment of Supervisory Board members who meet the criteria of independence.

*Due to implementation of changes to the document "Dobre Praktyki Spółek Notowanych na GPW" [Good Practices] of 1.01.2013, issued by resolution no. 19/1307/2012 of Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A. on 21.11.2012, the Company has issued a report on 26.02.2013 in which it announced that it will not adopt some of the regulations issued.*

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

The Company's internal control system is fulfilled in response to identified risk and is part of the risk management system.

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

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

Internal control mechanisms cover the manner in which Company employees perform their duties, in particular: qualifications, competences and compliance of the tasks performed with principles and procedures

developed for individual areas in which the Company functions. The mechanisms are a control measure and are incorporated both in internal normative acts, procedures and integrated IT system for company management.

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

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

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

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

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

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

The Supervisory Board and the Audit Committee established by it play an important role in supervision of the internal control system. The tasks of the Audit Committee include among others the monitoring of the financial reporting system, performing financial audits and monitoring the efficiency of internal control systems, internal audit and risk management. The Committee also monitors personal independence of the external auditors and their Office's independence from the management board members as well as from the Company itself.

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

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

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

Shareholder	Number of shares held	Shareholding (%)	Number of votes at the General Meeting	Share in the total number of votes at the Meeting (%)
Stalprofil Finanse Sp. z o.o.	19,739,000	60,28 %	19,739,000	60,28 %

Aviva OFE Aviva BZ WBK	1,669,877	5,10 %	1,669,877	5,10 %
BPH TFI S.A.	1 644 021	5,02%	1 644 021	5,02 %
Others	9 691 102	29,60 %	9 691 102	29,60 %
<b>Total</b>	<b>32,744,000</b>	<b>100 %</b>	<b>32 744 000</b>	<b>100 %</b>

Pursuant to a note sent to the Company on 7.09.2012 basing on art. 69 of the Offerings Act, Stalprofil S.A. has transferred - title to 19,739,000 share of Izostal S.A. to Stalprofil Finance Sp. z.o.o. Therefore, Stalprofil Finance Sp. z.o.o. is in possession of 19,739,000 shares (equal to the amount of votes in the general meeting), which constitutes 60,28% of Izostal S.A. share capital. Due to the fact that Stalprofil S.A. is in possession of 100% shares of Stalprofil Finance Sp. z.o.o as a result of transaction made, it has obtained status of dominant entity to Izostal S.A., entering in possession of 60.28% total votes in Izostal S.A through the subsidiary entity (Stalprofil Finance Sp. z.o.o.)

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

The Company did not issue securities offering special control rights.

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

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

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

As on the report date, the Company did not possess any information on limitations concerning the transfer of the ownership title to issuer's securities.

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

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

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

the Commercial Companies Code, Company's articles and the Regulations of the Supervisory Board of Izostal S.A.

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

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

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

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

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

General Meeting functions based on the Regulations of the General Meeting of Izostal S.A., seated in Zawadzkie, which define the principles of the functioning of the General Meeting i.e.: rule for convening and canceling a general meeting, shareholders' rights to information, rights to participate in a General Meeting, principles of registering General Meeting participants, participation of persons other than Shareholders in a General Meeting, principles of opening the Meeting and appointing a President of a General Meeting, agenda and course of the meeting, principles of appointing a Supervisory Board and principles of keeping minutes of a General Meeting.

General Meeting regulations are published on the Company's website ([www.izostal.com.pl](http://www.izostal.com.pl)). Provisions of the Commercial Companies Code and other legal acts, as well as provisions of the Company's Statute apply in issues not governed by the present Regulations.

A General Shareholders' Meeting may be convened by authorities or persons entitled so in line with legal regulations or the Statute. The General Meeting is convened by an announcement on the company website and in way stated by law on public offers as well as terms of introducing financial instruments to organized rotation system and public companies' law.

Company Shareholders entitled under registered shares and provisional certificates, Company Shareholders entitled under registered shares and provisional certificates, as well as pledgees and users with a voting right are entitled to participate in the General Meeting provided that they were entered into the shares ledger at least one week before the General Meeting, as well as persons holding bearer shares who provided the Company with certificates issued as a proof of depositing shares or registered deposit certificates at least one week before the date of the General Meeting.

As on the day on which the Company obtains the status of a public company, the right of participation in a General Meeting shall be ascribed to persons being Shareholders sixteen days prior to the General Meeting, and who demand participation in the Meeting, with the following reservations:

- 1) authorized persons as well as pledgees or users who are entitled to a vote, have the right of participation in the General Meeting, if they are registered in the share register on the application date,

- 2) authorized bearers and persons applying with an identification card, provision of share bond to a notary, bank of investment company with a seat located on a territory of the EU or nation being a party to the pact on EEA, indicated in the announcement of General Meeting, are entitled to participation in the General Meeting, provided that share documents or certificates confirming provision of share documents to the above mentioned entities are presented to the Company no later than on the Participation Registration Date and are received before the end of that day.
- 3) Shareholders' attorneys are authorized to partake in the Meeting provided that they present a document confirming power of attorney, in writing or in electronic form.

Any participant of the General Shareholders' Meeting shall have a right to apply for the position of the General Shareholders' Meeting President, as well as to put up one candidate for the General Shareholders' Meeting President. Any Shareholder shall have the right to ask questions on any matter covered by the agenda of the meeting. During the session participants of the General Shareholders' Meeting shall have the right to ask questions related to a given item of the agenda to the current members of the Company bodies present in the room.

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

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

Except for the above mentioned, the resolutions of the General Meeting have to be in conformity with law and the Company Statute.

The Company Statute and General Meeting Rules are available on the Company's website.

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

##### **Management Board**

In year 2012 the Management Board's composition was unchanged:

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

The Management Board functions based on the provisions of the Commercial Companies Code, Company Articles, Regulations of the Management Board of Izostal S.A., Good Practices of Companies listed on the

Warsaw Stock Exchange, and effective legal regulations. The Company Management Board manages Company activity and represents it in relations with the outside world.

The Management Board's scope of activities includes all matters connected with managing the Company, whereas those that are not restricted by commonly effective law regulations and the Company's Articles fall within the powers of the General Meeting or the Supervisory Board. Management Board President manages the works of the Management Board, specifically coordinates, supervises and organizes the work of other Management Board Members. For ordinary management matters, each Management Board Member may run Company affairs on their own. A Management Board resolution is required in case of issues exceeding the ordinary scope of the Company's activities related to managing its business. The Management Board takes decisions in form of a resolution also if even one Management Board member so requires.

Resolutions are passed by ordinary majority of shares at Management Board meetings held on dates agreed on an ongoing basis, as necessary. Management Board meetings may be held at the Company's seat or outside and are convened by the President of the Management Board at their own initiative, or at the request of another Management Board member. Management Board resolutions may also be adopted through direct remote communication means or by circulation (written procedure). Resolutions adopted by circulation (written procedure) or via means of remote communication are valid if all Management Board members have been informed on the adoption and content of the resolution. Management Board members' participation in Management Board meetings is obligatory, and any absence should be excused appropriately. Minutes are kept to record the course of Management Board meetings. While taking decisions on Company matters, Management Board members act within the limits of reasonable business risk, that is after examination of all the information, analyses and opinions which, in the assessment of the Management Board, shall be considered in a given case to the best interest of the Company. On determining Company's interest, the Management Board takes into account the long-term interest of shareholders, creditors, Company employees and other entities and persons co-operating with the Company as regards its business activity, as well as the interest of local communities. While effecting transactions with shareholders and other persons whose interest may have influence on the Company's interest, the Company Management Board exercises due care to have the transactions realized on market conditions.

### **Supervisory Board**

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

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

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

Supervisory Board supervises Company operations. Each Supervisory Board member should act in line with the Company's interests, and follow independent opinions, in particular: should not demand or accept unjustified benefits that could have a negative impact on the assessment of the independence of its opinions and judgments, should object clearly and express a dissenting opinion if they believe that a decision of the Supervisory Board is in conflict with the Company's interests. At the first meeting of the new term the Supervisory Board appoints, in a secret ballot, the President, Vice President and Secretary of the Supervisory Board from among its members, by absolute majority of votes cast in the presence of at least half of the Supervisory Board members. Supervisory Board may replace the person holding the position of the Supervisory Board President, Vice President and the Secretary during the term of office. A motion on recalling a Supervisory

Board member from the position held must be combined with appointing a Supervisory Board member who will replace the person recalled from the position. The appointment is made through a secret ballot, by absolute majority of votes cast in the presence of at least half of the Supervisory Board members. The President's powers include: managing the works of the Supervisory Board and coordinating those works, convening Supervisory Board meetings and chairing them, opening a General Meeting or indicating a person authorized to open and chair the meeting until the President of the General Meeting is appointed. Vice President replaces the Supervisory Board President and chairs Supervisory Board meetings when the Supervisory Board President is not able to perform their duties, or does not wish to chair a Supervisory Board meeting. Secretary's duties include: exercising regular supervision over keeping the Supervisory Board minutes book and all documentation on the activities of the Supervisory Board, maintaining regular contact with the Company's Management Board, informing the Supervisory Board on the manner of implementing its resolutions, signing the Supervisory Board outgoing correspondence. Supervisory Board meetings are convened as necessary, yet at least 3 times in a business year. First meeting of the newly appointed Supervisory Board is convened by the President of the Supervisory Board of the previous term of office to be held at the latest on a day falling two weeks from the appointment of Supervisory Board of the new term of office. Should the Supervisory Board President of the previous term fail to convene the meeting, the first Supervisory Board meeting is convened by the Company's Management Board. The Supervisory Board's meeting is convened by the President of the Supervisory Board. Supervisory Board meetings are convened based on a written invitation including among others the suggested agenda, prepared by the Supervisory Board President, to be effectively distributed to all Board members at least seven days before the date of the meeting. Supervisory Board resolutions are adopted by an absolute majority of votes in the presence of at least half of the Supervisory Board members. Minutes are kept to record Supervisory Board meetings. The Supervisory Board performs its obligations collectively; however it may delegate its members to individually perform certain supervisory activities. For contracts concluded between the Company and Management Board members, the Supervisory Board may, by virtue of a resolution, authorize one or more of its members to perform such legal activities. The Supervisory Board's members exercise their duties and rights in person.

The Izostal S.A. Supervisory Board has formed an Audit Committee, whose list of members since its foundation by the Supervisory Board's resolution no. 19/VII/2011 of 16.02.2011 has not changed, and in year 2012 was as follows:

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

The Audit Committee operates basing on a Code of Conduct approved by Izostal S.A. Supervisory Board and in accordance with the adopted annual Schedule of Regular Meetings of the Audit Committee. The Audit Committee's tasks include monitoring the process of financial reporting and performing actions on financial audit, as well as monitoring the efficiency of internal control, internal audit and risk management systems.

Zawadzkie, March 30, 2013

.....  
 President of the Board  
 Marek Mazurek

.....  
 Vice President of the Board  
 Jacek Podwiński





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