



***Stalprodukt S.A.***

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**R E P O R T**

**OF THE SUPERVISORY BOARD  
OF STALPRODUKT S.A.**

**Based in Bochnia**

**For the year 2017**

***Bochnia, maj 2018 r.***

**This Report contains:**

- I. Activities and decisions taken by the Stalprodukt S.A. Supervisory Board and Audit Committee combined with the Board's self-assessment of its work in 2017.
- II. Assessment of the Stalprodukt S.A.'s economic and financial standing for the period from 1 January 2017 to 31 December 2017 including the internal audit systems, risk management and assessment of the Management Board's work.
- III. Assessment of the Company compliance with the obligatory disclosures concerning the application of the corporate governance rules, defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the issuers of securities.
- IV. Supervisory Board's Report on the Stalprodukt S.A.'s Financial Report assessment results for the period from 1 January to 31 December 2017.
- V. Supervisory Board's Report on the results of assessment of the Stalprodukt S.A. Capital Group's Consolidated Financial Report and Management Board's Report on the Activities of the Stalprodukt S.A. Capital Group for the period from 1 January to 31 December 2017.
- VI. Supervisory Board's Report on the results of assessment of the Management Board's Report on the Stalprodukt S.A. Company's activities for the period from 1 January 2017 to 31 December 2017 .
- VII. Assessment of the Management Board's motion concerning the distribution of the net profit for the year 2017.
- VIII. Conclusion.

## **I. Activities and decisions taken by the Stalprodukt S.A. Supervisory Board and Audit Committee combined with the Board's self-assessment of its work in 2017**

In the period from 1 January 2017 to 31 December 2017, the Supervisory Board acted pursuant to the provisions of the Code of Commercial Companies, Company's Articles of Association, as well as with the corporate governance rules defined in the Code of Best Practice for WSE listed Companies, exercising constant supervision over the Company's activities in all the areas of its activity as well as examining the issues and motions submitted by the Management Board at the Supervisory Board's meetings.

### Supervisory Board's Composition in the reporting period:

In the period from 1 January 2017 to 19 October 2017 the Supervisory Board consisted of:

Stanisław Kurnik	-	Chairman of the Supervisory Board
Maria Sierpińska	-	Vice-Chairman of the Supervisory Board
Kazimierz Szydłowski	-	Secretary of the Supervisory Board
Janusz Bodek	-	Member of the Supervisory Board
Magdalena Janeczek	-	Member of the Supervisory Board
Tomasz Plaskura	-	Member of the Supervisory Board
Sanjay Samaddar	-	Member of the Supervisory Board

On 19 October 2017 an Extraordinary General Meeting of Shareholders of Stalprodukt S.A. was held, at which all the Company's Supervisory Board's members were dismissed. At the same time, the Extraordinary General Meeting of Stalprodukt S.A. appointed a new Supervisory Board for the next, three-year tenure.

In the period from 19 October 2017 to 30 November 2017 the Supervisory Board consisted of:

Janusz Bodek	-	Chairman of the Supervisory Board
Sanjay Samaddar	-	Vice-Chairman of the Supervisory Board
Magdalena Janeczek	-	Secretary of the Supervisory Board
Agata Sierpińska-Sawicz	-	Member of the Supervisory Board
Stanisław Stańdo	-	Member of the Supervisory Board

On 30 November 2017, an Extraordinary General Meeting of the Shareholders of Stalprodukt S.A. was held, during which, in connection with the resignation filed, dismissed the Member Mr. Stanisław Stańdo from his function concurrently appointing Mr. Romuald Talarek to the function of the Supervisory Board's Member of the present tenure.

In the period from 30 November 2017 to 31 December 2017 the Supervisory Board consisted of:

Janusz Bodek	-	Chairman of the Supervisory Board
Sanjay Samaddar	-	Vice-Chairman of the Supervisory Board
Magdalena Janeczek	-	Secretary of the Supervisory Board
Agata Sierpińska-Sawicz	-	Member of the Supervisory Board
Romuald Talarek	-	Member of the Supervisory Board

#### Activities performed under Articles of Association

In the reporting period the Supervisory Board carried out its activities following the mode of meetings convened by the Chairman of the Supervisory Board. The Board carried out its activities collectively.

In the period from 1 January 2017 to 31 December 2017, the Supervisory Board had 6 minuted meetings, during which 41 resolutions were adopted.

During each meeting, the Supervisory Board analyzed the Company's financial results, assessed the Company's economic and business standing as well as assessed the Company's on-going operations.

During the Supervisory Board's meetings, the members of the Company's Management Board furnished extensive information on the Company's updated economic and financial standing, its operations, planned activities and important events likely to affect the Company's operations. The Company's Management Board informed the Supervisory Board in detail about all the important issues connected with the pursued activities and on the risks related thereto as well as on the respective ways of risk management.

Throughout the reporting period, the cooperation with the Management Board proceeded satisfactorily and not arousing any reservations. The Supervisory Board kept receiving exhausting information on the Company's standing and also on all other matters discussed by the Supervisory Board.

#### In 2017, the Supervisory Board pursued the following activities among others:

- analyzed the Company's quarterly financial reports as well as determined the amounts of the quarterly bonuses for the Management Board,
- assessed the Management Board's Report on the Company's Activities and the Financial Statement for the reporting year from 1 January to 31 December 2016, as well as the Management Board's motion regarding the net profit distribution for the the reporting year

- from 1 January to 31 December 2016 and recommended that respective resolutions should be adopted accordingly by the Ordinary General Meeting of Shareholders,
- assessed the Consolidated Financial Report of the Stalprodukt S.A. Capital Group and Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the reporting year from 1 January to 31 December 2016 and recommended and recommended that respective resolutions should be adopted accordingly by the Ordinary General Meeting of Shareholders,
  - prepared and accepted the Report on the Supervisory Board's Activities in the period from 1 January to 31 December 2016,
  - examined and expressed its opinion on the matters considered by the Ordinary General Meeting of the Company's Shareholders,
  - gave consent for the acquisition of an immovable property situated in Bochnia,
  - gave consent for the subscription of shares in the increased share capital of the company Anew Institute Spółka z o.o.,
  - approved of the Company's Management Board's decision on the proposed changes to be introduced in the Company's Articles,
  - passed the Rules of the Audit Committee,
  - gave consent to the acquisition of 100% of shares in the company GO Steel Frydek Mistek a.s.,
  - approved of the Stalprodukt S.A. Organisational Rules,
  - approved of the "Policy and procedure for the selection of the auditing company and policy governing additional services to be rendered by the auditing company, entity associated with the auditing company or member of the entity's network in Stalprodukt S.A."
  - adopted resolutions regarding the consent to be given to the Company for undertaking certain activities.

Pursuant to par. 28 subpar. 13 of the Company's Articles, in its Resolution No 34/X/2017, on 19 May 2017, the Supervisory Board selected the entity authorized to perform financial audits – the company "Accord'ab" Biegli Rewidenci Spółka z o.o. based in Wrocław, to carry out the audit of the Company's Annual Report for the year 2017 and the Consolidated Financial Report of the Capital Group for the year 2017, as well as the semi-annual reviews. All the Supervisory Board's meetings are documented in the minutes recorded during such meetings.

### Personnel-Related Issues

At the meeting held on 19 May 2017, in accordance with par. 16 subpar. 1 item „b” of the Company’s Articles, the Supervisory Board of Stalprodukt S.A. appointed Mr. Józef Ryszka as Member of the Stalprodukt S.A. Management Board for a three-year tenure, as well as adopted resolutions related to the terms of employment and conclusion of the employment contract with the appointed Member of the Management Board.

### Audit Committee

The Supervisory Board’s activities were supported by the Audit Committee as an advisory and opinion-forming body, acting in the structure of the Supervisory Board, appointed from among of its members.

The scope of the Audit Committee’s activities is defined in the Rules of Audit Committee passed by the Supervisory Board.

In the period from 19 October 2017 the Audit Committee of the Stalprodukt S.A. Supervisory Board discharged its duties being composed of:

- Maria Sierpińska - Chairman
- Kazimierz Szydłowski - Member
- Tomasz Plaskura – Member

In the period from 20 October 2017 to 30 November 2017 the Audit Committee of the Stalprodukt S.A. Supervisory Board discharged its duties being composed of:

- Agata Sierpińska-Sawicz - Chairman
- Stanisław Stańdo – Vice-Chairman
- Janusz Bodek – Member

In the period from 30 November 2017 to 31 December 2017 the Audit Committee of the Stalprodukt S.A. Supervisory Board discharged its duties being composed of:

- Agata Sierpińska-Sawicz - Chairman
- Romuald Talarek – Vice-Chairman
- Magdalena Janeczek – Member

Throughout the reporting period, the Audit Committee was monitoring the process of the financial reports’ preparation and reported the results of their work to the Supervisory Board also submitting their recommendations concerning the assessment of the financial reports.

The Audit Committee actively cooperated with the certified auditor, carrying out the reviews of the semi-annual financial reports, and discussed the results of the annual financial reports.

Within the scope of their work the Audit Committee issued a recommendation concerning the choice of the certified auditor authorized to audit the financial reports.

#### Supervisory Board's Self-Assessment in 2017 r.

In the period from 1 January to 31 December 2017, the Supervisory Board (in its own opinion) correctly discharged its duties and fulfilled its tasks arising from the Company's Articles of Association and Rules of Supervisory Board as well as from the Code of Commercial Companies, consisting in the constant supervision exercised over the Company's activities.

The Supervisory Board monitored the Company's financial results and condition on an on-going basis.

The Company's Management Board informed the Supervisory Board on the Company's condition as well as on possible threats and risks related to the pursued activities.

Thanks to the appropriate competences enabling the Supervisory Board to fulfil its functions and efficient organization of work, the Supervisory Board effectively fulfilled its tasks defined in the Company's Articles of Association pursuing the Company's interest.

#### **II. Assessment of the Stalprodukt S.A.'s economic and financial standing for the period from 1 January 2016 to 31 December 2016 including the internal audit systems, risk management and assessment of the Management Board's work.**

On the basis of the Financial Report, Management Board's Report as well as the Certified Auditor's Opinion and Report, the Supervisory Board assesses the Company's financial standing as very good.

##### In the present assessment the following areas were taken into consideration:

- structure of assets and their financing sources,
- level of financial liquidity and debt,
- Company's profitability and factors shaping it.

##### Structure of the Assets and their Financing Sources

In 2017 the Company owned the assets valued at PLN 1 979 350 thousand. The structure of the assets is dominated by the fixed assets accounting for 68,0% of the total assets. Their share decreased by 1.2 percentage points in relation to the previous year. The fixed assets decreased by less than 1 % compared to the previous year, whereas the current assets increased by 4.7%. The inventories decreased from the level of PLN 268 thousand

to PLN thousand, i.e. by 10.4%, while the receivables decreased by 8.7%. The short-term investments recorded an over 2.3-fold increase. The level of cash increased towards the end of the year from PLN 19 million in 2016 to PLN 106 m. In the group of current assets the inventories accounted for 38.0% and receivables 38.4%. The share of short-term investments in the current assets increased from 10.1% in 2016 to almost 22.0%.

The increase of equity and reduction of the debt level resulted in the altered structure of the assets financing sources. In 2016, the equity itself financed 74% of the Company's assets, and in 2017 it was 77.6%. A fraction of equity in the form of the net working capital is engaged in the financing process of the Company's operating activities.

In 2016, liabilities and provisions for liabilities accounted for 26,1% of the total assets financing sources. In 2017, their share in the Company's assets financing decreased to the level of 22.4%. Such a way of financing of the Company's activities affects the ROE level. It should be added that a large equity share in the liabilities structure is typical for the metallurgical industry due to a substantial burden of the fixed assets and financial market fluctuations caused by the changing economic conditions. The book value per single share increased from PLN 260.15 in 2016 to PLN 275.08 in the analyzed year. The Company maintains the year-to-year cash balance and the funds remaining towards the end of the year are appropriated for the on-going expenses related to the operating activities and for the investments in the following year. The liquidity of the particular elements of current assets is translated into the financial liquidity determining the Company's capacity to settle its liabilities on time.

#### Financial Liquidity and Debt Level Assessment

In 2017, as in the previous years, the Management Board attached great importance to the maintenance of financial liquidity. The Company punctually settled its liabilities both in respect of its employees, the state budget, banks and in respect of the suppliers. In 2017, the financial liquidity ratios increased compared to the previous year. This resulted from the increase of the current assets and decrease of short-term liabilities due to the repayment of a long-term credit instalment payable in the previous year.

The financial liquidity measurement was based on the Company's current assets figure, operating cash level and current liabilities whose payback time is shorter than the reporting year.

*During five consecutive years the financial liquidity ratios reached the following levels:*

<i>Itemization</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
<i>Current Ratios</i>	<i>1.9</i>	<i>1.7</i>	<i>1.85</i>	<i>1.33</i>	<i>1.67</i>
<i>Quick Ratios</i>	<i>0.92</i>	<i>0.77</i>	<i>0.91</i>	<i>0.72</i>	<i>0.92</i>
<i>Short-Term Investment Ratios</i>	<i>0.16</i>	<i>0.12</i>	<i>0.05</i>	<i>0.13</i>	<i>0.28</i>
<i>Cash Ratios</i>	<i>0.36</i>	<i>0.18</i>	<i>0.73</i>	<i>0.22</i>	<i>0.21</i>

The quick ratio increased from 1.33 in 2016 to 1.67 in 2017. Also the quick ratio went up from the level 0.72 in 2016 to 0.92 in the year under analysis. The cash ratio stayed at an almost unchanged level of 0.21, which means a single zloty (1 PLN) of liabilities corresponded to 21 groszy of the generated operating cash, whereas in the previous year it was 22 groszy. Out of this cash the Company financed its investments, paid back its credits and loans, financial leasing instalments and disbursed the dividend to the Shareholders. The increase of the financial liquidity ratios increased the Company's capacity to settle its liabilities on time.

The Company concluded agreements with a few banks for multi-purpose credit lines, which could be flexibly used according to the Company's needs. This allowed for the financial liquidity to be fully secured.

Also the cash flow statement was used to make the assessment of the Company's financial condition. It shows which areas of activity generated funds and which ones absorbed them.

*In consecutive years cash flows fluctuated as follows (PLN thousand):*

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<i>- net cash flows from operating activities</i>	+106 477	+57 894	+190 484	+102 096	+79 026
<i>- net cash flows from investments</i>	- 87 926	- 49 594	-58 295	- 39 200	+72 170
<i>- net cash flows from financial activities</i>	- 33 138	- 7 769	-150 812	- 63 477	-63 501
<i>- - balance sheet change in cash</i>	- 14 587	+531	-18 623	- 581	+87 695
<i>- cash at the end of the year</i>	+37 749	+38 280	+19 659	+19 076	+106 771

The major part of the funds generated from the operating activities was absorbed by the financial activities. In 2017, the Company had at its disposal the total of PLN 98 102 thousand. (PLN 79 026 thousand of generated funds and PLN 19 076 thousands retained from the previous year) out of which the amount of PLN 63 501 thousand was appropriated

for the financial activities, and PLN 106 771 thousand remained on the account to be allocated in 2018.

This way of operating cash allocation resulted from the fulfillment of the Company's development plans and its needs in the financial area.

*The Management Board's operating activity policy is reflected in the simplified operating cash structure presented underneath (PLN thousand):*

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
- net profit	9 938	27 151	108 661	95 731	100 054
- depreciation	42 968	44 989	47 064	49 912	47 105
- profit adjustments	+ 8 333	19 579	17 255	8 772	-81 711
- generated operating cash	+61 239	91 719	172 980	154 415	65 448
- change in net working capital needs	45 238	-33 825	+17 504	- 52 319	+13 578
- net cash flows from operating activities	106 477	57 894	190 484	102 096	79 026

In 2017, the Company generated PLN 65 448 thousand, i.e. twice less than in the previous year, from the net profit, depreciation and profit adjustments made in respect of the operations unrelated to the operating activities. The amount of PLN 13 578 thousand was appropriated to the financing of operating activities (decrease of inventories and receivables).

Therefore, the Company could appropriate PLN 79 026 thousand for the expenses in the financial area.

#### Assessment of Company's Profitability

For the Shareholders the return from the capital employed is the main indicator of the Company's financial condition. As in their investment-related decisions they are guided by the rate of return, comparing it with the alternative options for the allocation of available funds. The Return on Sale is one of the determiners of the capital return. It was calculated at four levels of the Profit and Loss Account.

*In the analyzed year the Return on Sales fluctuated as follows at the particular levels of the Profit and Loss Account:*

<b>Itemization</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Return on Sales, %	1.2	3.4	11.4	9.4	1.4
Operating Margin, %	1.2	2.9	10.8	9.5	1.5
Gross Margin, %	1.3	2.8	9.9	9.3	7.7
Net Margin, %	0.8	2.1	8.0	7.5	7.1

In 2017, a decrease in relation to the previous year was recorded for both the return on sales and operating margin as well as gross and net margins. Considering the increase of the sales of products, goods and materials, by 3.4% compared to 2016, the profit on sales suffered an over 6-fold decrease, whereas the net profit figure was by 4.5% higher than in the previous year. It should be underlined that the Company flexibly adjusted the prices of its products to the market conditions in order to keep its position on the competitive market, which resulted in the substantial decrease of profit from the basic activities. The net profit resulted from the increase of the financial proceeds from the dividend obtained from a subsidiary company.

**Electrical sheets are the Company's key export product.** Their share in the total exports decreased from 73.8% in 2016 to 69.9% in the analyzed year. In 2017, the sales of these sheets decreased by 6.1% compared to 2016. This was due to fierce market competition.

The sales achieved on the domestic market of electrical sheets were by 13.5% lower, and foreign sales by 5.5% lower than in the previous year. In 2017, the domestic sales accounted for only 6.4% of electrical sheet total sales in terms of value. On the transformer sheets market enormous threats could be observed in connection with the imports of high quality steel sheets and excessive production capacity observed in a few countries producing sheets with the highest parameters.

In 2017, the sales of **toroidal cores** increased by 10.8 % in relation to the previous year. However, the sales of toroidal cores account for only 1.0 % of the Company's total sales.

**Cold formed profiles are the basic product on the domestic market.** In 2017, their sales were by 8.2 % higher than in the previous year. Their domestic sales accounted for 68.8% whereas in the previous year it was 72.3% of sales of these products. This is a very good result, considering the existing very strong market competition. The value of the profile export sales increased by 21.0% thanks to the flexible price policy and responsiveness to the recipients' needs. The domestic sales increased by 3.1%.

The sales of **road safety barriers** in 2017 was higher by 30.2% than in the previous year, considering that the domestic barrier sales increase was higher than in the exports and reached the level of 53.1%. In the analyzed period, the export sales accounted for 22.4% of the total proceeds generated from the barrier sales, while in the previous year it was 34%.

The **sales of cold and hot rolled steel sheets and strips** achieved in steel service centers in 2017 were by 9.5% lower than in the previous year. Such a condition resulted from the steel centers' production overcapacity and low prices maintained on the market. Moreover, the strong competition from the service centers run by big steel works made things more difficult to independent centers.

The changed sales structure caused by the varying profitability levels in particular product groups, undoubtedly, had an impact the Company's financial result.

In 2017, the Return on Assets (ROA) and Return on Equity (ROE) slightly increased. These ratios were calculated as the proportion of net profit to annual average value of assets and equity.

**This is reflected by the following data:**

<i>Return on Assets (ROA), %</i>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<i>Return on Equity (ROE), %</i>	0.51	1.4	5.7	5,0	5,1
<i>Capital multiplier (Assets/Equity),(multiplexing)</i>	0.65	1.77	7.0	6,4	6,7
<i>Rotation of Assets, (multiplexing)</i>	1.28	1.26	1.23	1,35	1,32
<i>Return on Assets (ROA), %</i>	0.64	0.66	0.71	0,67	0,66

In 2017, the Return on Equity increased and reached the level of 6.7%. This was due to the increase of net profit and changes in equity. The Return on Assets increased to a low degree by only 0.1 of a percentage point.

Apart from the Return on Equity, the level of benefits generated for the Shareholders could also be expressed with the Shareholder Value, which is reflected in the table underneath:

<b>Itemization</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<i>Number of shares, thousands of items</i>	6725	6725	6725	5580	5 580
<i>Share price (last quotation in December)</i>	183.0	404.50	299.00	525	504.50
<i>MV PLN thousand</i>	1 230675	2 720 262	2 010 775	2 929 500	2 815 110
<i>Equity, PLN thousand</i>	1 524 853	1 547 862	1 554 115	1 451 688	1 535 001
<i>MVA, PLN thousand</i>	- 294 178	1 172 400	+456 660	1 477 812	1280 109

The capital market valued the Company much above its book value. This valuation is 83.4% higher than the book value. Towards the end of 2017, the shares were valued by the stock market slightly lower than towards the end of the previous year. The share book value increased from PLN 260.15 recorded in 2016 to PLN 275.08, i.e. by 5.7% in the analysed year. During the recent several years, the Company has not issued any shares, has not used up any extra shareholding capital, and its development was mainly financed from the profits

retained after the disbursement of dividends. Considering the disbursed dividends, it is worth underlining that in the long-term perspective Stalprodukt generated a satisfactory rate of capital return for the Company's Shareholders.

#### Assessment of Management Board's Work

The Supervisory Board highly appreciates the Management Board's work in 2017. The steel market conditions are still very difficult due to the production overcapacity especially affecting the transformer sheets area, their oversupply on the market and excessive imports.

#### Among the Management Board's main achievements there are:

**Taking care of the Company's maintained financial liquidity.** The financial liquidity ratios stand at a rational level. The Company uses short-term credits to finance its operating activities. Towards the end of the year the Company's debt accounted for only 4.35% in relation to equity. In the previous year it was 13.5%.

**Good level of assets and financial standing.** The Company is not indebted, which allows for the use of diversified forms of its financing. Preserving the capital-cash balance, both in the short-term and long-term perspective, remains the object of the Management Board's constant concern. In order to achieve risk dispersion and reduction of borrowed capital costs the Management Board signed a few agreements with banks, diversifying the potential providers of short-term credits, mainly to secure supplies and letters of credit.

The Company enjoys a huge development potential, based both on its own resources, and possible wide use of the debt market .

**Ensuring market competitiveness.** The Management Board uses diversified trade credit instruments and flexibly manages the prices of final products. While acting so, it reduces the risk of debt non-recovery by the assessment of the customer's crediting risk, fixing the credit limits, hedging, monitoring of the receivables and potential debt recovery in accordance with the generally applicable procedures. This enables the Company to maintain its position on the competitive market in the conditions of production overcapacity and imports of metallurgical products.

**Correct management of supply and sales processes.** The Management Board takes care of diversifying the Company's supply markets in order to reduce the risk from disrupted supplies of charge material, on-time order fulfillment and maintained storage of inventories at the optimal level. The Management Board flexibly responded to the increasingly complex market

needs through the changes introduced into the product range, improved quality of the products, looking after on-time deliveries, and changing the market prices. The flexible responding to the recipients' needs is facilitated by the Company's own distribution network.

**Pursuing a rational information policy** for the capital market. The Management Board tries to deliver accurate information to investors. At the end of 2017, the Company's goodwill was valued by the stock market by 83.5% higher than its book value was.

#### Evaluation of internal audit and risk management systems.

In the Supervisory Board's assessment, the present internal audit system and risk management system applicable in the Company allow for the systematic identification and control of risk related to the character and profile of the Company's activities.

The internal audit system as well as the risk management system were developed in the Company in a way taking into account the risks connected with the activities pursued by the Company.

### **III. Assessment of the Company's compliance with the obligatory disclosures concerning the application of the corporate governance rules, defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the issuers of securities**

The Supervisory Board positively assesses the manner in which the disclosure obligations were fulfilled, concerning the application of the corporate governance rules defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the issuers of securities.

### **IV. Supervisory Board's Report on the Stalprodukt S.A.'s Financial Report assessment results for the fiscal year from 1 January to 31 December 2017.**

Executing the tasks arising from art. 382 par. 3 of the Code of Commercial Companies and par. 28 subpar. 2 of the Company's Articles, the Supervisory Board assessed the Financial Report of the Stalprodukt S.A. Company for the reporting year from 1 January to 31 December 2017, consisting of:

- 1) Balance Sheet drawn up as of 31 December 2017 with the assets and liabilities amounting to PLN 1 979 350 thousand,
- 2) Profit and Loss Account and Comprehensive Income Statement for the period from 1 January 2017 to 31 December 2017, showing the comprehensive income and net profit amounting to PLN 100 054 thousand,

- 3) Statement of Changes in Equity for the period from 1 January 2017 to 31 December 2017 showing an increase in equity amounting to PLN 83 313 thousand,
- 4) Cash Flow Statement for the period from 1 January 2017 to 31 December 2017 showing an increase in cash amounting to PLN 87 695 thousand,
- 5) Additional Information on the adopted accounting principles and other explanatory information

The Stalprodukt S.A. Financial Report was audited by the company „Accord’ab” Biegli Rewidenci Spółka z o.o authorized to audit financial reports, based in Wrocław, recorded on the list of companies authorized to audit financial reports kept by the National Council of Certified Auditors as No 262, which was selected by the Supervisory Board to carry out the audit.

It is evident from the presented Independent Certified Auditor's Opinion that the audited financial report:

- reflects accurately and clearly the Company's assets and financial status as of 31 December 2017, as well as its financial result for the reporting year 1 January 2017 to 31 December 2017, in accordance with the International Financial Reporting Standards, which were approved of by the European Union,
- was prepared in all essential aspects in line with the International Financial Reporting Standards approved of by the European Union,
- stands in accordance in all essential aspects, as to its form and content, with the Regulation of the Minister of Finance as of 19 February 2009 regarding current and periodic information disclosed by the issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws 2014, item 133 with subsequent amendments), hereinafter referred to as Regulation on current and periodic information as well as with provisions of the Company's Articles of Association affecting its content,
  - it was prepared, in all essential aspects, on the basis of correctly kept accounting books in accordance with the principles provided for in the Accountancy Act.

After the analysis of the Stalprodukt S.A. Financial Report prepared for the reporting year covering the period from 1 January 2017 to 31 December 2017 and after getting familiar with the Certified Auditor's Opinion and Report, by the recommendation from the Audit Committee as well as on the basis of its own analyses, the Supervisory Board states that in their assessment the Stalprodukt S.A. Financial Report prepared for the reporting year covering

the period from 1 January to 31 December 2017 – as of the day 31 December 2017 – was drawn up correctly, in accordance with the applicable legal provisions, stands in accordance with the relevant books and documents as well as with the factual circumstances and it accurately and clearly presents the information essential for the assessment of the Company's assets and financial standing.

**V. Assessment of the Stalprodukt S.A. Capital Group's Consolidated Financial Report for the reporting year from 1 January to 31 December 2017 and Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the year 2017.**

The Supervisory Board assessed Management Board's Report on the Stalprodukt S.A. Capital Group's Activities and Consolidated Financial Report for the reporting year from 1 January to 31 December 2017, consisting of:

- 1) Consolidated Balance Sheet drawn up as of 31 December 2017, which shows the assets and liabilities amounting to PLN 3 937 757 thousand,
- 2) Consolidated Profit and Loss Account for the period from 1 January 2017 to 31 December 2016 showing a net profit amounting to PLN 275 428 thousand,
- 3) Consolidated Statement of Comprehensive Income for the period from 1 January 2017 to 31 December 2017 showing the total comprehensive income amounting to PLN 275 428 thousand,
- 4) Statement of Changes in Consolidated Equity for the period from 1 January 2017 to 31 December 2017 showing an increase in equity amounting to PLN 298 914 thousand,
- 5) Consolidated Cash Flow Statement for the period from 1 January 2017 to 31 December 2017 showing an increase of cash amounting to PLN 211 858 thousand,
- 6) Additional information on the adopted accounting principles (policy) and other explanatory information

After the analysis of the Stalprodukt S.A. Capital Group's Consolidated Financial Report as well as Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the period from 1 January 2017 to 31 December 2017, after getting familiar with the Certified Auditor's Opinion and Report, by recommendation of the Audit Committee, the Supervisory Board assesses that the reports concerned contain all the required elements, were prepared correctly in accordance with the applicable legal provisions, stand in accordance with the relevant books and documents as well as with the factual circumstances and they accurately

and clearly present the information essential for the assessment of Stalprodukt S.A. Capital Group's assets and financial standing.

**VI. . Assessment of Stalprodukt S.A. Management Board's Report on het Stalprodukt S.A. Company's Activities for the period from 1 January 2017 to 31 December 2017.**

Fulfilling its tasks arising from art. 382, par. 3 of the Code of Commercial Companies and par. 28, subpar. 2 of the Company's Articles, the Supervisory Board assessed the Management Board's Report on the Stalprodukt S.A. Activities prepared for the period from 1 January 2017 to 31 December 2017.

Throughout the reporting period the Company's Management Board consisted of:

- |                  |  |
|------------------|--|
| - Piotr Janeczek | - President of the Board Chief Executive Officer |
| - Józef Ryszka   | - Member of the Board Marketing Director         |
| - Łukasz Mentel  | - Member of the Board Financial Director         |

After the analysis of the Management Board's Report on the Stalprodukt S.A. Company's Activities prepared for the year 2017, the Supervisory Board states that in their opinion the report concerned was drawn up correctly, contains all the required elements, stands in accordance with the relevant books and documents as well as with the factual circumstances and it accurately and clearly presents the Company's standing in the reporting period. The Company's Management Board duly indicates the threats and risks to the pursued activities and describes the course of events having a major impact on the Company's activities.

The sales results, the positive financial result as well as the balance sheet structure, which are reflected in the economic ratios, allow the Supervisory Board to highly appreciate the Management Board's activities throughout the year 2017.

The Supervisory Board states that the Management Board's Report on the Company's Activities for the reporting year covering the period from 1 January to 31 December 2017 contains all the information required by the legal provisions. The financial data presented in the Management Board's Report stand in accordance with the information contained in the audited Financial Report prepared for the period from 1 January 2017 to 31 December 2017.

The Company's Management Board enclosed their corporate governance statement in the submitted Report.

The completeness of the Management Board's Report on the Company's Activities for the year 2017 and its consistence in respect of the information disclosed therein was confirmed by a certified auditor.

*As a result of the assessment, guided by the positive Certified Auditor's Opinion, the Supervisory Board recommends that the Ordinary General Meeting should approve of the Management Board's Report on the Stalprodukt S.A. Company's Activities for the period from 1 January 2017 to 31 December 2017 and Stalprodukt S.A.'s Financial Report for the reporting year from 1 January to 31 December 2017 as well as the Consolidated Financial Report for the reporting year from 1 January 2017 to 31 December 2017, adopting respective resolutions.*

The Supervisory Board files a motion with the Ordinary General Meeting of Stalprodukt S.A to grant:

- a vote of absolute approval to Mr. Piotr Janeczek for discharging his duties in the year 2017 related to his function as the President of the Company's Management Board exercised in the period from 1 January to 31 December 2017,
- a vote of absolute approval to Mr. Józef Ryszka for discharging his duties in the year 2017 related to his function of the Member of the Company's Management Board exercised in the period from 1 January to 31 December 2017,
- a vote of absolute approval to Mr. Łukasz Mentel for discharging his duties in the year 2017 related to his function of the Member of the Company's Management Board in the year 2016 exercised in the period from 1 January to 31 December 2017 .

## **VII. Assessment of the Management Board's motion concerning the distribution of the net profit for the year 2017.**

Acting pursuant to art. 382, par. 3 of the Code of Commercial Companies and par. 28 subpar. 2 of the Company's Articles of Association, the Supervisory Board, having got familiar with the Audit Committee, approves of the Company's Management Board's motion concerning the distribution of the net profit generated by Stalprodukt S.A. in the following way:

- |                   |   |                    |
|-------------------|---|--------------------|
| • dividend        | - | PLN 16.740 801,00  |
| • reserve capital | - | PLN 83 313 231,62  |
| • total           | - | PLN 100 054 032,62 |

The Supervisory Board expresses its opinion that the motion submitted by the Stalprodukt S.A. Management Board, concerning the distribution of the net profit for the year 2017, stands in accordance with the Company's policy and recommends that the Ordinary General Meeting should adopt a resolution on the distribution of the net profit for the year 2017 in accordance with the suggestion included in the Company's Management Board's motion.

### **VIII. Conclusion.**

The present Report presents the main directions of the Stalprodukt S.A. Supervisory Board's activities in the year 2017.

The individual opinions as well as the Certified Auditor's Opinion presented herein allow the Supervisory Board to give a positive assessment to the Company's standing in the year 2017. In the assessment of the Supervisory Board, the Company's Management Board exercised due diligence for the Company to achieve the best possible results, therefore the Supervisory Board highly appreciated the activities and work performed by the Company's Management Board in the entire year 2017.

All the Members of the Supervisory Board exercised due diligence discharging their duties, making use of their best knowledge with involvement and experience within the scope of their functions.

The present Report was examined and adopted by way of a resolution at the meeting of the Supervisory Board on 25 May 2018 with a view to be submitted to the Ordinary General Meeting of Shareholders of Stalprodukt S.A.

### **Signatures:**

Janusz Bodek

Sanjay Samaddar

Magdalena Janeczek

\_\_\_\_\_  
(Chairman of Supervisory Board)

\_\_\_\_\_  
(Vice-Chairman of Supervisory Board)

\_\_\_\_\_  
(Secretary of Supervisory Board)

Agata Sierpińska Sawicz

Romuald Talarek

\_\_\_\_\_  
(Member of Supervisory Board)

\_\_\_\_\_  
(Member of Supervisory Board)