



ACTIVITY REPORT  
BY THE AUDIT COMMITTEE  
OF THE SUPERVISORY BOARD OF IZOSTAL S.A.  
FOR THE YEAR 2021

KOLONOWSKIE, 24.03.2022

There is one Audit Committee within the Supervisory Board of Izostal S.A., which consists of at least three members appointed by the Supervisory Board from among its members. By resolution of the Supervisory Board of 6 July 2020, the following were appointed as members of the Audit Committee:

- Jan Kruczak – Chairman of the Audit Committee
- Adam Matkowski – Deputy Chairman of the Audit Committee,
- Grażyna Kowalewska – Secretary of the Audit Committee.

In 2021, there were changes in the composition of the Audit Committee. On 30 March 2021, Mr Adam Matkowski resigned from the position of Member of the Supervisory Board, effective 28 April 2021. Mr Adam Matkowski served on the Audit Committee as Deputy Chairman of the Audit Committee.

After the composition of the Supervisory Board was supplemented by the Ordinary General Meeting of Shareholders on 29 April 2021, the Supervisory Board, at its meeting on 30 April 2021, adopted a resolution on the appointment of Mr Adam Szafraniec to the Audit Committee. As of 30 April 2021, the composition of the Audit Committee was as follows:

- Jan Kruczak – Chairman of the Audit Committee
- Grażyna Kowalewska – Secretary of the Audit Committee
- Adam Szafraniec – Member of the Audit Committee

Such composition of the Audit Committee remained unchanged until 31 December 2021.

The Audit Committee operates on the basis of the Regulations of the Audit Committee of the Supervisory Board of Izostal S.A. approved by the Supervisory Board of Izostal S.A. on 7 December 2017 and in accordance with the adopted annual Schedule of Permanent Audit Committee Meetings. The Regulations of the Audit Committee are available on the Company's website at: <https://www.izostal.com.pl/spolka--/akty-prawne/regulamin-komitetu-audytu/>. The Audit Committee supports the activities of the Supervisory Board and is an advisory body acting collectively within the Supervisory Board. The work of the Audit Committee is headed by its Chairman, who is elected by the members of the Audit Committee. Two Audit Committee members: Mrs Grażyna Kowalewska and Mr Adam Szafraniec meet the independence criteria referred to in Article 129 of the Act of 11 May 2017 on Auditors Firms and Public Supervision. Mr Jan Kruczak and Mr Adam Szafraniec possess knowledge and skills in the area of accounting or auditing, which they have acquired through their education, professional qualifications and experience in their current positions. All Members of the Audit Committee possess knowledge and skills in the industry in which the Company operates, which they have acquired through their education, qualifications and experience on the positions held so far. The curricula vitae of the members of the Supervisory Board are available on the Company's website.

The work of the Audit Committee proceeded in accordance with the "Schedule of Standing Audit Committee Meetings in 2021" prepared by the Audit Committee and adopted by the Supervisory Board in convened meetings. Three Audit Committee meetings were held in 2021, during which 12 resolutions were passed. The tasks of the Audit Committee were carried out by presenting recommendations, conclusions, opinions and reports to the Supervisory Board. The Audit Committee supported the Company's Management Board in promoting and implementing the principles included in the Code of Ethics binding at Izostal S.A. The Audit Committee also took an active part in internal dialogue between the Company's stakeholders on consolidating in the Company the principles of corporate governance adopted by the Council of Warsaw Stock Exchange in the document "Best Practice for WSE Listed Companies 2021".

In evaluating its activities in 2021, the Audit Committee analyzed the relevance and effectiveness of its activities carried out within the scope of its competencies and took actions, which in particular include:

- 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.

In addition, the tasks of the Audit Committee include:

- a) developing a policy for selecting an audit firm to conduct the audit,
- b) defining the procedure for selecting an audit firm by Izostal S.A,

- c) presenting a recommendation to the Supervisory Board on the appointment of an audit firm in accordance with the adopted policy on the selection of the audit firm,
- d) developing a policy for the provision of permitted non-audit services by the audit firm.

In 2021, the Audit Committee conducted a process aimed at selecting an audit firm to audit the Company's annual standalone and consolidated financial statements for the financial years 2021-2023 and to review the Company's semi-annual standalone and consolidated financial statements in 2021-2023, in accordance with the Audit Company Selection Policy and Audit Company Selection Procedure adopted and binding at Izostal S.A. The Audit Committee submitted a recommendation to the Supervisory Board of Izostal S.A. on appointment of an auditing company. The Supervisory Board selected an entity authorized to audit and review the financial statements of Izostal S.A. – ReVision Rzeszów – Józef Król Sp. z o.o. with its registered office in Rzeszów to audit the annual standalone and consolidated financial statements of the Company for the financial years 2021-2023 and to review semiannual standalone and consolidated financial statements of the Company in 2021-2023.

In the reporting period the Audit Committee, according to the binding Procedure for Provision of Additional Services by an Audit Firm to Izostal S.A., consented to the provision of permitted non-audit services by the auditing firm auditing the financial statements, i.e. ReVision Rzeszów - Józef Król Sp. z o.o., seated in Rzeszów, and selected the offer of the aforementioned company for the assessment of the report on remuneration of the Supervisory Board and the Management Board of Izostal S.A. for 2020. The Audit Committee selected ReVision Rzeszów - Józef Król Sp. z o.o. due to the fact that it is a continuation of cooperation in terms of Izostal S.A. financial audits covered by the contract on auditing the financial statements by an auditing company.

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. The Audit Committee familiarizes itself with the audit schedule and, through ongoing cooperation with the external auditor carrying out financial audit activities, monitors the process of preparing financial statements and the quality of cooperation with the Management Board. 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 Audit Committee reviews the external auditors' conclusions on the audit of the Company's management reports and financial statements with respect to their conformity with the books, documents and facts, and reports the results of this assessment in its report available on the Company's website

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 2020, annual consolidated financial statements of Izostal S.A. Group for 2020, review of the semi-annual condensed financial statements of Izostal S.A. and review of the semi-annual condensed consolidated financial statements of Izostal S.A. Group for the period from 1 January to 30 June 2021 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. During the reporting period, the Audit Committee also reviewed the Management Board's Report on the Company's activities for 2020 and the Management Board's Report on the activities of Izostal S.A. Capital Group for 2020, 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 of the effectiveness of the internal control, internal audit and significant risk management systems, which at Izostal S.A. belongs to the Management Board, managers and other employees within the scope of their duties, is being carried out correctly. The internal audit functioning in Izostal S.A. is based on International Standards for the Professional Practice of Internal Auditing; however, these standards have been adapted to the size and structure of the organization, thus the internal audit functioning in the Company does not meet all the requirements of international standards. The Audit Committee is of the opinion that there is no need to appoint an internal auditor in the Company to head the internal audit function. The Company has a risk identification, estimation and management procedure that covers all areas of its operations. 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. During the reporting period, the identified main areas of risks material to the Company and analyzed by the Audit Committee were related to:

- dependence on the major recipients,
- macroeconomic (market) situation
- ensuring the quality of the services offered,
- changes in material prices - plastics, energy and steel pipe,
- changes in price volatility of steel pipes,
- exchange rate movements,
- trade credit,
- process infrastructure and pipe deliveries,
- foreign competition in the supply of coated pipes,
- timeliness of gas pipeline construction,
- contractual penalties,
- changes in regulations concerning WSE-listed Companies.

In 2021, the course of the COVID-19 pandemic continued to be a significant risk factor. Since the beginning of the pandemic, the Company has taken ongoing measures to mitigate the effects of the pandemic, both in terms of employee safety and maintaining the continuity of the supply chain. Efforts are underway to achieve the highest possible inoculation rate among the Companies' employees. There is extensive outreach to promote vaccination as a basis of defense against the virus.

Procedures were introduced to reduce the risk of infection in accordance with the recommendations of the Chief Sanitary Inspector. Izostal S.A. Group takes all necessary steps to ensure safety and stability of operations in relation to the current epidemic situation.

The Company has introduced a document titled "GUIDELINES FOR PREVENTION OF THE EFFECTS OF EPIDEMIC IN IZOSTAL S.A.", which is updated on an ongoing basis by the appointed Team on the basis of the situation and the regulations and recommendations in force in this area. The document describes: the framework for the activities of the appointed Team; recommendations for company employees; recommendations for directors/managers; ongoing recommendations for work arrangements; procedure in the event of plant shutdown; and the role of the Health and Safety Officer. Additionally, the Management Board and the management are regularly informed by e-mail about the current situation related to the possible impact of the epidemic on functioning of Izostal S.A. So far the pandemic has not had a significant impact on the continuity of the Company's business; however, in case of a prolonged influence of the pandemic on the economy, such a situation may cause negative financial and organizational consequences. It is possible that the timeliness of supply of the offered products may be jeopardized and there is a risk of delays in the execution of contracts. Currently, the Company is unable to estimate the impact of any delays on its financial results due to the inability to determine further developments and the next wave of infections. The global situation is monitored on an ongoing basis and appropriate decisions are made to adjust the work organization.

In the opinion of the Audit Committee, Izostal S.A. Group takes all necessary steps to ensure safety and stability of its operations in relation to the current epidemic situation.

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.

Achievement of the Company's risk management objectives in Izostal S.A. is also supported by the "Rules of proceeding in case of occurrence of material irregularities in the activity of Izostal S.A." implemented in the Company (Compliance Risk Management Policy) and "Procedure for reporting infringements of law, procedures and ethical standards at Izostal S.A." (Whistleblowing Procedure). The procedures adopted are aimed at strengthening Izostal S.A. Group's resistance to any attempts to influence its business activity in an illegal or unethical way. In addition, in connection with the above, the Company has established a Compliance Unit in the person of a compliance officer at the rank of a member of the Management Board, who has been entrusted with the responsibility for implementing the Company's policy on the management of irregularities. The whistleblower procedure provides a mechanism for anonymously notifying the Compliance Unit, the President of the Management Board and, in certain cases, the Chairman of the Supervisory Board of any material irregularities that occur in connection with a breach of law or procedures adopted by the Company, as well as the values and principles described in the Code of Ethics.

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.

The Audit Committee has a positive opinion of the internal control, risk management and compliance systems operating in the Company. In the opinion of the Audit Committee, the Company properly fulfils its internal control obligations, ensuring compliance of its activities with legal standards and adopted internal procedures. The Company properly discharges its internal control obligation in relation to the process of preparing and submitting current and periodic reports as required by law.

Kolonowski, 24.03.2022

Signatures of the Audit Committee Members:

Jan Kruczak	- Chairman of the Audit Committee	<i>/illegible signature/</i>
Grażyna Kowalewska	- Secretary of the Audit Committee	<i>/illegible signature/</i>
Adam Szafranec	- Member of the Audit Committee	<i>/illegible signature/</i>