

REPORT ON THE ACTIVITY OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD OF IZOSTAL S.A. IN 2014

The Audit Committee of the Supervisory Board of Izostal S.A. in 2014 operated in the unaltered composition:

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

The Audit Committee of the Supervisory Board of Izostal S.A. operated in accordance with the Regulations of the Audit Committee approved by the Supervisory Board and the Act of May 7th, 2009 on statutory auditors and their self-governing bodies, entities authorised to audit financial statements and public supervision.

In 2014 the Audit Committee worked according to the “Schedule of Regular Meetings of the Audit Committee in 2014” prepared by the Audit Committee and approved by the Supervisory Board, specifying the time schedule, as well as the tasks of the Audit Committee, including meetings with the auditor. If necessary the Audit Committee has updated the agenda of the meeting with current affairs.

Making evaluation of its activity in 2014, the Audit Committee analysed the relevance and effectiveness of the activities conducted within the scope of its, which included in particular:

- monitoring of the financial reporting process, including:
 - expressing opinion of the accounting policy adopted by the Company and applied principles for drawing up of the financial statements;
 - monitoring of operation and independency of the entity authorised to audit financial statements, as well as personal independence of the persons participating in the audit;
- monitoring of performance of the financial audit activities, including:
 - analysis of the results of review of annual financial statements and review of interim financial statements;
- monitoring of effectiveness of internal control systems and risk management significant for the Company, internal audit and detection of any irregularities, as well as compliance with business ethics in individual areas of Company’s functioning;

The subject-matter of constant activities of the Audit Committee was the monitoring of the operations related to the process of drawing up and auditing of the financial statements of the Company, hence the Audit Committee cooperates with the auditor on a current basis within the given scope. The accounting policy adopted by the Company meets the requirements of the Accounting act and complies with the principles resulting from the International Financial Reporting Standards. The accounting principles adopted while drawing of the financial statements conform to the principles specified in IAS, IFRS and derived interpretations announced in the form of implementing regulations of the European Commission, and within the scope not regulated by the above-mentioned documents, in the Accounting act of 29.09.1994 and implementing regulations issued on its basis.

Within the scope of its regulated powers the Audit Committee examined the aspect of personal independence of the team members performing the financial audit activities and the Auditing company as an authorised entity. The Audit Committee identified no threats related to independence of the Auditing company and the persons performing the financial audit activities.

The Audit Committee was monitoring the correctness of drawing up of the individual financial statements by the Company: for the financial year 2013 and interim statement for the period 01.01.2014 to 30.06.2014, in close cooperation within the given scope with the statutory auditor auditing the financial statements.

The division of tasks related to drawing up of the financial statements in the Company, inspection of the prepared statements by the auditor, as well as monitoring of the process for drawing up and verification of the financial statements by the Audit Committee and assessment of the financial statements by the Supervisory Board provide reliability and correctness of the information presented in the financial statements.

In the opinion of the Audit Committee cooperation of the auditors with the Company's Management Board is correct and raises no objections. The Audit Committee was monitoring the financial reporting process on a current basis, and the subject-matter financial statements in all material aspects were prepared pursuant to the accounting principles and on the basis of correctly kept books of account and give a true and fair view of the business activity and economic and financial situation of the Company.

The Audit Committee also reviewed the Management Board's Report on the Company's activity confirming that the presented figures and facts reflect true and reliable state of affairs. No irregularities as to functioning of the internal control and organisation of the Company's accounting principles were stated in reference to the Company's financial reporting process.

Monitoring of effectiveness of the internal control systems, internal audit and risk management significant for the Company that is performed at Izostal S.A. by the Management Board, managing personnel and other employees within the scope of duties entrusted to them in the opinion of the Audit Committee of the Supervisory Board of Izostal S.A is discharged correctly.

The Management Board constitutes the risk management body in the Company within its operating activity, and the key managing personnel participates in the risk identification process and the process of its prevention. Risk areas significant for the Company are correctly identified and so as to ensure achievement of the strategic goals assumed by Izostal S.A. The Management Board in cooperation with the managing personnel on a current basis reviews and updates the risk factors related to the Company's business activity, which may impact the financial and market situation of the Company. The identified main risk factors related to the Company are continuously monitored for the purpose of establishing whether their identification and measures undertaken to minimise the specific risk areas are correct and whether proper measures and solutions are used. Periodical inspection of risk management principles is conducted, as well as compliance of the given process with the adopted standards, and continuous risk management analysis in terms of possibility of any improvements. According to the Audit Committee the activities of the Management Board are correct and aim at development of certain mechanisms eliminating or minimising the existing risks.

Due to non-complex and flat organisational structure of the Company there is no separated internal audit department, and the internal control system in the Company is composed of the Management Board, managing personnel and other employees within the scope of duties entrusted to them based on adopted and applied "Principles and practices of internal audit and detection of any irregularities in Izostal S.A." The specified principles for management of the activity of internal audit department are used for efficient audit functioning and increase of the quality of its operation. By designation of the scope of audit, independent and objective opinions and recommendations of auditors may guarantee assistance during organisation management enhancement, by means of specified mode and principles for preparation and submission of reports on the audit tasks.

Internal control mechanisms include the method of task performance by the employees, including in particular: powers, competences and compliance of the performed activities with principles and procedures developed for the specific areas of application. Such mechanisms are a form of inspection and are embedded both in the internal normative acts, procedures, as well as integrated computer system for enterprise management. Inspection activities are undertaken on a current basis and at the stage of checking by the managing personnel of correctness of the tasks performed by subordinates, as well as in the course of creation of internal procedures by special attention to ensuring proper control mechanisms therein. The identified, possible irregularities are corrected on a current basis by authorised employees.

In the opinion of the Audit Committee, the Company's Management Board properly fulfils its internal control obligation in relation to the process of preparation and submission of current reports and financial statements pursuant to the legal requirements.

Zawadzkie, 25.03.2015

Signatures of the Member of the Audit Committee:

Jan Kruczak
Chairman of the Audit Committee

Adam Matkowski
Deputy Chairman of the Audit Committee

Andrzej Baranek
Secretary of the Audit Committee