

REPORT

ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF IZOSTAL S.A. FOR THE YEAR 2018

1. COMPOSITION OF THE SUPERVISORY BOARD IN 2018

As at 31 December 2018, the Supervisory Board of Izostal S.A. was composed of the following persons:

Jerzy Bernhard	- Chairman of the Supervisory Board
Andrzej Baranek	- Vice-Chairman of the Supervisory Board
Grażyna Kowalewska	- Secretary 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

During the reporting period there was a change in the composition of the Supervisory Board of Izostal S.A. On 9 October 2018, the Company received a statement from Mr. Jan Chebda on his resignation from the position of Member of the Supervisory Board of Izostal S.A. as of 15 November 2018. Mr. Jan Chebda was the Secretary of the Supervisory Board of Izostal S.A. On 15 November 2018, the Extraordinary General Meeting of Izostal S.A. supplemented the six-person composition of the Supervisory Board and appointed as of 16 November 2018 Ms. Grażyna Kowalewska as Member of the Supervisory Board for the tenure of the present Supervisory Board, i.e. until the date of the General Meeting approving the financial statements for the financial year 2019. At the meeting held on 6 December 2018, the Supervisory Board appointed Ms. Grażyna Kowalewska as Secretary of the Supervisory Board.

In the Supervisory Board of Izostal S.A. according to the statements submitted by the Supervisory Board members, four out of six members of the Supervisory Board, i.e. Mr. Jan Kruczak, Adam Matkowski, Lech Majchrzak and Ms. Grażyna Kowalewska, meet the independence criteria referred to in principle II.Z.4. of the document "Code of Best Practice for WSE Listed Companies 2016", and in Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

There is one Audit Committee within the Supervisory Board of Izostal S.A., which consists of three members appointed by the Supervisory Board from among its members. The 8th term of the Audit Committee of the Supervisory Board worked in 2018 in the unchanged composition, which as at 31 December 2018 was as follows:

Jan Kruczak	- Chairman of the Audit Committee
Adam Matkowski	- Vice-Chairman of the Audit Committee
Andrzej Baranek	- Secretary of the Audit Committee

In accordance with the assessment of the Board, based on the statements by the members of the Audit Committee of the Supervisory Board 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. In accordance with Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, the Chairman of the Audit Committee has knowledge and skills in accounting or auditing financial statements, and two members of the Audit Committee have knowledge and skills in the industry in which the Company operates.

2. ACTIVITY AND SELF-ASSESSMENT OF THE WORK OF THE SUPERVISORY BOARD

Members of the Supervisory Board of Izostal S.A. performed their duties on the basis of the provisions of the Commercial Companies Code, the Company's Articles of Association, the Regulations of the Supervisory Board

and the "Code of Best Practice for WSE Listed Companies 2016". The Supervisory Board exercised permanent control and supervision over the current operating and financial activities of the Company, monitored the results achieved by the Company and the Izostal S.A. Capital Group, participated in providing opinions and supervision over the implementation of the Company's strategic plans, and assessed the effectiveness of risk management systems significant for the Company, compliance, internal audit functions and the internal control system. Within the scope of its powers and duties, the Supervisory Board assessed the manner in which the Company fulfilled its disclosure obligations concerning the application of corporate governance rules and the provision of current and periodic information by issuers of securities. The Supervisory Board also assessed the rationality of the Company's sponsorship and charity policy.

The Board fulfilled its tasks in 2018 at five meetings and as part of the work of the Audit Committee, whose meetings were held three times. Members of the Supervisory Board participated in Audit Committee meetings. In 2018, the Supervisory Board exercised constant supervision and control over the current operational and financial activity of the Company, taking decisions in the form of resolutions, recommendations and arrangements and issuing the relevant opinions. All important issues discussed by the Supervisory Board and not requiring the adoption of resolutions were included in the minutes of the Board meeting in the form of motions and recommendations.

In the opinion of the Supervisory Board, the Board fulfilled its duties with due diligence, exercising its statutory and statutory competences. The Supervisory Board exercised constant supervision over the Company's activity, reviewing the matters reported by the Management Board of the Company as important and necessary for the efficient functioning of the Company and the effecting of its development.

3. ASSESSMENT OF THE COMPANY'S SITUATION

The main topic and subject of permanent control and supervisory activities considered by the Supervisory Board in the reporting period was the analysis of the current economic and financial situation of the Company and key decisions taken in the area of the Company's business activity in 2018. The Supervisory Board monitored and analysed the implementation of the assumptions of the approved Company's Plan and capital expenditure plans on a quarterly, semi-annual and annual basis. The Supervisory Board also monitored and analysed the financial results of the Izostal S.A. Capital Group and investment plans that Kolb Sp. z o.o., – a member of Izostal S.A. Capital Group – intends to implement. The Supervisory Board examined the Company's documents and obliged the Management Board to provide explanations and prepare current analyses and reports. In carrying out its statutory obligations, the Supervisory Board gave a positive opinion on the Management Board's Activity Report and the Financial Statements for the previous financial year and the Management Board's motion concerning the distribution of profit, requesting the General Meeting to approve them. In the adopted "Supervisory Board's Report on the results of the assessment of the financial statements for 2017", the Supervisory Board positively assessed the work of the Management Board, which was the basis for a motion to grant a discharge to the Management Board members. The Supervisory Board considered and issued opinions on matters which are the subject of resolutions of the Ordinary General Meeting of Shareholders and the Extraordinary General Meeting of Shareholders. The Supervisory Board controlled the Company's financial reporting process and the auditor's independence through the Audit Committee, which cooperates with the auditor on an ongoing basis.

After change of legislation and entry into force of the Act of 11 May 2017 on statutory auditors, audit firms and public oversight introducing solutions provided for in the 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, the Supervisory Board gave its consent to terminate the agreement with Kancelaria Porad Finansowo-Księgowych dr Piotr Rojek Sp. z o.o. with its registered office in Katowice as the entity authorised to audit and review the financial statements of Izostal S.A. for the years 2016-2018 together with a semi-annual review of the financial statements prepared as at 30 June 2016 and 30 June 2017 and 2018 respectively, with regard to a review of the semi-annual financial statements prepared as at 30 June 2018, in accordance with the adopted accounting principles resulting from IFRS and an audit of the annual financial statements prepared as at 31 December 2018 in accordance with the adopted accounting principles resulting from IFRS. Therefore, the Supervisory Board, having analysed the offers of audit firms and taken into account the

recommendation of the Audit Committee, selected the company ReVISION RZESZÓW - Józef Król Sp. z o.o. with the seat in Rzeszów to audit the annual separate and consolidated financial statements of Izostal S.A. for the financial years 2018-2020 and review the semi-annual separate and consolidated financial statements of the Company in the years 2018-2020.

The Supervisory Board assessed the effectiveness of the Company's significant risk management systems, internal audit function and internal control system. When assessing the significant risk management system for the Company, the Supervisory Board takes into consideration the following risk areas:

1. Risk related to dependence on the largest customers

Due to the structural features of the Polish gas market, there is indirect dependence on companies: PGNiG S.A. (exploration, exploitation, marketing and distribution of gas) and O.G.P. Gaz-System S.A. (transmission system operator), as well as on their planned and implemented investments. In addition to sales made directly to O.G.P. Gaz-System S.A. and PGNiG S.A. the Company provides services for companies that are contractors or subcontractors of investment projects. In order to minimize the risk, Izostal S.A. is also looking for new markets both in Poland (private gas companies) and abroad. One of the elements of minimizing the risk is the Company's entry into the casing and mining pipes market. The company has a Research and Development Centre, which ensures its development and improvement of the offered products, conducting research works and developing new solutions to meet the ever-growing expectations of customers from the gas, construction and steel industries.

2. Risk related to the quality assurance of offered services

The recipients of services and products offered by the Company 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 the implemented and adhered to principles of the Integrated Quality Management System according to the requirements of ISO 9001:2015, ISO 14001:2015, PN-N 18001:2004/OHSAS 18001:2007 and ISO 50001:2011, as well as the obtained certificates of conformity of products allowed to be used in the construction industry, issued and supervised by authorised certification bodies confirming compliance with the requirements. Pipe coatings produced by the Company meet the requirements of the highest quality standards and are constantly adjusted to new quality requirements. The quality of products and services offered by the companies from the Capital Group is ensured by the implemented and observed principles of Quality Management Systems and obtained certificates of conformity of products approved for use in the construction industry, issued and supervised by authorised certification bodies, confirming compliance with specific requirements.

3. Risk related to the general macroeconomic situation of Poland

The financial situation of the Capital Group companies is correlated with the macroeconomic situation in Poland. Financial performance is influenced by general factors such as GDP growth rate, investment growth rate, changes in the level of inflation, exchange rates, unemployment rate and the level of personal income of the population. There is a risk that if the pace of economic development in Poland and worldwide worsens or if instruments of shaping the economic policy of the state are applied which may have a negative impact on the functioning of the companies of the Capital Group, the financial results achieved may change. A particularly negative impact on the operations of the companies of the Capital Group may be caused by a decrease in investment outlays in the economy, a slowdown in GDP growth, uncontrolled inflation growth, an increase in the restrictive fiscal and monetary policy of the state.

This risk is minimized by the strategy of diversification of gas supply sources adopted by Poland and restrictive regulations imposed by the European Union in the field of environmental protection and CO2 emissions. The confirmation of new investments in the gas industry is the "Development plan to meet current and future demand for gaseous fuels for the period 2020-2029" adopted by O.G.P. Gaz-System S.A."

4. Risk of changes in prices of production factors

Profitability of anti-corrosive coating services provided by the Company depends on changes in the prices of production factors, including in particular the prices of chemical components, mainly polyethylene and polypropylene. The share of these factors in the cost structure is about 20%. Chemical raw material prices are highly correlated with oil prices in global markets, which, due to the current global political and economic

situation, may be subject to strong fluctuations. The above cost factors may affect the periodical deterioration of the Company's financial results and the level of profitability achieved.

In order to minimize the risk of changes in the prices of production factors, the Company's activity is guided by the strategy of diversification of their sources through cooperation with several entities at each stage of production. The Company's large financial potential also allows it to make purchases of materials for stocking in periods when their prices are at a low level.

5. Risk related to price volatility of steel pipes

The price of steel pipe in the product "coated steel pipe" depending on the conditions is about 70% of the value. The high volatility of prices on the steel pipes market observed in recent years has an impact on the revenues and margins achieved by the Company. Izostal S.A., in order to avoid the risk related to the fluctuation of steel pipe prices, optimizes the stock levels by adjusting them to the scope of business activity. In special cases, steel pipes are purchased for stocking at current prices to supplement the assortment in quantities allowing for profitable sale of goods. When purchasing pipes for significant projects, Izostal S.A. negotiates prices with suppliers and concludes contracts allowing to maintain the negotiated price regardless of the situation on the steel market. Changes in pipe prices may affect revenues and profitability of Izostal S.A. both in the main coating segment and trade in goods. The Company secures itself against price changes in individual contracts; short-term changes in pipe prices have a limited impact on the profitability of individual contracts. However, in the long term, high pipe prices are favourable to the Company (at the level of revenues and margins), while a decrease in pipe prices may result in a decrease in revenues and profit on pipe sales.

6. Foreign exchange rate risk

In connection with their export and import activities, the companies of the Capital Group are exposed to the risk of changes in foreign exchange rates. The dominant currency (after PLN) in commercial transactions is EUR. The companies of the Capital Group hedge the currency risk by concluding adequate currency transactions with deferred execution date.

7. Trade credit risk

The companies of the Capital Group sell on deferred payment terms, which exposes them to the risk of insolvency of their customers. Recent years have shown the financial difficulties of companies operating in the general construction industry and road construction. In order to limit the risk to the maximum extent, the Group companies insure receivables and sell within the limits set by the insurance corporation. The exception is the sale to O.G.P. Gaz-System S.A., which Izostal S.A. decided to exclude from the insurance policy. The stable situation of this recipient guarantees no risk of insolvency and the exclusion significantly reduces the costs of the insurance policy.

In the opinion of the Supervisory Board, the management of the risk significant for the Company and internal control consisting in periodical control of risk management principles and compliance of this process with the adopted standards, as well as constant analysis of risk management in terms of opportunities for improvement in this area are appropriate and serve the purpose of developing mechanisms eliminating or minimizing the resulting risks. The main risk factors identified for the Company are monitored on an ongoing basis to determine whether their identification and measures taken to minimise individual risk areas are working properly and whether appropriate measures and solutions are in place.

Based on the analyses performed, the Supervisory Board considers that the risk management process in the Company, carried out by the Management Board of the Company within the scope of its operating activity together with the Company's managerial staff participating in the process of risk identification and prevention of its effects, is effected properly.

The Supervisory Board also positively assessed the compliance system operated by the Management Board and the Company's management. 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.

Moreover, the Supervisory Board positively assessed the functioning of internal control in the Company. In Izostal S.A., internal control is exercised by the Management Board, managerial staff and other employees within the scope of their assigned duties. The Company has an Investor Relations and Internal Audit Department. Internal control mechanisms ensure that the activities are carried out in accordance with the rules and procedures developed for each area.

All important issues discussed by the Supervisory Board and not requiring the adoption of resolutions were included in the minutes of the Board meeting in the form of motions and recommendations. In the opinion of the Supervisory Board, the Board fulfilled its duties with due diligence, exercising its statutory and statutory competences. The Supervisory Board exercised constant supervision over the Company's activity, reviewing the matters reported by the Management Board of the Company as important and necessary for the efficient functioning of the Company and the effecting of its development.

4. ASSESSMENT OF THE MANNER IN WHICH THE COMPANY FULFILS ITS DISCLOSURE OBLIGATIONS CONCERNING THE APPLICATION OF CORPORATE GOVERNANCE SET OUT IN THE STOCK EXCHANGE REGULATIONS AND REGULATIONS CONCERNING CURRENT AND PERIODIC INFORMATION TO BE PROVIDED BY ISSUERS OF SECURITIES

Izostal S.A. applies the corporate governance rules contained in the "Code of Best Practice for WSE Listed Companies 2016" adopted by the Exchange Supervisory Board by resolution of 13 October 2015.

In 2018 there were no changes in the application of corporate governance rules by Izostal S.A. According to the information provided by the Company in the report no. 1/2016 of 1 January 2016, in 2018 Izostal S.A. abstained from applying one recommendation: IV.R.2. and two specific rules: I.Z.1.20., IV.Z.2. listed in the "Code of Best Practice for WSE Listed Companies 2016".

In 2018, the Company published current and periodic reports in accordance with the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state.

On the basis of the information available to the Supervisory Board, the Supervisory Board has not found any violations of the regulations in this respect and positively assesses the manner in which the Company fulfils its disclosure obligations concerning the application of corporate governance and regulations concerning current and periodic information provided by issuers of securities.

5. ASSESSMENT OF THE RATIONALITY OF THE COMPANY'S SPONSORSHIP, CHARITY OR OTHER SIMILAR ACTIVITIES

The company, feeling a part of the local community, supports the region in which it operates and pursues social objectives by engaging in initiatives aimed at supporting education, sports and culture, as well as helping people in need.

The Company pursues the following objectives in the area of charity and sponsorship activities:

- building lasting relations with the community in order to increase recognition and trust towards the Company both as a company responsible for the local community and as a solid and honest employer;
- creating the best possible educational conditions for children and youth from Kolonowskie and the surrounding area;
- support for the lonely and disabled.

In the opinion of the Supervisory Board, social involvement of the company and the ethical way of conducting business bring benefits to both the society and the Company.

Therefore, the Supervisory Board positively assessed the rationality of the Company's sponsorship and charity policy.

Kolonowskie, 28.03.2019.

Signatures of the Supervisory Board Members:

Jerzy Bernhard	- Chairman of the Supervisory Board
Andrzej Baranek	- Vice-Chairman of the Supervisory Board
Grażyna Kowalewska	- Secretary 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