Semi-Annual Report on Stalprodukt S.A. Capital Group Activities For the Period from 1 January 2012 to 30 June 2012

Bochnia 2012

Contents:

1. Capital Group's Structure

The Stalprodukt S.A. Capital Group embraces the parent company and 9 subsidiary entities, pursuing activities in the following segments:

- **Stalprodukt-Centrostal Kraków sp. z o.o. –** wholesale and retain sale of metal products
- **Stalprodukt-Wamech sp. z o.o. –** production of steel structures and spare parts as well as providing repair services
- **Stalprodukt-Serwis sp. z o.o. –** repair services
- **Stalprodukt-Zamość sp. z o.o. –** production of construction carpentry and trade in metallurgical products
- **Stalprodukt-MB sp. z o.o. -** construction and maintenance of roads, mounting of road safety barriers
- **STP Elbud sp. z o.o. –** production of steel structures and galvanizing services
- **Stalprodukt-Warszawa sp. z o.o. –** trade in steel products
- **Stalprodukt-Ochrona sp. z o.o.** – personal and property security services
- **Cynk-Mal S.A. –** production of galvanized hoop iron and galvanized wire.

The Parent Company shares in the subsidiary entities account for:

- in Stalprodukt-Warszawa - 51 %
- in Cynk-Mal – 51 %
- in the remaining entities - 100 % each.

The basic object of the parent company's activities is the production of highly processed steel products, ie. electrical sheets and strips used in production of transformers, cold formed sections, road safety barriers, torroidal cores and hot- and cold-rolled steel sheets and strips.

The Parent Company and all the other Capital Group entities were subject to consolidation. Pursuant to Art. 55, par. 6a of the Accountin Act as of 29 September 1994 (Journal of Laws of 2002, No 76 item 694 as amended) the Issuer has been preparing consolidated financial reports for the periods starting from 1 January 2005 in compliance with IFRS.

2. Assessment of Economic and Financial Conditions

2.1. Fundamental Economic and Financial Figures and Ratios

In the first half of 2012, our total revenues reached the level of PLN 953 million. The Capital Group generated PLN 79 million of operating profit, with net profit accounting for PLN 62 million.
The financial surplus totaled the value of PLN 89 million.

In the 1st half of 2012 the return on sales at particular levels presented itself as follows:

Itemization	1st half of 2011	1st half of 2012
Return on Sales	7.2	8.2
Operating Profit Margin	7.1	8.3
Gross Profit Margin	7.1	8.2
Net Profit Margin	5.6	6.5

For Return on Assets and Return of Equity see the following values:

Itemization	1st half of 2011	1st half of 2012
Return on Assets	3.0	3.2
Return on Equity	3.7	3.9

The Stalprodukt S.A. Capital Group's financial liquidity maintained its high level.
The liquidity ratios reached the following levels:

Itemization	1st half of 2011	1st half of 2012
Current Ratio	2.3	2.6
Quick Ratio	1.2	1.4

Debt Ratios for 1st Half of 2012 are presented below:

Itemization	1st half of 2011	1st half of 2012
Total Debt Ratios	0.19	0.18
Debt-To-Equity Ratios	0.24	0.22

The Stalprodukt S.A. Capital Group's assets were increased from PLN 1,807 million (1st half of 2011) to PLN 1,928 million (1st half of 2012), which is by PLN 123 million, including the fixed assets increase by PLN 28 million, and the current assets increase by PLN 94 million, compared to the 1st half of the previous year.

The Stalprodukt S.A. Group increased its cash resources from 56 PLN million (status as of 31.06.2011r) up to PLN 121 million (status as of 31.06.2012r).
The net working capital grew from PLN 424 million (1st half of 2011) to PLN 525 million (1st half of 2012).
Cash conversion cycle stood at 82 days.

In the 1st half of 2012, the Stalprodukt S.A. Capital Group, increased the equity level over the 1st half of 2011 by PLN 123 million, which accounts for 8 %. The equity share in total financing sources increased from 81 % to 82 %.

2.2. Assessment of Achieved Results and Group's Financial Standing

The Group's financial results achieved in the first half of the current year should be assessed as good.
Even though the transformer sheet sales were reduced by 9.2 % in terms of volume, and the sales of the Profiles Segment products were decreased by 0.9 %, but the total sales reached the level of PLN 946 875 thousand, which is only by o 1.8 % less than in the analogical period of 2011. The operating result, gross profit and net profit were increased by over 14 %. .
The achievement of better financial results was possible thanks to the higher level of average selling prices, especially in the Electrical Sheets Segment.

In the reporting period the Group's financial standing was maintained at a good level, which is indicated by the basic economic and financial ratios, characterizing economic performance, whose level should be regarded as satisfactory under the present market conditions.
The group did not experience any payment gridlocks, consistently pursuing its risk management policy, precisely described in the recently published consolidated financial report. It is not threatened either by the fluctuating currency exchange rates thanks to the natural security measures applied against this risk.

In the 1st half of 2012, compared to the balance sheet status as of 31.12.2011, there was a 5.1% increase, primarily concerning the current assets (increase by 10,4 %). The inventories increased by 14.9 %, while the short-term receivables showed a decrease of 4.1%.

The increase of inventories stands in accordance with the 2012 financial projection and relates to the planned equipment switch-offs, including the rolling mill switch-off, connected with the investment project implemented within the framework of the task „Launching the Production of HiB Electrical Sheets”.
Short-term investments recorded a significant increase, including 56.1 %-increase of cash appropriated for the financing of the planned projects. In the assets structure the respective shares of fixed assets and current assets changed in favor of current assets which grew by 2.2 %.

The increase of assets was accompanied by the increase of the financing sources, in the equity position by 4.0 % and in the position of liabilities, especially trade liabilities, by 10.4 %.
In the structure of liabilities the respective shares of equities and liabilities changed only insignificantly by only 0.9 % in favor of liabilities.
The book value per ordinary share was increased from PLN 225.90 up to PLN 234.84 (4.0 %).

Throughout the entire reporting period, the Group enjoyed very good financial liquidity, which is confirmed by the liquidity ratios sustained at a very high level, it punctually settled all its liabilities, both in favor of its employees and suppliers, as well as the state's budget and financial institutions.
The Group isn't indebted and only, periodically, benefits from current credits, the consumption of which, as of the balance sheet day, amounted to PLN 30,844 thousand, and related only to subsidiaries Stalprodukt-Centrostal sp. z o.o. and Cynk-Mal S.A.
In the reporting period, only Cynk-Mal S.A. in Legnica experienced some liquidity and creditworthiness problems. The restructuring proceedings in the company and the Issuer's warranty allowed Cynk-Mal S.A. to obtain the necessary external financing.

In the assessment of the financing banks, the Stalprodukt S.A. Capital Group continues to enjoy good creditworthiness, and the results achieved as well as transparent property and ownership status allow the Group to obtain multiform financing for its activities.
All the credit lines which were described in detail in the recently published consolidated financial report for the year 2011 have still been in use and are extended by the banks at the scheduled dates. Most of these lines are used as limits helping to finance the current account guarantees and letters of credit, additionally, securing the Group’s external financing.

New efforts focused on the restructuring of the financing sources, expansion onto new supply and sale markets, rational reserves management and cost reduction are being undertaken in order to maintain the good financial standing and liquidity.

The achieved and planned financial results indicate that the implementation of the undertaken investment projects will be unthreatened.
The financial resources management should be recognized as correct, which is confirmed by the achievement of good results and economic ratios and maintenance of financial liquidity and credibility as well as punctual settlement of the liabilities incurred.

3. Results in Particular Group Segments

Transformer Sheets and Strips

In the first half of 2012, the volume of transformer sheets, sold for above PLN 301 million, only slightly exceeded 45 thousand tons. This translates into the sales volume decrease by 9 % compared to the analogical period of the previous year and the sales value increase by 3 %, considering the average prices increase by 13 %. Domestic sales were increased by a few percent while exports dropped by 10 %, which changes only insignificantly translate into the changes in the sales structure: the present geographical sales structure embraces a 92% -exports share and 8 %-domestic sales share.

During the initial five months of the year, almost 7.7 tons of transformer sheets were imported to Poland, which accounts for a 2-per cent increase over the analogical period of the previous year. The Stalprodukt's share in the transformer sheets domestic market accounts for 30 %.

The first half of 2012 was characterized by a markedly limited demand for transformer sheets, which was attributable to the general global conditions.

In the first half of 2012, China recorded a significant decrease of demand for transformer sheets. The production capacity of Chinese manufacturers exceeds the present demand from potential recipients. It is estimated that the Chinese market demand accounts for about 700 000 tons per year, whereas the production capacities of the two key manufacturers, i.e.. Wuhan Iron & Steel and Baosteel account for, respectively, 400 000 tons per year and 200 000 tons per year. Starting from October 2012 onwards, the already high production capacities will be further increased as Baosteel will increase its production capacity up to 320 000 tons per year thanks to the launching of a new production line.

The Tata Steel company announced that it has become one of the two entirely self-sufficient manufacturers of grain-oriented electrical sheets in Europe. The Cogent Power company and the Dutch raw material supplier IJmuiden established cooperation, thanks to which Tata Steel became self-sufficient in respect of grain-oriented electrical steel production. Cogent is capable of producing 200 000 tons of electrical sheets per year, half of which accounts for grain-oriented sheets.

The falling demand on the Indian market is connected with the necessity of BIS *[Bureau of Indian Standards]* registration of the new transformer producers and CRGO sheet suppliers, planned by the Indian government at the beginning of September 2012. In the opinion of the small-scale Indian manufacturers, this situation promotes large-scale producers, who will find it easier to follow the BIS registration procedure and will, at the same time, aspire to take over the orders of their small-scale competitors.

The transformer producers in Europe limit their outputs due to the lack of orders and uncertain economic conditions (lack of new government designs or investment projects).

Toroidal Cores

In the first half of 2012, 471 tons of transformer cores and laminations were sold, which accounts for a 13-per cent decrease of the volumes sold compared to the first half of 2011.
The price increase by a few per cent affected the final sales value result which was by 8% lower than in the analogical period of 2011.
The sales structure was changed in favor of the domestic sales which currently account for 46 % of total sales (38 % in the previous year). The export sales of toroidal cores dropped by almost one-fourth.
The conditions affecting the transformer cores market are closely related to the ones affecting transformer sheets.

Cold-Formed Sections

In the first half of 2012, the Group recorded a slight decrease in the sales volumes and value, compared to the analogical period of 2011.
The sales structure underwent significant changes; the domestic sales volume dropped by 8%, whereas the exports volume was increased by 13 %. Such changes resulted in the increase of the exports share up to 33% in the total sales structure of cold-formed sections and tubes and automatic decrease of the domestic sales share down to the level of 67 %.

The domestic sales decline automatically translated into a decrease of the Stalprodukt Capital Group's share in the domestic consumption of cold-formed profiles. At present, the share concerned is estimated at the level of about 27 %. This result accounts for a slight decrease compared to the previous year.

In the first half of the year, a marked decline in demand was observed both in the country and in entire Europe. After the initial five months of the current year, only slightly above 70 thousand tons of sections and round tubes were imported to Poland. This result is equivalent to the decrease of imports by 14 % compared to the previous year.

The sales of cold-formed profiles are connected with the investment-related demand signaled by such industries as: construction, mining, transport, machine and motor industry. Stalprodukt customers associated with these industries signal big difficulties both with the collection of receivables for the works and deliveries performed, and lack of further orders for the weeks to come.
Things look similar in the machine industry and transport. The decline in the passenger car sales, observed in Germany in the recent months, translates into a smaller demand for the production components and production-related equipment and machines (packaging, canisters, transporters, containers).

The production capacity of the European profiles market reached approximately 13.5 million tons. Unfortunately, it has never exceeded 10 million tons on the demand side. The ESTA preliminary estimations suggest that in 2012 the market may not even reach the level of 9 million tons, which may account for a decline in demand even by several per cent. Under such circumstances the price will be the only purchase-determining parameter. The behaviors of Stalprodukt Group's customers are strong indicators of their determination in the struggle for clients. This means that in the weeks, or even months, to come one should not expect any price uptrends. The currency exchange rate will be an additional determiner of the pricing strategy. The price-raising attempts, undertaken in the recent months by such leaders as ArcelorMittal or Thyssen, ended up in failure.

Road Safety Barriers

In the first half of 2012, the sales dynamics in the segment of road barriers was very good and fully corresponded to our plan assumptions. The sales volume was increased by 43 %, sales revenues by 66 %, and prices by 16 %.

It can be unequivocally ascertained that the best results, in the whole product range offered, were recorded in the road barriers product group The domestic market, involved in the preparations for EURO 2012, was still focused on, therefore the domestic sales results even exceeded the total road barriers results. Export markets were consciously provided with lower volumes. The present sales structure embraces a 97 %- domestic sales share and 3 % - export sales share.

Products of Steel Service Centers

We are still unable to increase the sales of the products offered by steel service centers to reach the planned pace and the differences between particular groups of the products offered are significant.
Compared to the first half of 2011, an 11-per cent decline was recorded in the sales volumes, 12-per cent decline in the sales value and 1-per cent decline in the prices.
The sales structure shifted in favor of the export sales by a few percentage points and the present proportion is: 83 % for domestic sales and 17 % for exports.
The imports of sheet steel, both hot- and cold-rolled dropped – in respect of the former by 16 %, and in respect of the latter by 8 %.
The steel service centers' market is oversaturated. In the majority of the centers, the production capacities are not utilized and extremely sharp competition affects the price levels. Despite this, further capacity-expanding projects are underway in this market segment. Consequently, the development of the activities concerned carries an increasingly high risk.

4. Description of Fundamental Threats and Risks Connected with Remaining Months of Reporting Year.

4.1. Domestic and Global Economic Conditions

The fundamental threats and risks to be faced by the Stalprodukt Capital Group in the second half of 2012 are connected with both Polish and global economic conditions, and especially conditions affecting the European Union markets, which are important for the sales of products processed by the Stalprodukt Group. The worsening economic conditions result in the declining demand for steel products, which further entails a reduction of their prices. In turn, the above conditions directly affect the level of the profit margins achieved from the sales of products and, consequently, also the profits generated by the Group.

4.2. Steel Market Conditions

The recession in numerous EU countries directly affects the steel market conditions. In the economies of e.g.: Spain, Italy, France or Great Britain pessimistic attitudes dominate; macroeconomic and steel market ratios are getting worse and production sectors limit investments. These conditions will also be hard felt by Polish manufacturers because the industries using steel in their production process, such as: household appliances, machines and metal ones – mainly export their products to the EU countries.

The most conspicuous symptom of the worsening economic conditions is the decline in production and consumption of steel products in the area of the European Union. According to the data published by the World Steel Association, in the period from January to June 2012 the output of crude steel dropped by 4.6 % compared to the analogical period of 2011 and reached the level of 88.9 million tons (Poland stood out very well against the background, having recorded an increase by 4.8 %). It should be stressed that the global steel output recorded a slight, but yet an increase of 0.9%.

It is estimated that the apparent consumption of steel products in the EU dropped in the first half of 2012 by 9 %. However, a 5%-decline is forecast in respect of the apparent consumption for the whole 2012.

According to the forecasts, in the near future the steel consumption uptrend will be maintained in the developing countries and its decline will continue in the developed countries.

4.3. Construction Industry Conditions

The bankruptcy of numerous construction branch companies on the Polish market, mainly resulting from the realization of unprofitable road construction contracts, may contribute to the further decline in demand for steel products.

4.4. Limited Financing of Infrastructural Investments

In the previous years the construction industry was mostly been driven by the investments related to the preparations for the EURO 2012 Football Championships in Poland. The end of this event raises concerns about the declining demand for steel products.
The decline concerned may have also resulted from the reduced funds for other infrastructural projects, to be co-financed from the EU funds. The particularly unfavorable impact will be noticeable in the case of road investment projects.

4.5. Russian WTO Accession

As of 23 August Russia joined the World Trade Organization (WTO). This fact is connected with the abolishment of import quotas, which were imposed by the European Union on Russian steel imports in 2007. In June 2012, a quota-abolishing regulation was published, concerning127 types of flat steel products and 84 types of long steel products.
This event will have significant effects for the EU steel market. In the long run, this will, surely, cause increased competition on the part of Russian steel producers, especially in respect of hot-rolled products which constitute raw material for deeper processing.

4.6. Competitive Environment

The Stalprodukt Group is facing increasingly stronger market competition; on the domestic market this mostly concerns the segment of cold-formed profiles and products of steel service centers. The worsening of the market conditions will result in the aggravation of the competitive struggle, which will result in price reductions and lower profit margins.

In the case of electrical sheets, Stalprodukt struggles with the unfavorable consequences of a massive oversupply of sheet steel above the existing demand caused by the recent implementation of numerous projects aimed at the global-scale expansion of production capacity. Considering the limited demand, resulting from the worsening global economic conditions, in the near future one should expect a further decline in the steel product prices.

5. Other Information

5.1. Changes in Group's Structure

As of 2nd April 2012, by a ruling of the District Court for Krakow-Śródmieście [cf. Cracow Centre], 11th Economic Division of the National Court Register, registration of changes took place, which consisted in recording the merger of the Issuer's subsidiary companies: STP Elbud Spółka z o.o. – bidding company, Ocynkownia Stalprodukt-Bolesław Spółka z o.o. – target company, Stalprodukt-Konstalbud Spółka z o.o. – target company (the mode and prerequisites for the merger were described in par. I.2. of the „ Additional Information" appended to the abridged consolidated Financial Report for first half of 2012.).

5.2. Management Board's Standpoint on Potential Implementation of Previously Published Forecasts

The Capital Group does not publish any financial result forecasts.

5.3. Indication of Shareholders Authorized Direcly or Indirectly through Subsidiaries to at least 5 % of Total Number of Votes in General Meeting

- ArcelorMittal Poland S.A. holding 2,270,800 shares, accounting for 33,77 % of capital and 6,846,800 shares, accounting for 38,20% of the total number of votes at the General Meeting of Shareholders,
- STP Investment S.A., holding 1,959,725 shares, accounting for 29,14 % of capital and 5,899,941 votes, accounting for 32,92% of the total number of votes at the General Meeting of Shareholders,
- Stalprodukt Profil S.A., holding 629,095 shares, accounting for 9,35% of capital and 943,499 votes, accounting for 5,26 % of the total number of votes at the General Meeting of Shareholders.

5.4. List of Managing and Supervising Officers Holding Stalprodukt Shares

1. Managing officers:
    - Piotr Janeczek - holds 114 865 shares
    - Antoni Noszkowski - holds 2 040 shares
    - Józef Ryszka - holds 504 shares

2. Supervising officers:
    - Stanisław Kurnik - holds 2 900 shares
    - Maria Sierpińska - holds 11 880 shares
    - Kazimierz Szydłowski - holds 7 012 shares
    - Janusz Bodek - holds 62 640 shares

The above data stand in accordance with the Company's knowledge as of the day the report was prepared.

5.5. Indication of Proceedings Pending in Court, Arbitration Agency or Public Administration Agency

The Group is not a party to any pending court proceedings, whose subject would be the Parent Company’s or subsidiary company’s liabilities or debts valued at, minimum, 10 % of the Parent Company’s own capital.

5.6. Transactions with Related Entities

The transactions with associated entities in the 1st half of 2012 are mainly concerned with:

- sales of products and goods to Stalprodukt S.A, Capital Group companies,
- services rendered by subsidiary companies to Stalprodukt S.A..

These are typical and routine transactions, rendered in a continuous manner, concluded according to market conditions within the capital group and resulting from the on-going operating activities.
Any other significant transactions with associated companies did not occur.

5.7. Information on Granted and Received Loans, Sureties and Guarantees

In the reporting period the Stalprodukt Company and its subsidiaries did not grant any loans or credits, sureties or guaranties, constituting overall at least 10 % of the Issuer’s equity.

5.8. Other Information Essential for Assessment of Staffing, Assets, Financial Standing, Financial Result and Changes Thereof and Essential for Assessment of Group’s Ability to Settle its Liabilities

All the information, which is essential for the assessment of the staffing, property and financial standing, financial result and related changes, and are essential for the assessment of the Group’s capacity to fulfill its obligations or settle liabilities, are contained herein and in the “Additional Information” sheet.

5.9. Factors Likely to Influence Group’s Results within at least Successive Quarter

In the assessment of the Issuing Entity, the factors likely to affect the Group’s results, to be achieved during, at least, the quarter to come, shall be:

- sustained trend of increasing electrical sheet prices,
- fluctuating raw material prices,
- fluctuating Company's product prices and demand, especially in the segment of sections,
- fluctuating exchange rates,
- economic conditions in Europe and worldwide, connected with the present financial crisis.

5.10. Composition of Management Board and Supervisory Board

Composition of Management Board

In the period from 1.01.2012 to 30.06.2012 the Stalprodukt Management Board was composed of:

Piotr Janeczek	- President of the Board
Antoni Noszkowski	- Member of the Board
Józef Ryszka	- Member of the Board

Composition of Supervisory Board

In the period from1.01.2012 to 30.06.2012 r. the Supervisory Board was composed of:

Stanisław Kurnik	- Chairman of the Board
Maria Sierpińska	- Vice-Chairman of the Board
Kazimierz Szydłowski	- Secretary
Janusz Bodek	- Member of the Board
Sanjay Samaddar	- Member of the Board
Augustine Kochuparampil	- Member of the Board
Tomasz Plaskura	- Member of the Board

....
Antoni Noszkowski
Member of the Management Board –
Financial Director

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Józef Ryszka
Member of the Management Board –
Marketing Director

....
Piotr Janeczek
President of the Management Board – Chief Executive Officer