

**ACTIVITY REPORT**  
**BY THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD OF IZOSTAL S.A.**  
**FOR THE YEAR 2019**

The Audit Committee as an advisory body supporting the activities of the Supervisory Board, acting collectively within the 8th term of the Supervisory Board of Izostal S.A., performed its duties in 2019 in the following composition:

1. Jan Kruczak - Chairman of the Audit Committee
2. Adam Matkowski - Vice-Chairman of the Audit Committee
3. Andrzej Baranek - Secretary of the Audit Committee,

In 2019 there were no changes in the composition of the Audit Committee of the Supervisory Board of Izostal S.A.

The activities of the Audit Committee of the Supervisory Board of Izostal S.A. were compliant with the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, 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 Audit Committee Regulations approved by the Supervisory Board of Izostal S.A.

In accordance with the statements made by the members of the Audit Committee of the Supervisory Board of Izostal S.A. on the independence of a member of the Audit Committee of Izostal S.A., two members of the Audit Committee, i.e. the Chairman of the Audit Committee and Vice-Chairman of the Audit Committee meet the independence criteria referred to in Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, and also meet the independence criteria within the meaning of the Code of Best Practice for WSE Listed Companies 2016, i.e. set out in Annex 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. Chairman of the Audit Committee in accordance with Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight has knowledge and skills in accounting or auditing financial statements. Two members of the Audit Committee have knowledge and skills in the industry in which the Company operates.

The works of the Audit Committee were conducted in accordance with the "Schedule of permanent Audit Committee meetings in 2019" prepared by the Audit Committee and adopted by the Supervisory Board during the meetings convened in 2019 which the Audit Committee held three times, and during which 14 resolutions were adopted. Other Members of the Supervisory Board also took part in the works of the Audit Committee. The tasks of the Committee were carried out by presenting recommendations, conclusions, opinions and reports to the Supervisory Board.

In 2019, the Audit Committee, within the scope of its powers, undertook actions that particularly included:

- a) monitoring:
  - the financial reporting process,
  - the effectiveness of internal control systems and risk management system significant for the Company, internal audit, including financial reporting and detection of irregularities, as well as observance of business ethics rules in the individual areas of the Company's operations,
  - the performance of financial audit activities,
- b) informing the Supervisory Board about the results of the audit and explaining how the audit contributed to the reliability of financial reporting,
- c) monitoring and assessment of the statutory auditor's independence,
- d) discussing with the Company management the strategy and programs of risk assessment and protection against the emergence of risks,
- e) submitting to the Supervisory Board an annual report on the activities of the Audit Committee,

- f) drawing up an annual schedule of Audit Committee activities.

The subject of permanent activities of the Audit Committee was the monitoring of work related to the process of preparing and auditing the Company's financial statements. The Audit Committee cooperated with the auditor in this area on an ongoing basis.

Within the scope of its regulatory powers, the Audit Committee, on the basis of submitted statements, examined the issue of personal independence of the team members and the audit firm carrying out the financial audit activities. The Audit Committee did not identify any threats to the independence of the Firm or persons performing the financial audit activities.

The accounting policy adopted by the Company meets the requirements of the Accounting Act and is consistent with the rules resulting from the International Financial Reporting Standards. The accounting rules adopted in the preparation of financial statements are consistent with the rules set out in IFRS and related interpretations published in the form of executive regulations of the European Commission, and to the extent not regulated by the aforementioned documents in the Accounting Act of 29 September 1994 and secondary legislation thereto.

The Committee monitored the correctness of the Company's preparation of the annual separate financial statements for the financial year 2018, annual consolidated financial statements of Izostal S.A. Group for 2018, review of the semi-annual condensed financial statements of Izostal S.A. and review of the condensed consolidated financial statements of Izostal S.A. Group for the period from 1 January to 30 June 2019 in close cooperation with the key expert auditor. The internal control system for the process of preparing financial statements in the Company is implemented by the Management Board, Chief Accountant and other employees who are entrusted with appropriate competences. The purpose of the control is to ensure compliance of the statements prepared with the books and documents and applicable regulations concerning the accounting principles, as well as to present the results of business operations and the Company's property and financial standing in accordance with the actual state of affairs. The division of tasks related to the preparation of financial statements in the Company, control of the prepared statements by the auditor, as well as monitoring the process of preparing and verifying the statements by the Audit Committee and evaluation of the statements by the Supervisory Board, ensure the reliability and correctness of the information presented in the financial statements. In terms of risk management with respect to the process of preparing financial statements, the Company monitors on an ongoing basis the changes in external regulations and rules related to the preparation of financial statements. The Company's internal regulations are also updated on an ongoing basis in order to adapt them to the changing law.

In the opinion of the Audit Committee, the cooperation of auditors with the Company's Management Board is correct and does not raise any objections. The Audit Committee monitored the financial reporting process on an ongoing basis, and the said financial statements have been prepared in all material aspects in accordance with the accounting principles and on the basis of properly maintained ledgers and reliably reflect the results of the Company's business activity and its property and financial situation.

The Audit Committee also reviewed the Management Board's Report on the Company's activities for 2018 and the Management Board's Report on the activities of Izostal S.A. Capital Group for 2018, concluding that the presented figures and facts reflect the true and fair factual circumstances. No irregularities were found in the functioning of internal control and the Company's accounting organisation in relation to the Company's reporting process.

In the opinion of the Audit Committee of the Supervisory Board of Izostal S.A., monitoring the effectiveness of internal control, internal audit and management of the Company's significant risk, which in Izostal S.A. is carried out by the Management Board, managerial staff and other employees within the scope of their assigned duties, is performed correctly.

The risk areas relevant to the Company are properly identified and monitored. The Management Board, together with the managerial staff, reviews and updates on an ongoing basis the risk factors accompanying the Company's operations, which may have an impact on the financial and market standing of the Company. The main risk factors identified and the monitoring of areas of activity exposed to risk are aimed at providing

safeguards to reduce the level of risk. Periodic control of risk management principles and compliance of this process with the adopted standards is carried out, as well as constant analysis of risk management in terms of opportunities for improvement.

In the opinion of the Audit Committee, the actions of the Management Board are appropriate and serve the purpose of developing mechanisms to eliminate or minimize the resulting risks. The Company has an Investor Relations and Internal Audit Department. The internal control system in the Company is fulfilled by the Management Board, managerial staff and other employees within the scope of duties entrusted to them on the basis of the adopted and applied "Principles and practices of internal audit and detection of irregularities in Izostal S.A." Specific rules for the management of internal audit activities are designed to ensure the smooth running of the audit and to improve the quality of its functioning. By designating the scope of the audit, independent and objective assessments and recommendations of auditors, as well as the specific procedure and rules for drawing up and transmitting reports on audit tasks, may guarantee assistance in improving the management of the organisation.

Internal control mechanisms cover the manner of performing tasks by employees, including in particular: rights, competences and compliance of performed activities with the rules and procedures developed for the individual areas of operation. These mechanisms are of a control nature and are integrated into both internal normative acts, procedures and an integrated IT system for enterprise management. Control activities are undertaken on an ongoing basis and at the stage of verifying the correctness of tasks performed by subordinate employees, as well as during the creation of internal procedures through special care to ensure appropriate control mechanisms in them. The identified potential irregularities are eliminated as a result of corrective actions supported also by the Company's Integrated Management System.

The compliance system operated by the Management Board and the Company's management was also assessed. The Management Board, managers of organizational units and specialists have access to the Legalis legal information system and specialist press and available industry studies from where they obtain information on changes in the law, applicable standards and get acquainted with the applicable legal interpretations. Cooperation with the legal office is undertaken on an ongoing basis, and in special cases the Company uses the opinions of external, specialized units. The company has signed a contract with a law firm to provide day-to-day services.

In the opinion of the Audit Committee, the Company properly fulfils its obligation of internal control, ensuring compliance of its activities with legal standards and adopted internal procedures. The Company properly performs its internal control obligations in relation to the process of preparing and submitting current and periodic reports in accordance with the requirements of the law.

Kolonowskie, 26.03.2020.

Signatures of the Audit Committee Members:

Jan Kruczak	- Chairman of the Audit Committee	<i>/illegible signature/</i>
Adam Matkowski	- Vice-Chairman of the Audit Committee	<i>/illegible signature/</i>
Andrzej Baranek	- Secretary of the Audit Committee	<i>/illegible signature/</i>