

**REPORT OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD OF IZOSTAL
S.A. 2013**

The Audit Committee of the Supervisory Board of IZOSTAL SA was established by Resolution of the Supervisory Board No. 19/VII/2011 composed of:

1. Mr. Jan Kruczak – Chairman of the Audit Committee
2. Mr. Adam Matkowski – Deputy Chairman of the Audit Committee
3. Mr. Zdzisław Mendelak – Secretary of the Audit Committee.

In the reporting period there have been changes in the composition of the Audit Committee. Mr. Zdzislaw Mendelak as a Member of the Supervisory Board Izostal S.A. submitted his resignation from the date of the Annual General Meeting Izostal S.A. and thus ceased to be a Member of the Audit Committee. The Supervisory Board on July 25, 2013 appointed to the Audit Committee Mr. Andrzej Baranek.

The Audit Committee of the Supervisory Board Izostal S.A. to the end of 2013 has worked in the following composition:

1. Mr. Jan Kruczak – Chairman of the Audit Committee
2. Mr. Adam Matkowski – Deputy Chairman of the Audit Committee
- 3 Mr. Andrzej Baranek – Secretary of the Audit Committee.

The Audit Committee of the Supervisory Board IZOSTAL SA acted as approved by the Supervisory Regulations of the Audit Committee and the Law of 7 May 2009 on statutory auditors and their self-government, entities authorized to audit financial statements and public oversight.

In 2013, the Audit Committee has worked according to developed by the Audit Committee and approved by the Supervisory Board "Schedule of constant meetings of the Audit Committee in 2013", defining schedules and tasks of the Committee, including meeting with the auditor. If necessary, the Audit Committee updated the order of meetings on current affairs.

In assessing its operations in 2013, the Audit Committee examined the relevance and effectiveness of the activities carried out within the framework of their tasks, which including in particular:

- monitoring of the financial reporting process, including:
 - opinions adopted by the company's accounting policies and the applicable rules of financial statements
 - monitoring the work and independence of the entity authorized to audit financial statements and personal independence of persons participating in the survey;
- Monitoring the performance of financial audit, including:
 - discussing the results of the examination of the annual and half-yearly review of the financial statement;
- monitoring the effectiveness of internal control and risk management system essential for the company, internal audit and detect irregularities, as well as the principles of business ethics in various areas of the Company;
- recommending to the Supervisory Board the appointment of the statutory auditor.

According to the adopted Rules and Regulations of the Audit Committee of the Supervisory Board Izostal, in 2013, the Audit Committee recommended to the Board Izostal S.A. an appointment of an statutory auditor, which means The Law Firm Advice Financial and

Accounting Piotr Rojek Sp. z o.o Katowice to audit the financial statements for the years 2013-2015, together with a review of semi-annual financial statements, drawn up for 30 June 2013 and, respectively, 30 June 2014 and 2015.

A recurring activities of the Audit Committee was to monitor the work associated with the process of preparing and reviewing the financial statements of the Company and hence the Committee works closely with the auditor in this area. Adopted by the Company accounting policy meets the requirements of the Accounting Act and is consistent with the rules of the International Financial Reporting Standards. The accounting policies adopted in the preparation of the financial statements are consistent with the principles set out in IAS, IFRS and related interpretations in the form of implementing regulations of the European Commission, and to the extent not regulated by mentioned above documents in the Accounting Act dated on 29.09.1994 and issued on the basis of this Act implementing rules.

As part of its statutory permissions the Audit Committee has examined the personal independence of the members of the team performing auditing activities and the Law Firm as an authorized entity. The Audit Committee did not identify any risks relating to the independence of the Chancellery and the people who carry out auditing activities.

The Committee monitored the correctness of drawing the Company's individual financial statements: for the year 2012 and the half-year for the period 01.01.2013 to 30.06.2013 closely co-operating in this respect with the statutory auditor, auditing statements.

The division of tasks related to the preparation of financial statements in the Company, monitoring reports prepared by the auditor, and monitoring the process of preparation and verification of reports by the Audit Committee and the evaluation of statements by the Supervisory Board, ensure the accuracy and correctness of the information presented in the financial statements.

In the opinion of the auditors of the Audit Committee cooperation with the Management Board is correct and does not raise objections. The Audit Committee has currently monitored the financial reporting process, and such financial statements in all material respects have been prepared in accordance with accounting principles and based on properly maintained accounts and fairly reflects the performance of the business and the financial position of the Company.

The Audit Committee also reviewed the Management Report of the Company recognizing that the presented figures and facts depict a true and fair state of affairs. There were no irregularities in the functioning of the internal control and accounting organization of the company in respect of the reporting process of the company.

Monitoring the effectiveness of internal control systems, internal audit and Risk Management relevant to the Company, which in Izostal S.A. is implemented by the Board, management and other employees within the scope of their duties, in the evaluation of the Audit Committee of the Supervisory Board IZOSTAL SA is filled correctly.

The Board is the governing body of risk in the Company as part of its operational activities, and key management personnel is involved in the process of risk identification and prevention of its effects. Areas of significant risks to the Company are properly identified and to ensure the implementation of the strategic objectives pursued by Izostal S.A. Board of Directors with the management currently review and update the risk factors associated with business that may have an impact on the financial position of the Company and the position of the Company in the market. Identified the main risk factors concerning the Company are continuously monitored in order to determine whether their identification and the measures taken to minimize individual risk areas is proceeding correctly and whether appropriate

measures and solutions are applied. Periodic inspection of principles of risk management and compliance of the process is conducted with accepted standards, as well as constant analysis of Risk Management for possible improvements. According to the Audit Committee actions of the Board are correct appropriate and serve to develop mechanisms to eliminate or minimize the risk arising.

Due to the uncomplicated and flat organizational structure of the Company there is no an isolated internal audit department and internal control system of the Company is filled by the Board of Directors, management and other employees within the scope of their duties on the basis of adopted and implemented "Principles and Practice of Internal Auditing and Detection of irregularities in Izostal S.A." Specific rules for management of the internal audit are the smooth functioning of the audit and the quality of his actions. By determination of the scope of the audit, independent and objective evaluation and recommendations of auditors through a specific procedure and rules for the preparation and submission of statements of audit tasks can guarantee help in improving the management of the organization.

Internal controls include the performance of tasks by the employees, including in particular: authority, competence and compliance of operations with the principles and procedures developed for specific areas of functioning. These mechanisms are controlling and are embedded in the internal normative acts, procedures and integrated computer system to manage the company. Checks are made on the date and at the stage of checking by managers the accuracy of tasks performed by subordinate employees, as well as during the development of internal procedures with special attention to ensure them adequate control mechanisms. Identified possible irregularities are corrected by authorized employees.

In the opinion of the Audit Committee, the Board of the Company properly comply with the requirement of internal control in relation to the preparation and submission of current reports and financial statements in accordance with the requirements of the law.

Zawadzkie, 03.04.2014

Signatures of the Members of the Audit Committee

Jan Kruczak
Chairman of the Audit Committee

Adam Matkowski
Vice-Chairman of the Audit Committee

Andrzej Baranek
Secretary of the Audit Committee.