

## **REPORT ON THE ACTIVITIES OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD OF IZOSTAL S.A. IN 2012**

The Audit Committee of the Supervisory Board of IZOSTAL S.A., appointed by resolution of the Supervisory Board No. 19/VI/2011, during the reported period performed its duties in the unchanged composition:

1. Jan Kruczak - Chairman of the Audit Committee
2. Adam Matkowski - Vice Chairman of the Audit Committee
3. Zdzisław Mendelek - Secretary of the Audit Committee

The Audit Committee of the Supervisory Board of IZOSTAL S.A. acted in accordance with the approved, by the Supervisory Board, Rules of the Audit Committee and the Act of 7 May, 2009 on expert auditors and their self-government, entities authorized to audit financial statements, and public supervision.

In 2012, Audit Committee meetings were held three times in accordance with the "Schedule of regular meetings of the Audit Committee in 2012" drawn up by the Audit Committee and adopted by the Supervisory Board, specifying timetable and tasks of the Committee including meetings with an auditor. If necessary, the Audit Committee updated the agendas of the meetings on current issues.

Evaluating its activities in 2012 the Audit Committee has analysed the accuracy and effectiveness of the conducted activities as part of its tasks which in particular included:

- monitor the process of financial reporting, including:
  - give opinions on, the adopted by the company, accounting policy and applied principles of preparing financial statements
  - monitor the work and personal independence of persons participating in the audit
- monitor the performing of the financial audit activities, including:
  - discuss the results of the audit of the annual and semi-annual financial statement
- monitor the effectiveness of internal control systems, internal audit, and risk management.

The subject of regular activities of the Audit Committee was monitoring of work connected with the process of preparation and audit of financial statements of the Company, and therefore the Committee cooperates on a regular basis with the 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 which is an auditor in this field. The accounting policy, adopted by the Company, complies with the requirements of the Accounting Act and is in accordance with the rules of International Financial Reporting Standards. Accounting principles adopted in the preparation of financial statements are consistent with the principles specified in IAS, IFRS and related to them interpretations issued in the form of implementing regulations of the European Commission, and, to the extent not covered by the above mentioned documents, in the Accounting Act dated 29.09.1994 and implementing regulations issued thereunder.

Within its statutory powers of the Audit Committee examined the issue of the independence of the individual team members performing financial audit activities and the Counselling Office as an authorized entity. The Audit Committee did not identify any threats to the independence of the Counselling Office and persons performing auditing activities.

The Committee monitored the correctness of preparation by the Company separate financial statements: for the financial year 2011 and semi-annual for the period from 01.01.2012 to 30.06.2012 cooperating closely in this area with the expert auditor examining the financial statements.

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

According to the evaluation of the Audit Committee the cooperation between the auditors and the Management Board of the Company is correct and satisfactory. The Audit Committee systematically monitored the financial reporting process, and the relevant financial statements in all material aspects were prepared according to accounting principles and on the basis of correctly kept accounts and they accurately reflect the results of business activities as well as the financial situation of the Company.

The Audit Committee conducted also an inspection of the report of the Management Board on operations of the Company and decided that the figures and facts reflect the true and accurate state of affairs. No irregularities were found in the scope of functioning of internal control and accounting organization in relation to the reporting process of the company.

The Audit Committee and Supervisory Board of IZOSTAL S.A. believe that monitoring of the effectiveness of internal control systems, internal audit, and risk management essential to the Company, which in Izostal S.A. is performed by the Management Board, executives and other employees within the scope of their duties, is conducted correctly.

The Management Board is the risk managing body in the Company as part of its operational activities, and the key management personnel participates in the process of risk identification and preventing its effects. The risk areas relevant to the Company are properly identified and in order to ensure the achievement of strategic objectives defined by Izostal. S.A. the Management Board together with management staff systematically review and revise the risk factors associated with the activity of the company, which may have an impact on the financial and market situation of the Company. The identified, main risk factors concerning the Company are constantly monitored in order to determine whether their identification and the measures taken to minimize the individual areas of risk proceeds correctly and whether there are applied appropriate measures and solutions. Periodic control of risk management principles is conducted and consistency of this process with adopted standards, and also permanent analysis of risk management paying special attention to opportunities of improvement. According to Audit Committee the activities of the Management Board are appropriate and serve to develop mechanisms eliminating and minimizing arisen risks.

Due to the not complex and flat organizational structure of the Company there is no separate internal audit department, and the system of internal control in the Company is conducted by

the Management Board, management staff and other employees within the scope of their duties. After the recommendation of the Management Board to intrust the tasks of internal audit to an internal organizational unit, which meets the criteria of independence and objectivity typical for the internal audit, the Audit Committee gave a positive opinion and adopted the proposed by the Company the "Principles and practices of internal audit and detection of irregularities in Izostal S.A." The specified principles of the management of activities of the internal audit section provide a smooth functioning of the audit and improve the quality of its performance. By determining the scope of the audit, independent and objective assessments and recommendations of auditors through a specified procedure and rules for the preparation and submission of reports of audit assignments may guarantee assistance in improving the management of the organization.

Internal control mechanisms include the way of performing tasks by the employees including in particular: qualifications, competence and compliance of activities performed by the employees and compliance of the performed activities with the rules and procedures developed for particular areas of functioning. These mechanisms have control nature and are built into the internal normative acts, procedures as well as integrated information system to manage the company. Control activities are undertaken to date and at the stage of checking, by the management staff, the correctness of tasks performed by subordinate employees, as well as during the development of internal procedures with special attention to ensure in them adequate control mechanisms. Any identified irregularities are systematically corrected by authorized employees.

According to the assessment of the Audit Committee, the Management Board of the Company also properly fulfils its obligation to the internal control in relation to the process of preparation and delivery of current reports and financial statements as required by law.

Zawadzkie, 10.04.2013

Signatures of the Members of the Audit Committee

-----  
Jan Kruczek  
Chairman of the Audit Committee

-----  
Adam Matkowski  
Vice Chairman of the Audi Committee

-----  
Zdzisław Mendelek  
Secretary of the Audit Committee