

REPORT OF THE SUPERVISORY BOARD OF IZOSTAL S.A.
from assessment of the following documents
submitted by the Management Board:

- I. Financial statement of Izostal S.A. for the year 2017.
- II. Report of the Management Board on operations of the Company for the year 2017.
- III. Proposition of the Management Board concerning distribution of net profits for the year 2017.

I. The Supervisory Board performed assessment of the financial statement of Izostal S. A. for year 2017 by reading the opinion of Key Expert Auditor of Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Sp. z o.o. in Katowice (Financial and Accounting Advisory Office), presented in the Report of Independent Expert Auditor from the annual audit of Financial Statement for the Shareholders and Supervisory Board of Izostal S.A. in Kolonowskie. On these grounds, the Supervisory Board represents that the Financial statement of Izostal S.A., drawn up for the financial year from January 1 to December 31, 2017, which comprises:

- introduction to the financial statement,
- statement of financial standing, drawn up as for December 31, 2017, which, on the assets and liabilities side, totals at PLN 456,261 thou. (in words: four hundred and fifty six million two hundred and sixty one thousand zloty),
- statement of total income for the financial year from January 1 to December 31, 2017, showing total income of PLN 9,115 thou. (in words: nine million one hundred and fifteen thousand zloty),
- statement of changes in equity for the financial year from January 1 to December 31, 2017, showing an increase in equity by an amount of PLN 6,823 thou. (in words: six million eight hundred and twenty three thousand zloty),
- statement of cash flows for the reporting year from January 1 to December 31, 2017, showing an increase in the level of cash by an amount of PLN 29,478 thou. (in words: twenty nine million four hundred and seventy eight thousand zloty),
- summary of significant accounting policies as well as supplementary and explanatory information to the financial statement,

presents a reliable and clear image of the financial standing of the unit as for December 31, 2017, and of its financial result for the financial year from January 1, 2017 to December 31, 2017, in line with the International Accounting Standards, International Financial Reporting Standards, and their related interpretations announced in the form of regulations of the European Commission and the adopted accounting rules (policy). The financial statement was drawn up based on correctly managed ledgers, in accordance with the provisions of chapter 2 of the Accounting Act, and its format and content is in conformance with the legal regulations and the unit's articles of association.

The financial statement audit was performed in line with the provisions of:

- the Act of May 11, 2017 on Expert Auditors, Audit Companies and Public Supervision.
- National Financial Revision Standards, according to the International Standards on Auditing adopted by resolution 2783/52/2015 of the National Council of Expert Auditors of February 10, 2015, as amended,
- Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

The Supervisory Board positively assesses the presented financial statement of Izostal S.A. for year 2017, and recommends the General Meeting to approve it.

II. The Supervisory Board performed an analysis of the Company Report on Operations for year 2017, concluding that the results on operations in year 2017 and the financial and material standing of the

Company have been presented correctly and reliably, and the presented facts backed by numerical data represent actual circumstances. Moreover, according to the Report on other requirements of law and regulations - contained in the Report of Independent Expert Auditor from the annual audit of Financial Statement for Shareholders and the Supervisory Board of Izostal S.A. in Kolonowskie, the Report on the company's operations was drawn up in accordance with applicable regulations, and is consistent with the information contained in the annual financial statement; also, in view of the possessed knowledge on the unit and its surroundings obtained through the auditing of financial statements, no significant distortions were indicated in the report on operations.

In addition, according to the Report of Independent Expert Auditor from the audit of annual financial statement for Shareholders and the Supervisory Board of Izostal S.a. in Kolonowskie, as concerns company's declaration on the application of corporate governance, the Company has included the information set out in para 91 section 5 point 4 letter a, b, g, j, k and l of the Regulation of Minister of Finances of February 19, 2009 on the current and periodical information provided by issuers of securities and the conditions for deeming as equivalent the information required by the law of a state not being a member state. The Supervisory Board has concluded that the information set forth in para 91 section 5 point 4 letter c-f, h and i of the Regulation indicated in the declaration on the application of corporate governance are compliant with applicable law and with the information contained in the annual financial statement.

The Supervisory Board positively assesses the presented report of Izostal S.A. Management for year 2017, and recommends the General Meeting to approve it.

- III. The Supervisory Board has read and approved the Management Board's motion for appropriation of net profit for the period from January 1, 2017 to December 31, 2017 in the amount of PLN 9,135,006.25 (in words: nine million one hundred and thirty five thousand six zloty 25/100), which will be submitted for approval of the Ordinary General Meeting, allocating this profit to:
- reserve capital of the Company, in the amount of: PLN 6,188,046.25 (in words: six million one hundred and eighty eight thousand forty six zloty 25/100);
 - payment of dividend for shareholders of the Company, in the amount of: PLN 2,946,960.00 (in words: two million nine hundred and forty six thousand nine hundred and sixty zloty 00/100), which equals PLN 0,09 (in words: nine groszy) of dividend per each share.

The proposal includes covering with the dividend all the shares issued by the Company in the quantity of 32,744,000 pieces. Moreover, the Supervisory Board does not have any reservations to the Management's proposal of the date for stipulating the right to dividend, agreed as July 23, 2018, nor to the dividend payment date planned for August 9, 2018.

BRIEF ASSESSMENT OF THE COMPANY'S STANDING

In 2017, the Company attained income from sales in the amount of PLN 563,996 thou., i.e. 48,5% higher compared to the preceding year. The largest impact on this fact had the performance of deliveries of coated pipes for OGP Gaz-System S.A. In 2017, 897 thou. m² of anti-corrosion coatings were sold, as compared to 598 thou. m² sold in 2016, which gives a 50% increase.

The significant increase in the sale of goods is mainly related to the sale of ironwork products - hot-rolled strips for manufacturing pipes, which were then purchased mainly for the needs of contracts performed for OGP Gaz-System S.A.

In terms of the costs of sold products, goods and materials, an increase by 46,7% was noted. The Company Management consistently performs a restrictive cost policy. The individual costs items are subject to

budgeting to organizational units and to current completion analysis. Compared to the preceding year, the costs of sale in 2017 increased by 79,4%. This progression is strongly correlated with an increase in the sale of coated pipes - 81,6% year-to-year.

In 2017, a net profit in the amount of PLN 9,136 thou. was attained. This is a very good result, especially given the fierce competition on the domestic gas market.

In the opinion of the Supervisory Board, the Company's situation is very good, and the financial results achieved by the Company in 2017 are satisfactory. The Company's Management correctly manages the property and the liabilities. Held capitals ensure the safety and stability of conducted business activities. The Supervisory Board acknowledges that the Company consistently pursues the adopted strategy and earns the assumed revenues.

The Supervisory Board also assessed significant risk factors and hazards resulting from them.

When assessing the system of managing risk significant for the Company, the Supervisory Board points out:

1. The risk related to the dependence on clients

Due to the structural characteristics of the Polish gas market, there is indirect dependence on the following companies: PGNiG S.A. (searching for, extracting, trading and distributing gas) and O.G.P. Gaz-System S.A. (operator of the transmission system), as well as on investment projects planned and executed by them. Apart from sales directly to O.G.P. Gaz-System S.A. and PGNiG S.A. The Company provides services for companies being the contractors or subcontractors of investment projects.

In order to minimize the risk, Izostal S.A. is additionally looking for new sales markets both in Poland (private gas companies) and abroad. One of the elements of minimizing risk is the Company's entering the market of casing strings and mining pipes. In addition, in connection with launching the Research and Development Center for Steel Technologies and Products, the Company's offer has been expanded by research and analyses of raw materials, developing new structural and technological solutions as well as introducing new products and services (DFBE coating) for companies from the following industries: gas, building and steel.

2. Risk related to ensuring the quality of offered services

The recipients of services and products offered by Izostal S.A. are entities operating in the gas and petrochemical industries which are characterized by high quality requirements.

The quality of services offered by the Company is ensured by implemented and observed principles of the Quality Management System according to the standard ISO 9001:2008 as well as obtained certificates of compliance for goods permitted for use in the building industry, issued and supervised by authorized certification units confirming the fulfillment of requirements. The Company has also implemented the standards ISO 14001:2004 and OHSAS 18001:2007. The insulation produced by the Company meets the requirements of the highest quality standards and are adjusted to new quality requirements on a current basis.

3. Risk related to the general macroeconomic situation of Poland

The Company's financial situation is correlated with the macroeconomic situation in Poland. The achieved financial results are affected by such general factors as the GDP growth rate, the investment growth rate, changes to the inflation level, exchange rates, the unemployment rate as well as the amount of the population's personal income. If the economic development rate in Poland and around the world deteriorates or if instruments of shaping the state's economic policy that may have negative impact on the Company's functioning are applied, the achieved financial results may change. The activities of Izostal S.A. may be particularly affected by a decrease in investment expenditures in the economy, a slowdown of the dynamics of GDP growth, an uncontrolled growth in inflation, an increase in restrictions of the state's fiscal and monetary policy.

This risk is minimized by the strategy of the diversification of the sources of gas supply adopted by Poland as well as restrictive regulations regarding environmental protection and CO₂ emission imposed by the European Union. New investments in the gas industry are confirmed by the "Development Plan with regard to satisfying the current and future demand for gas fuels for the years 2018-2027" adopted by OGP Gaz-System S.A.

4. Risk of changes in the prices of production factors

The profitability of anti-corrosive insulation services provided by the Company depends on the 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 reaches the level of approx. 20%. The prices of chemicals are characterized 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 cost factors may affect a temporary deterioration in the Company's financial results as well as the level of earned profitability.

In order to minimize the risk of changes in the prices of production factors, Izostal S.A. follows the strategy of the diversification of their sources in its activities by cooperating with several entities at every production stage. The Company's high financial potential also makes it possible to purchase materials to warehouses in periods when their prices are low.

5. Risk related to the variability of the prices of steel pipes

The price of a steel pipe in the product "insulated steel pipe", depending on the conditions, is approx. 70% of the value. The high variability of prices on the market of steel pipes observed in recent years affects the revenue and margins earned by the Company. Izostal S.A., in order to avoid the risk related to the variability of the prices of steel pipes, optimizes its warehouse stock adapting it to the scope of conducted activities.

In special cases, steel pipes are purchased to warehouses at current prices to supplement the range in quantities making it possible to sell the goods with a profit.

When buying pipes for significant projects, the Company negotiates the prices with suppliers and concludes contracts making it possible to maintain the negotiated price regardless of the situation on the steel market. Changes in the prices of pipes may affect the Company's revenue and profitability both in the main segment of insulation and in trading goods. The Company is protected against the change of prices of particular contracts and the changes in the prices of pipes have a limited impact on the profitability of particular contracts in a short term. Nonetheless, the Company in the long term is favored by high prices of pipes (at the level of revenue and margins), while a decrease in the prices of pipes may affect a decrease in revenues and profit from the sales of pipes.

6. Risk of changes in exchange rates

In connection with its export and import activities, the Company is exposed to the risk of changes in exchange rates. The dominating currency in commercial transactions (next to PLN) is EUR. The Company hedges currency risk by concluding adequate currency transactions with a deferred implementation date.

7. Risk of a trade credit

The company makes sales with deferred payment deadlines which exposes it to the risk of the insolvency of its clients. The recent years have shown the financial difficulties of companies operating in the general building industry and in the road building industry. In order to reduce the risk to the maximum, the Company insures the receivables and makes sales within limits determined by the insurance corporation. The exception is sales for O.G.P. Gaz-System S.A. which the Company decided to exclude from the insurance policy. The stable situation of this recipient guarantees the lack of the risk of insolvency and the exclusion significantly reduces the cost of the insurance policy.

Both the Supervisory Board and the Management Board take measures to limit the risk factors to the minimum extent and identify new factors on an ongoing basis.

The Supervisory Board, when assessing management of risks that are crucial for the Company and the internal control, states that the actions taken by the Management Board, which consist in periodic inspections of rules for risk management and compliance of this process with the adopted standards, and also in constant analysis of risk management in order to develop improvement possibilities in this area, are appropriate and that they are taken in order to develop mechanisms which eliminate or minimise the risks. Identified main risk factors

concerning the Company are constantly monitored to determine whether their identification and measures taken to minimise given risk areas are appropriate or if proper means and solutions are applied.

On the basis of the conducted analyses, the Supervisory Board considers that the risk management process within the Company, carried out by the Company's Management Board within the scope of its operations and the Company's directorship participating in the process of risk identification and preventing its consequences, is completed in a proper way.

The Supervisory Board also assessed the compliance system that is used by the Management Board and directorship of the Company. The Management Board, managers of the organisational units and experts have access to "Legalis" Legal Information System, specialised press and available professional analyses from where they get the information on changes of law, applicable standards and they familiarize themselves with the applicable legal interpretations. The cooperation with legal department is established on an ongoing basis and in special cases the Company makes use of the opinions of the external, specialised units. The Company has signed a contract with a Law firm for the current services. The Supervisory Board has a positive view on the compliance system that is used in the Company.

Moreover, the Supervisory Board issued a positive opinion on functioning of the internal control within the Company. In Izostal S.A. the internal control is conducted by the Management Board, directorship and the rest of the employees within the scope of their responsibilities. The Department of Investor Relations and Internal Audit has been separated in the Company. Mechanisms of the internal control ensure compliance of the performed activities with rules and procedures developed for particular areas.

Bearing in mind very good financial results of the Company in 2017 that show strong involvement of the Management Board in the current management, especially in the development processes, improving the Company's position on the market, the Supervisory Board considers a request to the Annual General Meeting on granting a discharge to the members of Izostal S.A. Management Board for performing their duties in 2017 as reasonable.

Kolonowskie, 29.03.2018

Signatures of the Supervisory Board Members:

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