

REPORT OF THE SUPERVISORY BOARD OF IZOSTAL S.A.

on the results of the assessment submitted by the Management Board:

- financial statement of Izostal S.A. for the year 2012
- report of the Management Board on the operations of the Company for the year 2012
- proposal of the Management Board on the allocation of net income for the year 2012

together with the assessment of the position of the Company in 2012

The Supervisory Board has assessed the financial statement of IZOSTAL S.A. for the year 2012 and familiarized itself with the opinion of an independent expert auditor and the report from the financial statement audit of Counselling Office on Finance and Accounting Dr Piotr Rojek - limited liability company (Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Sp. z o.o.) based in Katowice, auditing the financial statement of the Company and the report on the operations of the entity for this period.

On this basis, the Supervisory Board states that the financial statement of Izostal S.A. prepared for the financial year from 1 January to 31 December 2012, which includes:

- introduction to the financial statement,
- statement of financial position prepared as of 31 December 2012, which shows, on the assets and liabilities, a total of 280,803 thousand PLN (say: two hundred eighty million eight hundred three thousand PLN),
- statement of comprehensive income for the financial year from 1 January to 31 December, 2012, showing the total income of 20,306 thousand PLN (say: twenty million three hundred six thousand PLN),
- statement of changes in the equity capital for the period from 1 January to 31 December 2012, showing an increase in the equity capital of the amount of 14,739 thousand PLN (say: fourteen million seven hundred thirty nine thousand PLN),
- statement of cash flows for the financial year from 1 January to 31 December 2012, showing a decrease in cash of the amount of PLN 16,384 thousand PLN (say: sixteen million three hundred eighty four thousand PLN),
- additional information to financial statement,

in all material respects presents fairly and clearly the information relevant for the assessment of the material and financial position as of 31.12.2012 as well as the financial result for the financial year 2012. The discussed financial statement has been prepared in accordance with the principles set out in IAS, IFRS and the related to them interpretations issued in the form of implementing regulations of the European Commission, and to the extent not covered by these standards - in accordance with the requirements of the Accounting Act and the implementing regulations issued pursuant to it and on the basis of correctly kept accounts of documents. In addition, this financial statement is in accordance with the records of the Directive of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state, and it is also consistent with the provisions of the law and decisions of the Statute of Izostal S.A., which have an influence on the contents of the financial statement.

In view of the above, and after conducted analysis of the Board Report on the operations of the Company for the year 2012, the Supervisory Board states that the business performance results in 2012 as well as the material and financial position of the Company are presented correctly and reliably, and the presented facts supported with numeric data, which reflect the actual state of affairs.

Taking into account the results of the above analysis, the Supervisory Board has passed a resolution requesting for approval, by the Annual General Meeting, of the submitted by the Management Board:

- financial statement of Izostal S.A. for the year 2012
- report of the Management Board on the activities of Izostal S.A. in 2012

The Supervisory Board has also familiarized itself and approved the proposal of the Management Board regarding the appropriation of profit for the year 2012 of 20,304,773.58 PLN (say: twenty million three hundred and four thousand seven hundred and seventy three PLN, 58/100), which will be submitted for approval to the Annual General Meeting, in order to allocate the profit for:

- supplementary capital of the Company in the amount of : 14,410,853.58 PLN (say: fourteen million four hundred ten thousand eight hundred and fifty three PLN, 58/100);
- payment of dividend to the shareholders of the Company in the amount of : 5,893,920.00 PLN (say: five million eight hundred ninety three thousand nine hundred and twenty PLN, 00/100), which gives 0.18 PLN (eighteen pennies) of dividend per share. The proposal includes covering with dividend of all the shares issued by the Company in the quantity of 32,744,000 units.

In addition, the Supervisory Board raises no objections to the, proposed by the Management Board, date of setting the right to the dividend which falls on 14 August, 2013, as well as the date of dividend payment date scheduled for 2 September, 2013.

Brief assessment of the position of the Company.

Adopted in earlier years by major domestic investors in the gas market, i.e. OGP Gaz-System S.A. and PGNiG S.A., investment plans caused that despite the significant weakening of the economic situation in the country the gas industry characterized itself by significant investments. Both in the discussed period, as well as in previous years, the Company successfully competed in the Polish market with other entities, both domestic and foreign. In 2012, the Company concluded with OGP Gaz-System S.A. a contract to supply a total of 297 km of pipes worth 253 million PLN. Thanks to won tenders the Company has significant portfolio of orders in the first half of 2013. The fact that the Company will supply 47% of insulated pipes from the pool covered by a framework contract from 26.01.2011 by OGP Gaz-System S.A. (concluded by the purchaser with four potential suppliers) also proves the effectiveness of the market strategy of the Company.

In 2012, the company achieved income growth from sale by 76.9% compared to 2011. Sale of pipes and anticorrosion insulation services increased by 58.2% (compared to 2011) to the level of 269,133 thousand PLN. In this area, the Company implemented deliveries for both OGP Gaz-System SA and for implementing entities, however, the share of the first one was significant for the company.

Significant sales growth was also recorded in the area of goods - an increase of 112.9% to 189,543 thousand PLN, which is associated with the deliveries of drill pipes to PGNiG S.A. and companies seeking conventional and shale gas.

The conclusion with PGNiG SA contract of sale of pipes with accessories for four of the twelve individual parts of a public contract under the name "Purchase of pipes with accessories for mining boreholes for the year 2011 and 2012", where the total value of the contract amounts to 50,232 thousand PLN net is the confirmation of effectively implemented goal of entry of the Company onto the market of pipes and fittings for gas mining boreholes.

In February 2012, the Company completed the construction of Research and Development Centre for Technology and Steel Products. The aim of the project is to create in the Company its own Research and Development Centre, which will lead the work so far ordered partially or completely from external entities. The project has led to the start of formalized and centralized research and development activities in the Company. In addition, the Research and Development Centre provides research and development facilities for Stalprofil Capital Group which is a leading steel distributor in Poland.

Thanks to the opened Research and Development Centre, the Company has the ability to develop new technologies used for the isolation of drill pipes used among others for the extracting of shale gas. In 2012, the company introduced to its offer the DFBE insulation and a range of research services, which can be used both within the Research and Development Centre and on the construction site. For the realization of this investment, the Company has been granted by the Ministry of Economy a subsidizing in the amount of 7,263 thousand PLN under the Operational Programme Innovative Economy, 4. Priority Axis: Investments in innovative undertakings, action 4.5.: Support for investment of considerable importance to the economy, sub-action 4.5.2.: Support for investment in modern services sector.

In 2012, the Company also implemented a management system of Occupational Health and Safety which is compliant with PN-N 18001:2004 and on the day of 04.09.2012 the Company was given, by Bureau Veritas Certification Poland Sp. z o.o., a certificate of compliance with the standard. The standard is aimed at all companies that intend to take action to improve health and safety at work. The purpose of the management system of health and safety is to achieve continuous improvement of the efficiency of activities for the health and safety.

According to the assessment of the Supervisory Board the position of the company is very good. The Management Board properly manages the assets and the commitments. The financial results achieved in 2012 are very good. The Company has a stable financial situation. The owned capitals provide the security and stability for the business activities.

The Supervisory Board considers that the Company has consistently pursued the adopted strategy and achieves assumed financial income.

The Supervisory Board has also assessed the significant risk factors and the hazards arising from them. Assessing the risk management system which is essential for the Company, the Supervisory Board draws attention to the fact, that Izostal S.A. is indirectly dependent on PGNiG S.A. (exploration, exploitation, trading and distribution of gas) and Gaz-System S.A. (transmission system operator), and thus is dependent on their planned and implemented investments, due to the structural features of the Polish market, as well as their dominant position in the gas market. To minimize the risk, Izostal S.A. is additionally looking for new markets, both in Poland (private investors; development of technology of insulation of pipes which are used for boreholes) and abroad.

The recipients of the services and products offered by the Issuer are subjects operating in gas and petrochemical industry, and these industries are characterized by high quality requirements. Therefore there is a risk associated with the provision of quality of the offered services. The insulations produced by the Company meet the requirements of the highest quality standards and they are constantly adjusted to the new quality requirements.

Moreover, according to the Supervisory Board the financial condition of the Company is correlated with macroeconomic situation in Poland.

The financial results may be affected by such factors of general nature as GDP growth rate, investment growth rate, changes in the level of inflation, exchange rates, unemployment rates and the amount of personal income of the population. There is a risk that in the event of

deterioration in the pace of economic growth in Poland and in the world or the use of instruments of national economic policy making that may negatively affect the Company's business, the financial results may change. This risk is minimized by the adopted, by Poland, strategy of diversification of gas supply sources and imposed, by the European Union, strict rules in the scope of the protection of the environment and CO2 emissions. These factors are forcing, in some sense, to launch in Poland significant investments in the gas and petrochemical industry, which give the Company the opportunity to increase the level of sales of its products.

Profitability of the services of corrosion insulation provided by the Company depends on changes of production factor prices, including primarily the prices of chemical components, mainly polyethylene and polypropylene. The share of these factors in the cost structure is at a level of about 20%. The prices of chemical raw materials have a high correlation with oil prices on the world markets, which due to the current, global political and economic situation may be subject to large fluctuations. The above cost factors may affect the temporary deterioration of financial performance of the Company and the level of achieved profitability.

To minimize the above mentioned risk, Izostal S.A. in its activities uses a strategy of diversifying its sources through cooperation with several companies at every stage of production.

High financial potential of the Company also allows to pursue the purchase of materials for storing during the periods when the their prices are low.

The Supervisory Board has also assessed the risk associated with the price changeability of pipes. The company in order to avoid the risk associated with price volatility of steel pipes, optimizes stocks in order to adjust them to the scope of operations.

In special cases steel pipes are purchased for storage at the current prices in order to supplement the product range in the quantities allowing for the sale of goods with profit. When buying pipes for significant projects Izostal S.A. negotiates prices with suppliers and concludes contracts enabling for maintaining the negotiated price regardless of the situation in the steel market. Changes in the prices of pipes may affect the revenues and profitability of the Company, both in the main segment of the insulation and also in trade of goods. The Company hedges itself against the price changes in individual contracts and in a short time the changes in the prices of pipes have a limited impact on the profitability of individual contracts. However, in a long term the high prices of pipes are in the Company's favour (in terms of revenues and margins), on the other hand the decline in prices of pipes may affect the decline in revenue and profit from the sale of pipes.

The factor influencing in a significant way on the profitability of trading is also, assessed by the Supervisory Board, the risk of changes in exchange rates.

In connection with the conducted activities in terms of export and import, the Company is exposed to the risk of exchange rate changes. In commercial transactions, the dominant foreign currency is EUR. In order to reduce the risk of currency fluctuations, the Company concluded treasury limit agreements, which allow to carry out with the banks hedging transactions with no protections, as well as the Company has access to foreign currency loans which are used at the time of weakening of the PLN against EUR. The Company actively hedges exchange rate risk in the currency markets.

The Supervisory Board has also assessed the trade credit risk. The Company sells its products with deferred payments, which exposes it to the risk of insolvency of its clients. Recent years have shown the difficulties of companies operating in the general construction and road building. In order to minimize risk, the Company insures accounts receivable and implements sale within the limits set by the insurance corporation. The exception is the sale to O.G.P. Gaz-System S.A. which the Company has decided to exclude from the insurance policy. Stable situation of that customer guarantees no risk of insolvency, and the exclusion significantly reduces the cost of insurance policy.

In view of the very good results achieved by the Company in 2012, which demonstrate strong commitment of the Management Board in the current management, and especially in the development processes which strengthen the market position of the Company, the Supervisory Board considers giving the members of the Management Board of Izostal S.A.

vote of approval for performance of their duties in 2012 as a reasonable motion to the General Meeting.

Zawadzkie, 10.04.2013

Signatures of the Members of the Supervisory Board

Jerzy Bernhard	- Chairman of the Board
Zdzisław Mendelek	- Vice Chairman of the Board
Jan Chebda	- Secretary of the Board
Jan Kruczek	- Member of the Board
Lech Majchrzak	- Member of the Board
Adam Matkowski	- Member of the Board