

**DECLARATION OF THE MANAGEMENT BOARD OF IZOSTAL S.A. ON THE APPLICATION BY IZOSTAL S.A.  
OF CORPORATE GOVERNANCE RULES IN 2018**

**I. CORPORATE GOVERNANCE**

**A. Corporate governance statement**

From 1 January 2016 The Company applies a new set of corporate governance rules, adopted by the Exchange Board by way of a resolution of 13 October 2015, entitled "Best Practices of WSE Listed Companies 2016" (hereinafter referred to as Good Practices). The content of the "Best Practices of WSE Listed Companies 2016" is available on the website of the Warsaw Stock Exchange (<http://www.gpw.pl>) in the section devoted to corporate governance issues of listed companies.

Pursuant to § 29.3 of the WSE Rules, on 1 January 2016 the Company published current report no. 1/2016 in the EBI system. The Company indicated in the content of this report the rules which are not applied together with a commentary indicating the reasons for their non-application. The entire content of the published report, in accordance with the Good Practices of Listed Companies 2016 Detailed Rule No. I.Z.1.13 was included in the appendix to the report No. 1/2016 and made available on the Company's website in the Reports tab and in the Corporate Governance tab.

The Company publishes information on the application of corporate governance rules on its website at the address: <http://www.izostal.com.pl/lad-korporacyjny>.

**B. Corporate governance rules which have been waived**

In 2018 there were no changes in the application of corporate governance rules by Izostal S.A. According to the information provided by the Company in the report no. 1/2016 of 1 January 2016, in 2018 Izostal S.A. abstained from applying one recommendation: IV.R.2. and two specific rules: I.Z.1.20., IV.Z.2. listed in the "Code of Best Practice for WSE Listed Companies 2016". Below, Izostal S.A. presents the content of the rules and recommendations of the Good Practices of Listed Companies, which it waived in 2018, together with a commentary indicating the reasons for their non-application and, additionally, those rules and recommendations which do not concern the Company.

**Disclosure Policy, Investor Communications**

**I.Z.1.10.** financial projections, if the company has decided to publish them, published at least in the last 5 years, including information about the degree of their implementation;  
*This principle does not apply to the Company.*

**Commentary from the Company:** The Company has not published any financial forecasts in the last 5 years.

**I.Z.1.20.** an audio or video recording of a general meeting;  
*The principle is not applied.*

**Commentary from the Company:** In accordance with the applicable regulations, the announcement of convening the General Meeting together with the agenda, draft resolutions, information on adopted resolutions, as well as information on withdrawal from consideration of any of the items on the agenda and information on objections raised in the minutes, are published in the form of current reports and announced on the Company's website. Moreover, the Company publishes on its website multimedia presentations presented during the General Meeting, as well as shareholders' questions concerning issues included in the agenda, asked before and during the General Meeting, together with answers to the asked questions. In the opinion of the Company, the procedures applied so far by the Company to document general meetings of shareholders present their actual course, ensure transparency of the Company and protect the rights of all shareholders who have the opportunity to familiarise themselves with all important issues raised at the general meeting. The Company does not exclude the possibility of applying the above mentioned principle in the future.

## General Meeting, Shareholder Relations

### *Recommendations*

**IV.R.2.** If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-life broadcast of the general meeting;
- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
- 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

*The principle is not applied.*

**Commentary from the Company:** Only entitled persons participate in the general meetings of shareholders of the Company; it is also possible for representatives of the media to attend the general meetings of shareholders of the Company. All information about the Company provided for by law is made available in relevant reports and on the Company's website. The Articles of Association and the Rules of the General Meeting of Izostal S.A. do not provide for the possibility to participate in the General Meeting by means of electronic communication. In the Company's opinion, the rules of participation in general meetings of the Company, which have been in force so far, adequately protect the interests of its shareholders, including minority shareholders, by enabling them to properly exercise their rights attached to shares. The above rule shall not be applied due to the possibility of occurrence of both technical and legal threats to the proper and efficient conduct of the General Meeting. Moreover, in the Company's opinion it is connected with incurring additional, unjustified costs at the moment. In case of interest on the part of the Shareholders, the Company does not exclude the possibility of applying the above mentioned principle in the future.

**IV.R.3.** Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.

*This principle does not apply to the Company.*

**Commentary from the Company:** Izostal S.A. shares are traded only on the domestic market.

### *Detailed principles*

**IV.Z.2.** If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

*The principle is not applied.*

**Commentary from the Company:** Only entitled persons participate in the general meetings of shareholders of the Company; it is also possible for representatives of the media to attend the general meetings of shareholders of the Company. All information about the Company provided for by law is made available in relevant reports and on the Company's website. In view of the above, there is no significant justification for incurring additional costs at this moment in order to enable transmission of the course of the General Meeting in real time. In case of interest on the part of the shareholders, the Company does not exclude the application of the above mentioned in the future.

## Remuneration

### *Recommendations*

**VI.R.3.** If the supervisory board has a remuneration committee, principle II.Z.7 applies to its operations.

*This principle does not apply to the Company.*

**Commentary from the Company:** There is no remuneration committee in the Supervisory Board of the Company.

### *Detailed principles*

**VI.Z.2.** To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

*This rule does not apply to the Company.*

**Commentary from the Company:** The Company does not have any incentive schemes based on options or other instruments related to the Company's shares.

#### **C. Description of the main features 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 a process implemented in response to the identified risk and constitutes an element of risk management.

The Management Board of the Company on an ongoing basis identifies risks and monitors the areas of activity exposed to risk in order to implement protections limiting the level of risk.

The internal control system and responsibilities related to risk management in the Company are fulfilled by the Management Board, senior staff and other employees within the scope of their duties.

Internal control mechanisms cover the manner of performing tasks by employees, including in particular: rights, competences and compliance of performed activities with the rules and procedures developed for the individual areas of the Company's operation. These mechanisms are of a control nature and are integrated into both internal normative acts, procedures and an integrated IT system for enterprise management.

In terms of risk management with respect to the process of preparing financial statements, the Company monitors on an ongoing basis the changes in external regulations and rules related to the preparation of financial statements. The Company's internal regulations are also updated on an ongoing basis in order to adapt them to the changing law.

The internal control system for the process of preparing financial statements is implemented by the Management Board, Chief Accountant and other employees who are entrusted with appropriate competences. The purpose of the control is to ensure compliance of the statements prepared with the books and documents and applicable regulations concerning the accounting rules, as well as to present the results of business operations and the Company's property and financial standing in accordance with the actual state of affairs. The controls include, inter alia, an analytical review of significant balances, comparing them to previous periods, monitoring the completeness and timeliness of activities necessary to close the reporting period.

Control activities are undertaken on an ongoing basis within duties and responsibilities specified for the individual employees of the Company and at the stage of verifying the correctness of tasks performed by subordinate employees, as well as during the creation of internal procedures through special care to ensure appropriate control mechanisms in them. Any possible irregularities identified are corrected on an ongoing basis by authorized employees of the Company.

Financial statements, including the Company's periodic reports prepared in accordance with the applicable laws and the Accounting Policy adopted by the Management Board, including, but not limited to:

- general rules of keeping books of accounts,
- recording, valuation, settlement and reporting methods,
- list of general ledger accounts and rules for recording business operations,
- rules of keeping auxiliary books and their connection with general ledger accounts,
- list of sets of books making up accounting books on computer data carriers,
- authorized computer programs with a description of their intended use, data protection rules and a description of the data processing system.

The prepared Financial Statements are verified by the Management Board, which, in accordance with the adopted internal regulations, approves them. The Statements are subject to audit by a statutory auditor.

An important role in the process of supervision over the functioning of the internal control system existing in the Company is played by the Supervisory Board and the Audit Committee established within its framework. The tasks of the Audit Committee include, but are not limited to, monitoring the process of financial reporting and auditing and monitoring the effectiveness of internal control systems, internal audit and risk management processes. The Audit Committee also monitors the personal independence of the external auditors and the independence of the Law Firm conducting the audit in relation to the members of the management and supervisory bodies of the Company and in relation to the Company itself.

In the opinion of the Company Management, the division of tasks related to the preparation of financial statements in the Company, control of the prepared statements by the auditor, as well as monitoring the process of preparing and verifying the statements by the Audit Committee and evaluation of the statements by the Supervisory Board, ensure the reliability and correctness of the information presented in the financial statements.

#### **D. Indication of shareholders holding, directly or indirectly, significant portfolios of shares.**

The shareholding structure of the Company holding directly or indirectly significant portfolios of shares in Izostal S.A. as at 31.12.2018 is as follows:

Shareholder	Number of shares held	Participation in share capital (%)	Number of votes at the General Meeting	Share in the total number of votes at the GM (%)
Stalprofil S.A.	19,739,000	60.28 %	19,739,000	60.28 %
AEGON OFE	2,120 858	6.48 %	2,120 858	6.48%
Rockbridge TFI S.A.	2,096,607	6.40 %	2,096,607	6.40 %
Others	8,787,535	26.84 %	8,787,535	26.84 %
<b>Total</b>	<b>32,744,000</b>	<b>100.00 %</b>	<b>32,744 000</b>	<b>100.00 %</b>

On 10.12.2018 the Company received a notification from ALTUS Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw, submitted pursuant to Art. 69(1)(2) in connection with Art. 87(1)(2) of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, in which it informed that the funds managed by ALTUS TFI S.A. decreased their share below the 5% threshold in the total number of votes at the General Meeting of Shareholders of Izostal S.A. The decrease in the share in the total number of votes in the Company took place as a result of the takeover on 4 December 2018 by Rockbridge TFI from ALTUS TFI of the management of the following closed-end investment funds:

- ALTUS FIZ AKCJI +,
- ALTUS ASZ FIZ Rynków Zagranicznych 2,
- ALTUS FIZ Aktywny Akcji,
- ALTUS ASZ FIZ Global Opportunities,
- ALTUS FIZ Akcji Globalnych 2,
- Altus Market Neutral High Dividend FIZ.

Before the change of share in the total number of votes in the Company, the investment funds managed by ALTUS TFI S.A. held a total of 1,871,204 shares in the Company, constituting 5.72% of the Company's share capital and entitling to exercise 1,871,204 votes, which constituted 5.72% of the total number of votes in the Company.

After the change of share in the total number of votes in the Company, the investment funds managed by ALTUS TFI S.A. held a total of 1,566,124 shares in the Company, constituting 4.78% of the Company's share capital and entitling to 1,566,124 votes in the Company, which constituted 4.78% of the total number of votes in the Company.

On 15.12.2018 the Company received a notification from Rockbridge Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw, submitted pursuant to Article 69(1)(1) and 69a(1)(3) in connection with Article 87(1)(2)(a) of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies, in which it informed that the Funds managed by Rockbridge TFI S.A. increased their share above the 5% threshold in the total number of votes at the Company's General Meeting.

The increase in the total number of votes in the Company above 5% was due to the takeover by Rockbridge TFI S.A. on 11 December 2018 from Altus TFI S.A. of the management of investment funds. The portfolios of the acquired investment funds include 1,125,488 shares in the Company, which constitute 3.43% of the Company's share capital and entitle to 1,125,488 votes at the Company's General Meeting and 3.43% of the total number of votes in the Company.

Before the transaction, the Funds held in total 971,119 shares in the Company, which constituted 2.97% of the Company's share capital and entitled to 971,119 votes at the General Meeting and represented 2.97% of the total number of votes in the Company.

Following the conclusion of the transaction, the Funds hold in total 2,096,607 shares, which constitute 6.40% of the Company's share capital and entitle to 2,096,607 votes at the General Meeting and 6.40% of the total number of votes in the Company.

**E. Indication of the holders of any securities which give special control rights, together with a description of such rights.**

The Company did not issue any securities giving special control rights.

**F. Indication of any restrictions on the exercise of voting rights.**

In the securities issued by the Company, there are no restrictions as to the exercise of voting rights, such as restrictions on the exercise of voting rights by holders of a specific part or number of votes, time restrictions on the exercise of voting rights or provisions according to which, in cooperation with the Company, capital rights attached to securities are separated from the holding of securities.

**G. Indication of any restrictions on the transfer of ownership rights to the issuer's securities.**

As at the day of preparing this annual report, the Company did not have any information on restrictions concerning the transfer of ownership rights to the issuer's securities.

**H. Description of rules concerning appointment and dismissal of managing persons and their rights.**

The Management Board of the Company is composed of two to four persons appointed for a joint three-year term of office. The Management Board shall be appointed and dismissed by the Supervisory Board by an absolute majority of votes. The Supervisory Board entrusts one of the appointed members of the Management Board with the function of President of the Management Board and at least one member of the Management Board with the function of Vice-President of the Management Board. The number of members of the Management Board for a given term of office is determined by the Supervisory Board, which may increase or decrease the number of members of the Management Board during the term of office. Two Members of the Management Board jointly, or one Member together with the proxy are authorized to represent the Company, make declarations of will and sign documents, including to incur liabilities on behalf of the Company. In matters exceeding the scope of the Company's ordinary activities related to the management of its enterprise, it is necessary to adopt a resolution of the Management Board.

The Supervisory Board of the Company consists of five to seven members appointed by the General Meeting for a joint five-year term of office. The number of members of the Supervisory Board is determined by the General Meeting of Shareholders. The General Meeting may change the number of members of the Supervisory Board during the term of office, but only in connection with changes in the composition of the Supervisory Board during the term of office. At the first meeting of the new term of office, the Supervisory Board elects from among its members in a secret ballot the Chairman and Vice-Chairman of the Supervisory Board and the Secretary by way of a resolution adopted by an absolute majority of votes in the presence of at least half of the members of the Supervisory Board. The Supervisory Board supervises the Company's operations and its detailed competences are defined in the Commercial Companies Code, the Company's Articles of Association and the Rules of the Supervisory Board of Izostal S.A.

The Management Board and the Supervisory Board act in accordance with the provisions of the Commercial Companies Code Act, the Company's Articles of Association and their Rules, which are publicly available on the Company's website ([www.izostal.com.pl](http://www.izostal.com.pl)).

In relation to the right of managing persons to make decisions on the issue or redemption of shares, the Company applies the provisions of the Commercial Companies Code and other generally applicable provisions of law applicable in this respect. It should also be noted that the General Meeting, in the content of the adopted resolution on increasing the Company's share capital, may grant authorization to the Company's Management Board to take all factual and legal actions necessary to increase the Company's share capital on the basis and in the scope of the resolution adopted by the General Meeting on this subject.

#### **I. Description of the rules of amending the issuer's Articles of Association or Company Agreement**

The rules of amending the Company's Articles of Association are regulated by the Commercial Companies Code. Amendments to the Issuer's Articles of Association are considered and reviewed by the Supervisory Board, and a resolution of the General Meeting of Shareholders is required to approve them. The Supervisory Board has the competence to determine the consolidated text of the amended Company's Articles of Association or to introduce other editorial changes specified in a resolution of the General Meeting of Shareholders. The Company does not apply any other specific rules of amending the Articles of Association which would differ from the rules described in the Commercial Companies Code.

#### **J. Manner of proceeding of the General Meeting of Shareholders and its basic rights and a description of shareholders' rights and the manner of exercising them.**

The General Meeting of Izostal S.A. operates on the basis of the Commercial Companies Code, the Company's Articles of Association and in accordance with the Rules adopted by the General Meeting, which define the rules of functioning of the General Meeting, conducting proceedings and adopting resolutions. The following are specified in detail, among others: rules of convening and canceling the General Meeting, information rights of shareholders, rights to participate in the General Meeting, rules of registration of participants in the General Meeting, participation of persons in the General Meeting other than Shareholders, rules of opening and electing the Chairman of the General Meeting, agenda and its course, rules of electing the Supervisory Board and rules of keeping minutes of the General Meeting.

The Rules of the General Meeting are published on the Company's website ([www.izostal.com.pl](http://www.izostal.com.pl)). In matters not regulated by the Rules, the provisions of the Commercial Companies Code and other legal acts as well as the provisions of the Company's Articles of Association shall apply.

The General Meeting is convened by authorized bodies or persons whose authority results from the provisions of law or the Articles of Association. The General Meeting is convened by way of an announcement on the website and in the manner specified for the provision of current information in accordance with the regulations on public offering and the conditions for the introduction of financial instruments to the organized trading system and on public companies. The date and place of the General Meeting should be determined in such a way as to enable as many Shareholders as possible to participate in the General Meeting. Draft resolutions proposed for adoption by the General Meeting and other important materials should be presented to the Shareholders together with a justification before the General Meeting, in time enabling them to get acquainted with them and make their assessment. Copies of the Management Board's report on the Company's activity and financial statements together with a copy of the Supervisory Board's report and the auditor's opinion are made available to shareholders by displaying them at the Company's registered office, no later than fifteen days before the Ordinary General Meeting of Shareholders. A shareholder has the right to demand a copy of motions concerning matters included in the agenda within a week before the General Meeting.

Shareholders may participate in the General Meeting and exercise their voting rights in person or through proxies. From the day on which the Company obtained the status of a public company, the right to participate in the General Meeting is granted to persons having the status of Shareholders sixteen days prior to the General Meeting, and persons who have submitted a request to participate in the General Meeting, with the proviso that:

- 1) persons entitled from registered shares and temporary certificates as well as pledgees and users with a voting right are entitled to participate in the General Meeting if they are entered into the share book on the Participation Registration Date,
- 2) persons entitled from bearer shares in the form of a document and persons submitting a certificate issued as proof of submission of a share document to a notary public, a bank or an investment firm having their registered office or a branch in the territory of the European Union or a country being a party to the agreement on the European Economic Area indicated in the announcement of convening

the General Meeting, have the right to participate in the General Meeting if the share documents or certificates issued as proof of submission of a share document to the aforementioned entities are submitted to the Company not later than on the Day of Registration of Participation and are not collected before the end of that Day.

- 3) Attorneys of shareholders entitled to participate in the General Meeting provided that they document the right to act on behalf of the Shareholder in a proper manner by submitting a written or electronic power of attorney.

Each participant of the General Meeting has the right to stand as a candidate for the position of the Chairman of the General Meeting, as well as to put forward one candidate for the position of the Chairman of the General Meeting in the minutes. Each Shareholder has the right to ask questions on any matter included in the agenda. During the debates, the participants of the General Meeting have the right to ask questions related to a given item of the agenda to the members of the Company's bodies present in the room. When considering each item on the agenda, each participant of the General Meeting has the right to one 5-minute speech and a 3-minute reply.

The detailed mode of conducting the debates is specified in the Rules of the General Meeting.

The powers of the General Meeting include in particular the adoption of resolutions on the following matters:

- examination and approval of the Company's financial statements and the Management Board's report on the Company's activities for the previous financial year,
- appropriation of profit or coverage of loss,
- granting discharge to members of the Company's governing bodies,
- creation and abolition of reserves, special funds and the determination of their purpose,
- provisions concerning claims for compensation for damage caused during the establishment of the Company or during the exercise of management or supervision,
- appointment and dismissal of members of the Supervisory Board of the Company,
- appointment and dismissal of the liquidators,
- determining the compensation for the members of the Supervisory Board of the Company,
- adoption of the Rules of Procedure of the General Meeting,
- introduction of the Company's shares to an organized securities trading system.

Apart from the matters listed above, resolutions of the General Meeting of Shareholders shall be required for matters specified in the provisions of law and the Company's Articles of Association. Acquisition and disposal of real estate, perpetual usufruct or share in real estate by the Company does not require a resolution of the General Meeting of Shareholders.

The Company's Articles of Association and the Rules of the General Meeting are available on the Company's website.

**K. Description of the operation of the issuer's management, supervisory and administrative bodies and their committees, including the composition of such bodies and changes that occurred in them during the last financial year**

**MANAGEMENT BOARD**

**COMPOSITION, CHANGES TO AND RULES OF APPOINTING MANAGEMENT BOARD MEMBERS**

In the period from 1.01.2018 to 31.12.2018 the Company's Management Board was composed of the following persons:

- Marek Mazurek    President of the Management Board, Chief Executive Officer
- Michał Pietrek    Vice-President of the Management Board, Commercial Director

The Management Board of the Company acts on the basis of the Commercial Companies Code, the Company's Articles of Association, the Rules of the Management Board of Izostal S.A., Best Practices of Companies Listed on the Warsaw Stock Exchange 2016 and the binding provisions of law. The Management Board manages the activities of the Company and represents it in external relations.

The rules for appointing and dismissing members of the Management Board are set forth in the Company's Articles of Association. Pursuant to the provisions of §7 of the Company's Articles of Association, the

Management Board is composed of 2 to 4 persons appointed and dismissed by the Supervisory Board. The Supervisory Board entrusts one of the appointed members of the Management Board with the function of President of the Management Board and at least one member of the Management Board with the function of Vice-President of the Management Board. The Management Board's term of office is joint and lasts 3 years. The mandate of a Member of the Management Board appointed before the end of a given term of the Management Board expires simultaneously with the expiry of the mandate of the remaining Members of the Management Board.

#### **POWERS OF THE MANAGEMENT BOARD**

The rights of the members of the Management Board are defined in the Company's Articles of Association and the Rules of the Management Board of Izostal S.A.

The scope of activity of the Management Board includes all matters related to the management of the Company, and not reserved by the provisions of generally applicable law and the Company's Articles of Association for the competence of the General Meeting of Shareholders or the Supervisory Board. The work of the Management Board is managed by the President of the Management Board, who in particular coordinates, supervises and organises the work of the other members of the Management Board. In matters not exceeding the ordinary activities of the Company, each member of the Management Board may conduct the Company's affairs independently. In matters exceeding the scope of the Company's ordinary activities related to the management of its enterprise, it is necessary to adopt a resolution of the Management Board. The Management Board makes decisions in the form of a resolution also in the event that it is requested by at least one member of the Management Board. The Management Board adopts resolutions, in particular on the following matters: reports, motions and other matters submitted to the Supervisory Board and the General Meeting, granting proxies and powers of attorney, convening Ordinary and Extraordinary General Meetings on its own initiative or upon a written request of the Supervisory Board or other entities authorized by applicable laws or provisions of the Articles of Association, and determining the agenda of the General Meeting, donations, disposal of assets and internal legal acts.

Resolutions are adopted by a simple majority of votes and are adopted at meetings of the Management Board, which are held on dates determined on an ongoing basis, depending on needs. Meetings of the Management Board may be held in the Company's registered office or outside it and shall be convened by the President of the Management Board on his own initiative or at the request of another member of the Management Board. Resolutions of the Management Board may also be adopted by: means of direct remote communication or by written circulation. Resolutions adopted by circulation in writing or by means of direct remote communication shall be valid if all members of the Management Board have been notified of the adoption and content of the resolution. Members of the Management Board are obliged to attend the meeting and their absence should be adequately justified. Meetings of the Management Board shall be recorded in the minutes. When making decisions on the Company's matters, the members of the Management Board act within the limits of justified economic risk, i.e. after considering all information, analyses and opinions, which in the reasonable opinion of the Management Board should be taken into account in a given case in view of the Company's interest. While determining the interest of the Company, the Management Board takes into account the justified long-term interests of shareholders, creditors, employees of the Company and other entities and persons cooperating with the Company in the scope of its business activity, as well as the interests of local communities. When making transactions with shareholders and other persons whose interests influence the interest of the Company, the Management Board acts with particular care to ensure that transactions are made on arm's length basis. The Management Board manages the corporate website of the Company and publishes on it, in addition to the information required by law, at least: basic corporate documents, in particular the Articles of Association and rules of the company bodies, professional CVs of members of the company bodies and current and periodic reports.

#### **SUPERVISORY BOARD**

##### **COMPOSITION, CHANGES TO AND RULES OF APPOINTING SUPERVISORY BOARD MEMBERS**

As at 31 December 2018, the Supervisory Board of Izostal S.A. of 8th term was composed of the following persons:

- Jerzy Bernhard - Chairman of the Supervisory Board
- Andrzej Baranek - Vice-Chairman of the Supervisory Board

- Grażyna Kowalewska - Secretary of the Supervisory Board
- Jan Kruczak - Member of the Supervisory Board
- Lech Majchrzak - Member of the Supervisory Board
- Adam Matkowski - Member of the Supervisory Board

In 2018, the composition of the Supervisory Board changed. On 9 October 2018, the Company received a statement from Mr. Jan Chebda on his resignation from the position of Member of the Supervisory Board of Izostal S.A. as of 15 November 2018. Mr. Jan Chebda was the Secretary of the Supervisory Board of Izostal S.A. Mr. Jan Chebda in his statement did not give reasons for his decision to resign. On 15.11.2018 the Extraordinary General Meeting of Izostal S.A. adopted a resolution on appointment of Mrs. Grażyna Kowalewska as a member of the Supervisory Board of the Company as of 16.11.2018, for the duration of the term of office of the current Supervisory Board, i.e. until the date of holding the General Meeting approving the financial statements of the Company for the financial year 2019.

In the Supervisory Board of Izostal S.A. according to the statements submitted by the Supervisory Board members, four out of six members of the Supervisory Board meet the independence criteria referred to in rule II.Z.4. of the document "Code of Best Practice for WSE Listed Companies 2016", and in Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

The rules for appointing and dismissing members of the Supervisory Board are set forth in the Company's Articles of Association and the Rules of the Supervisory Board. Pursuant to the provisions of § 10 of the Company's Articles of Association, the Supervisory Board is composed of 5 to 7 members appointed for a joint term of office lasting 5 years. The number of members of the Supervisory Board in accordance with the provisions of the previous sentence are determined by the General Meeting of Shareholders. Members of the Supervisory Board are appointed and dismissed by the General Meeting. The General Meeting may change the number of members of the Supervisory Board during the term of office, but only in connection with changes in the composition of the Supervisory Board during the term of office.

In 2018, the Supervisory Board held 5 meetings.

#### **DESCRIPTION OF OPERATION OF THE SUPERVISORY BOARD**

The Supervisory Board of the Company acts on the basis of the Commercial Companies Code, the Company's Articles of Association, the Rules of the Supervisory Board of Izostal S.A., Best Practices of Companies Listed on the Warsaw Stock Exchange 2016 and the binding provisions of law. The Rules of the Supervisory Board specify: the composition and term of office of the Supervisory Board, the election of the Chairman, Vice-Chairman and Secretary and their competences. The procedure of the body's work is described in detail, including: convening meetings, adopting resolutions, voting, minutes, conflict of interest, as well as duties and competences, Committees, including the Audit Committee, and information provided by members of the Supervisory Board. The Supervisory Board supervises the Company's operations. Each member of the Supervisory Board should be guided by the interest of the Company and independence of opinions and courts in his or her proceedings, in particular: he or she should not demand or accept unjustified benefits that could have a negative impact on the assessment of the independence of his or her opinions and courts, he or she should clearly express his or her objection and dissenting opinion if he or she considers that the decision of the Supervisory Board is in conflict with the interest of the Company. At the first meeting of the new term of office, the Supervisory Board shall elect from among its members the Chairman, Vice-Chairman and Secretary in a secret ballot, by an absolute majority of votes, in the presence of at least half of the members of the Supervisory Board. During the term of office, the Supervisory Board may make changes in the position of the Chairman, Vice-Chairman and Secretary of the Supervisory Board. A motion to dismiss a member of the Supervisory Board from the function held must be accompanied by an indication of the member of the Supervisory Board who will replace the dismissed person on the position. The election is made in a secret ballot with an absolute majority of votes in the presence of at least half of the members of the Supervisory Board. The competences of the Chairman include: directing and coordinating the work of the Supervisory Board, convening and chairing the meetings of the Supervisory Board, opening the General Meeting, or indicating the person authorized to open the General Meeting and chairing it until the election of the Chairman of the General Meeting. The Vice-Chairman replaces the Chairman of the Supervisory Board in chairing meetings of the Supervisory Board when he cannot perform his duties or does not

want to chair a meeting of the Supervisory Board. The tasks of the Secretary include: exercising current supervision over keeping the book of minutes of the Supervisory Board and all documentation of the Supervisory Board's activities, maintaining current contacts with the Company's Management Board, informing the Supervisory Board about the manner of implementation of its resolutions, signing outgoing correspondence of the Supervisory Board. Meetings of the Supervisory Board are convened whenever necessary, but not less frequently than three times in a financial year. The first meeting of the newly elected Supervisory Board shall be convened by the Chairman of the Supervisory Board of the previous term of office for a term falling within two weeks from the date of appointment of the Supervisory Board of the new term of office at the latest. If the Chairman of the Supervisory Board of the previous term of office does not convene a meeting, the first meeting of the Supervisory Board shall be convened by the Management Board of the Company. Meetings of the Supervisory Board shall be convened by the Chairman of the Supervisory Board. The Supervisory Board meetings are convened by way of preparing a written invitation by the Chairman of the Supervisory Board containing, among others, the proposed agenda, which should be effectively sent to all members of the Supervisory Board at least seven days before the date of the meeting. Resolutions of the Supervisory Board shall be adopted by an absolute majority of votes in the presence of at least half of the members of the Supervisory Board. Minutes are taken of the meetings. The Supervisory Board performs its duties collectively, however, it may delegate its members to independently perform specific supervisory activities. In the event of concluding agreements between the Company and members of the Management Board, the Supervisory Board may authorize by way of a resolution one or more members to perform such legal actions. Members of the Supervisory Board shall exercise their rights and perform their duties in person.

#### **AUDIT COMMITTEE**

Within the Supervisory Board of Izostal S.A. there is an **Audit Committee**. The composition of the Audit Committee did not change and as at 31.12.2018 it functioned in the composition:

- Jan Kruczak - Chairman of the Audit Committee
- Adam Matkowski - Vice-Chairman of the Audit Committee
- Andrzej Baranek - Secretary of the Audit Committee

In accordance with the assessment of the Supervisory Board, based on the statements by the members of the Audit Committee of the Supervisory Board of Izostal S.A., two members, i.e. the Chairman of the Audit Committee and Vice-Chairman of the Audit Committee meet the independence criteria referred to in Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision, and also meet the independence criteria set out in Annex II to Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. In accordance with Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, the Chairman of the Audit Committee - Jan Kruczak - possesses knowledge and skills in accounting or auditing financial statements, which he acquired through education, qualifications gained and experience on the previously held positions.

Members of the Audit Committee - Jan Kruczak and Adam Matkowski - possess knowledge and skills in the industry in which the Company operates, which they have acquired through their education, qualifications and experience on the positions held so far.

The curricula vitae of the members of the Supervisory Board are available on the Company's website.

In 2018, 3 meetings of the Audit Committee were held.

The Audit Committee operates on the basis of the Rules of the Audit Committee approved by the Izostal S.A. Supervisory Board and in accordance with the adopted annual Schedule of Standing Meetings of the Audit Committee. The tasks of the Audit Committee include, among others: recommending to the Supervisory Board the appointment of a statutory auditor to audit the Company's financial statements, including monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, monitoring the financial reporting process and the performance of financial audit activities, as well as monitoring the effectiveness of internal control systems, internal audit and risk management, considering any other issues related to the Company's audit.

## **MAIN ASSUMPTIONS OF THE POLICY OF SELECTING AN AUDITOR TO AUDIT FINANCIAL STATEMENTS OF IZOSTAL S.A.**

1. In accordance with the Articles of Association of IZOSTAL S.A., the selection of an audit firm to audit financial statements is made by the Supervisory Board. This selection is made on the basis of a recommendation of the Audit Committee.
2. The Audit Committee makes a recommendation to the Supervisory Board, after conducting a tender procedure for the audit of financial statements of IZOSTAL S.A., held in accordance with the "Procedure for the selection of an audit firm in IZOSTAL S.A." prepared by the Audit Committee and approved by the Supervisory Board.
3. If the selection of an audit firm does not concern the extension of an audit agreement, then the recommendation of the Audit Committee to the Supervisory Board shall include at least two proposed firms, the best among those that submitted offers, together with a justification, and the indication of the Audit Committee's preferences towards one of them, together with a justification. The Audit Committee's recommendation should include: (a) assurance that it is free from any influence of third parties and (b) statement whether IZOSTAL S.A. concluded agreements containing the clauses referred to in Art. 66(5)(a) of the Accounting Act.
4. If the decision of the Supervisory Board of IZOSTAL S.A. deviates from the recommendation of the Audit Committee, then the Supervisory Board is obliged to justify in writing the reasons for non-compliance with the recommendations of the Audit Committee and provide the justification of the decision taken to the General Meeting of Shareholders.
5. The maximum continuous duration of audit engagement for the financial statements prepared by IZOSTAL S.A. carried out by the same audit firm or an audit firm affiliated with this firm or any member of the network operating in the countries of the European Union to which these audit firms belong shall not exceed 5 years.
6. A single key statutory auditor may not audit financial statements of IZOSTAL S.A. for more than 5 years. He may reexamine the statements prepared by IZOSTAL S.A. after at least 3 years from the end of the last examination.
7. An agreement with an auditing firm may be concluded by IZOSTAL S.A. for a period not shorter than 2 years and not longer than 5 years.

### **SELECTION OF AUDITOR**

On March 29, 2018 the Supervisory Board of the Company, in line with § 12 section 2 letter g) of the Company Articles of Association, having learned of the recommendation of Audit Committee at its meeting on March 29, 2018, passed a resolution on the selection of audit company ReVision Rzeszów - Józef Król Spółka z ograniczoną odpowiedzialnością with main registered office in Rzeszów at Bp. J. Pelczar 6C/8 Str. (registered in the schedule of audit companies managed by the National Council of Expert Auditors under no. 3510) for:

- auditing annual separate and consolidated financial statements of the Company for years 2018-2020,
- reviewing half-yearly separate and consolidated financial statements of the Company for years 2018-2020.

The contract with the selected entity will be concluded for the period of providing the above mentioned services.

The Company also informs that it has not used the services of the above entity in the past.

The selection of entity authorized to audit financial statements was carried out in accordance with applicable regulations and professional standards, particularly in accordance with the May 11, 2017 Act on Expert Auditors, Audit Companies and Public Supervision (Journal of Laws of June 6, 2017, item 1089), and in accordance with the Company's internal regulations concerning the policy and procedure of selection of audit companies.

The Audit Committee and the Company complied with the new regulations, and the recommendation prepared by the Audit Committee concerning the selection of the audit firm was prepared following the selection procedure organised by Izostal S.A., which met the applicable criteria.

The auditing firm auditing the financial statements of Izostal S.A. did not provide any permitted non-audit services.

#### **L. Diversity policy**

The Company has not developed a formal diversity policy with respect to the Company's governing bodies and key managers. Nevertheless, internal regulations, including: The Work Rules of Izostal S.A., the Company's personnel policy and the Code of Ethics applied by the Company, take into account such elements of diversity as gender, education, age and professional experience, recognizing diversity and equal opportunities in the workplace.

The internal regulations of Izostal S.A. place emphasis on equal treatment of employees in employment, respect for the company community and prohibition of discrimination. The Company is committed to ensuring equal opportunities for all employees to develop without discrimination. In accordance with the provisions of the Code of Ethics of the Company, the necessary diversity of employees, based on their skills or qualifications required for the performance of a specific function, is not considered discrimination within the Company.

The main assessment criterion used in the selection of the company's governing bodies and its key managers is the competence and professional experience of individual candidates.

Kolonowskie, 25.03.2019

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Management Board President  
Marek Mazurek

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Management Board Vice President  
Michał Pietrek