

**REPORT ON THE ACTIVITY OF THE AUDIT COMMITTEE
OF THE SUPERVISORY BOARD OF IZOSTAL S.A.
IN 2017**

The Audit Committee of the Supervisory Board for the 8th term performed its duties in 2017 in an unchanged 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. acted in accordance with the Rules of Audit Committee approved by the Supervisory Board, Act of May 11, 2017 on Expert Auditors, Audit Companies and Public Supervision, 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, and other regulations concerning the Audit Committee and applicable to Izostal S.A. The Audit Committee supports the actions of Supervisory Board and is an advisory body co-operating with the Supervisory Board of Izostal S.A.

In 2017, after the entry into force of the May 11, 2017 Act on Expert Auditor, Audit Companies and Public Supervision, Members of the Audit Committee of Izostal S.A. Supervisory Board, on its session of 31.08.2017 submitted declarations on the independence of Izostal S.A. Audit Committee member. According to the declarations of Izostal S.A. Audit Committee members, two members of the Audit Committee, i.e. President of the Audit Committee and Deputy President of the Audit Committee satisfy the criteria of independence mentioned in art. 129 of the Act of May 11, 2017 on Expert Auditors, Audit Companies and Public Supervision, and satisfy the criteria specified in Appendix II to Commission Recommendation 2005/162/EC of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Pursuant to art. 129 of the May 11, 2017 Act on Expert Auditors, Audit Companies and Public Supervision, President of the Supervisory Board holds knowledge and skills in the field of accounting or auditing financial statements, and the two members of the Audit Committee hold knowledge and skills in the field of the Company's business.

In 2017, the works of Audit Committee were conducted in line with the "Schedule of fixed sessions of Audit Committee in year 2017" drawn up by the Audit Committee and approved by the Supervisory Board, which set out the time of sessions and the main points of the sessions' agenda, including meetings with the auditor. The tasks of the Committee were performed also by way of presenting recommendations, motions, opinions and approvals of statements and reports to the Supervisory Board, as well as through current exchange of opinions. Whenever necessary, the Audit Committee would update the agenda with current affairs. In 2017, the Audit Committee held three meetings convened by President of the Audit Committee, also with participation of other Members of the Supervisory Board.

In 2017, the Audit Committee has been carrying out actions within its competences, which particularly included:

- a) monitoring:
 - o the financial reporting process,
 - o the efficiency of internal controls and system for managing significant risk of the company, internal audit - including financial reporting and detection of irregularities - as well as observance of the principles of business ethics in the individual areas of the Company's functioning,
 - o the performing of financial review,
- b) informing the Supervisory Board on the results of audit, and explaining how this audit contributed to the reliability of financial reporting,
- c) monitoring and assessing the independence of expert auditor,
- d) developing and adopting the amended Audit Committee Rules
- e) elaborating a policy for selecting an audit company for performing audits at Izostal S.A.,
- f) elaborating a procedure for selecting an audit company at Izostal S.A.,
- g) elaborating a procedure of providing supporting services by the audit company to Izostal S.A.,
- h) discussing with the Company management the strategies and programs of assessing risks, and protecting from the materialization of threats,
- i) submitting to the Supervisory Board the annual report from operations of the Audit Committee,
- j) elaborating an annual timetable of actions of the Audit Committee.

The subject of permanent activities of the Audit Committee was monitoring works related to the process of drawing up and reviewing the financial statements of the Company. The Audit Committee works on a current basis with the auditor, i.e. Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Sp. z o.o. (Financial and Accounting Advisory Office) with registered office in Katowice.

The accounting policy adopted by the Company conforms to the requirements of the Accounting Act, and is consistent with the rules of International Financial Reporting Standards. The accounting rules assumed for the financial statements are consistent with the rules specified in IFRS and in their related interpretations announced in the form of implementing regulations of the European Commission, or - for matters not stipulated in the said documents - in the Accounting Act of September 29, 1994 and the secondary legislation thereto.

Under its regulatory capabilities, the Audit Committee has been reviewing the matter of personal independence of the persons performing the tasks of financial revision and of the Law Office being the authorized entity. The Audit Committee did not identify any threats concerning the independence of Law Office and persons performing the actions of financial revision. Due to the change of regulations and entry into force of the Act of May 11, 2017 on Expert Auditors, Audit Companies and Public Supervision, implementing the solutions set forth in Regulation 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, the Audit Committee has been notified on the potential necessity of terminating the agreement with Kancelaria Porad

Finansowo-Księgowych dr Piotr Rojek Sp. z o.o. (Financial and Accounting Advisory Office) with main registered office in Katowice, being an entity authorized to audit and review financial statements of the Company for years 2016-2018, along with a half-yearly review of the financial statement as for June 30, 2016, and June 30, 2017 and 2018 respectively, half-yearly review of the financial statement as for June 30, 2018, in accordance with the adopted accounting rules resulting from the IFRS, and audit of the annual financial statement drawn up as for December 31, 2018, in accordance with the adopted accounting rules resulting from the IFRS.

The Audit Committee was monitoring the correctness of drawing up of the individual financial statements by the Company: for the financial year 2016 and interim statement for the period 01.01.2017 to 30.06.2017, 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. The main risk factors concerning Izostal S.A. are the following:

- risk of overdependence on the biggest customers,
- risk of a macroeconomic situation,
- risk of quality assurance of offered products and services,
- risk of changes in prices of production materials,
- risk of changes in price of materials – steel pipes
- risk of changes in prices of steel pipes,
- risk of exchange rate fluctuations,
- buyer's credit risk,
- risk of technology infrastructure and pipe supplies,
- risk of foreign competition in supply of insulated pipes,
- risk connected with timeliness of pipelines construction,
- risk of contractual penalties,

- risk of burglary/theft
- risk in the area of information security,
- other risk areas: security of IT systems, compilation of financial reports, tax-related risks, risk connected with co-financing of a project - Measure 4.5 of the Innovative Economy Programme, risk of random events, risk of information leakage, risk of a leak of trade and production information/know-how, risk associated with changes in regulations regarding Companies listed on the Warsaw Stock Exchange (GPW).

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.

The Company has an Investor Relations and an Internal Audit Department. 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.

Kolonowskie, 29.03.2018 r.

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