

REPORT OF THE SUPERVISORY BOARD OF IZOSTAL S.A.

on the results of evaluation submitted by the Management Board:

- of the financial statement of Izostal S.A. for 2014
- of the Management Board's report on the Company's activity for 2014
- of the Management Board's request on distribution of the net profit for 2014

together with evaluation of the Company's situation in 2014.

The Supervisory Board has conducted evaluation of the financial statement of Izostal S.A. for 2014, getting familiar with the report of the Audit Committee and opinion of the independent statutory auditor and audit report of - Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Sp. z o.o. with its registered office in Katowice, auditing the Company's financial statement and report on the Company's activity for the given period.

On that basis the Supervisory Board confirms that the financial statement of Izostal S.A. drawn up for the financial year from January 1st to December 31st, 2014, which includes:

- introduction to the financial statement,
- report on the financial situation drawn up as at December 31st, 2014, showing at the assets and liabilities the sum of PLN 246,577 thousand (in words: two hundred forty six million five hundred seventy seven thousand Polish zlotys),
- statement of comprehensive income for the financial year from January 1st to December 31st, 2014 showing total comprehensive income of PLN 4,923 thousand (in words: four million nine hundred twenty three thousand Polish zlotys),
- statement of changes in equity for the financial year from January 1st to December 31st, 2014, showing an increase in equity by PLN 994 thousand (in words: nine hundred ninety four thousand Polish zlotys),
- cash flow statement for the financial year from January 1st to December 31st, 2014, showing a decrease of cash by PLN 14,752 thousand (in words: fourteen million seven hundred fifty two thousand Polish zlotys),
- notes to the financial statement,

in all material aspects reliably and clearly presents all the information essential for the purpose of assessment of the financial and economic situation of the Company as at 31.12.2014, its results and cash flows for the period from 01.01.2014 to 31.12.2014. The above-mentioned statement has been drawn up in accordance with the International Financial Reporting Standards (IFRS) approved by European Union and within the scope required by the Ordinance of the Minister of Finance of February 19,th 2009 on current and periodic information provided by the issuers of commercial papers (Journal of Laws no. 33 item 259 as amended), and also conforms to the provisions of law and Articles of Association of Izostal S.A. that apply to the content of the financial statement.

For the above reasons and after conducted analysis of the Management's Board Report on the Company's activity for 2014 the Supervisory Board states that the results of the business activity in 2014, as well as the financial and economic situation of the Company are presented in a true and fair manner, and the presented facts supported by figures reflect the actual state of affairs.

Making allowance for the results of the above-mentioned analyses, the Supervisory Board adopted a resolution with a request for approval by the Ordinary General Meeting of Shareholders of the following documents submitted by the Management Board:

- financial statement of Izostal S.A. for 2014,
- Management Board's report on the activity of Izostal S.A. in 2014.

The Supervisory Board has also got familiar with and accepted the proposal of the Management Board regarding profit distribution for 2014 in the amount of PLN 4,923,985.67 (in words: four million nine hundred twenty three thousand nine hundred eighty five Polish zlotys, 67/100), which will be submitted for approval to the Ordinary General Meeting of Shareholders, allocating the profit for:

- Company's reserve capital in the amount of: PLN 2,631,905.67 (in words: two million six hundred thirty one thousand nine hundred and five Polish zlotys 67/100);

- payment of dividend for the Company's shareholders in the amount of: PLN 2,292,080.00 (in words: two million two hundred ninety two thousand eighty Polish zlotys 00/100), which gives PLN 0.07 (in words: seven grosz) of dividend per each share.

The proposal includes covering by the dividend of all the shares issued by the Company in the amount of 32,744,000 pieces.

In addition, the Supervisory Board raises no objections as to the date for determining the right to receive a dividend falling as at July 14th, 2015, and the date for payment of the dividend planned as at August 3rd, 2015 suggested by the Management Board.

Brief assessment of the Company's situation.

The Company achieved in 2014 the sales revenue in the amount of PLN 209,669 thousand i.e. less by 35.2% than in the previous year. Decrease in the revenue was mainly caused by no significant orders on the side of OGP Gaz-System S.A. on behalf of which the Company in the first half of 2013 performed recent supplies resulting from the first Framework Agreement. From November 2013 Gaz-System S.A. conducted a procedure aiming at conclusion of the second II Framework Agreement regarding supplies of 1,057 km of DN1000 and DN700 pipes. Due to prolonged tender procedure of the Contracting Authority, signature of the Agreement in 2014 was not successfully implemented.

Within the transitional period the Company performed supplies related to construction of distribution networks on behalf of contractors. Nevertheless, making allowance for the above-mentioned the level of revenues and net profit earned by the Company in 2014 should be evaluated as very good.

Within the scope of R&D activity significant events include granting to the Company of patents by the Polish patent Office in 2014 for the following inventions:

- method for protection of the casing pipes and lifting casing used in drilling against corrosion by application of 3-layer polypropylene film,
- method and equipment for application of external insulation into welded pipes.

Despite domestic and foreign competition, the Company thanks to most recent, advanced technologies, continuous improvement and enhancement of supplied products, high-quality materials for manufacturing and restrictive cost policy participates in all tender procedures, winning most of them. Due to the formed Centre for Research and Development the Company constantly strives to improve its processes, products and to expand its offer by most recent technological solutions, as a consequence offering products guarantying safety of their use, which is jest of the utmost importance for the gas industry.

In the Supervisory Board's opinion the Company's situation is very good, and the financial results achieved by the Company in 2014 are satisfactory. The Company's Management Board manages the company's assets and liabilities in a correct manner. Owned capitals ensure safety and stability of the conducted business activity. The Supervisory Board admits that the Company persistently follows its adopted strategy and earns the assumed financial income.

The Supervisory Board has also evaluated relevant risk factors and the resulting threats.

Making assessment of the risk management system relevant for the Company, the Supervisory Board draws attention to the fact that due to structural features of the Polish gas market there is an indirect dependency on the companies: PGNiG S.A. (sourcing, exploitation, trade and distribution of gas) and the company O.G.P. Gaz-System S.A. (transmission system operator), as well as on the investments that are planned and performed by the given companies. Apart from sales performed directly on behalf of O.G.P. Gaz-System S.A. and PGNiG S.A., the Company also renders its services for companies being investment contractors or subcontractors. In order to minimise the risk, Izostal S.A. additionally looks for new sales markets both in Poland (private gas companies), as well as abroad. One of the elements to minimise the risk is entry of the Company into the market of casing pipes and lifting casing. Moreover, with regard to opening of the [Anti-Corrosion Insulations Centre & Research and Development Centre for Steel Products and Technologies](#) the Company's offer was expanded by conducting research and analyses of raw materials, development of new design and technological solutions and launching of new

products and services (DFBE layer) for the companies from the following branches: gas, construction and steel sector.

In the Supervisory Board’s opinion the Company’s financial situation is correlated to the macroeconomic situation in Poland. Such a risk is minimised by the strategy of diversification of gas supply sources adopted by Poland and restrictive provisions within the scope of environmental protection and CO2 emissions imposed the European Union. “Development Plan within the scope of meeting the present and future demand for gas fuels for the years 2014-2023” adopted by OGP Gaz-System S.A. is a confirmation of new investments in the gas industry.

Viability of the services of anticorrosion insulation rendered by the Company depends on changes in the prices of production factors, first of all on the prices of chemical components, mainly polyethylene and polypropylene. The share of these factors in the structure of costs is at the level of around 20%. Prices of chemical products are characterised by high correlation with the prices of oil on global markets, which due to the current global political and economic situation may be subject to strong fluctuations. The above-mentioned cost factors may influence the periodical deterioration of the financial results and the level of achieved profitability.

The Supervisory Board has also evaluated the risk related to volatility of pipe prices. In order to avoid the risk related to volatility of steel pipe prices the Company optimises its stocks, adapting them to the scope of conducted activity.

In specific cases steel pipes are purchased for storage according to the current prices so as to complete the product range in volumes enabling to sell the goods with profit. While purchasing pipes for significant projects Izostal S.A. negotiates prices with the suppliers and concludes contracts allowing for maintenance of the negotiated price irrespective of the situation on the steel market.

The exchange rate risk is a factor having a significant impact on profitability of steel trading that has also been evaluated by the Supervisory Board.

In relation to the conducted export and import activity the Company is exposed to exchange rate risk. The dominant currency in commercial transactions is EUR.

The Company hedges the exchange rate risk by concluding adequate currency transactions with deferred term.

The Supervisory Board has also assessed the buyer’s credit risk. The company conducts sales with deferred payment terms, which exposes it to a risk of insolvency of its customers. The recent years have shown financial problems of the companies operating in the general construction and road construction sector. In order to reduce the risk to a maximum the Company hedges receivables and conducts sales i within the limits specified by the insurance corporation.

Both the Supervisory Board, as well as the Company’s Management Board make efforts aiming at limitation of the risk factors to the minimum level and identify new risks on a current basis.

Having regard to very good financial results achieved by the Company in 2014, proving large commitment of the Management Board in current management, and particularly in the development processes, improving the Company’s market position, the Supervisory Board believes that the request to the Ordinary General Meeting of Shareholders on acknowledgement of fulfilment of duties in 2014 to the members of the Management Board of Izostal S.A. is justified.

Zawadzkie, 25.03.2015

Signatures of the Members of the Supervisory Board:

Jerzy Bernhard	- Chairman of the Supervisory Board
Andrzej Baranek	- Deputy Chairman of the Supervisory Board
Jan Chebda	- 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