

**Statement of the Management Board  
on the operations of  
the Stalprodukt S. A. Capital Group  
for the period  
from 01 January 2018 to 31 December 2018**

**Bochnia, April 2019.**

**Consolidated financial statement of the Stalprodukt S.A. Capital Group for the financial year 2018**  
**Statement of the Management Board on the activities of the Capital Group**

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## **Part I. Information on the main areas of operations of Stalprodukt S.A. and its Capital Group.**

### **1. Introduction**

Stalprodukt S.A. was established in 1991 in the restructuring process of Tadeusz Sendzimir Steel Works (currently a division of ArcelorMittal Poland S.A.), using the innovative path of privatisation. A year later, after signing with T. Sendzimir Steel Works agreements regarding the lease of land, facilities, equipment and machinery, supply of charge for production and purchase of current assets, Stalprodukt started an independent business activity.

As a result of the efforts of the Company's management in the years 1994-1996, a gradual purchase was being made – under an open public tender procedure - of previously leased fixed assets and the right of perpetual usufruct of land from T. Sendzimir Steel Works for the total net amount of PLN 90 mln.

The purchase of assets from HTS S.A. ended the process of privatisation of Stalprodukt S.A. and enabled the Management Board of the Company to take actions to introduce the Company's shares to public and then stock exchange trading (the first listing of Stalprodukt shares took place on 6 August 1997). This enabled the acquisition of additional financial resources, which were intended for the purchase of a 20-roll "Sendzimir" mill and the extension of the production hall of the Transformer Steels Plant.

In mid-1997, the second phase of transformations was initiated, aimed at establishing a capital group. As a result of this process, new entities were established, mostly limited liability companies with a majority share owned by Stalprodukt.

The company, as the first producer of steel products in Poland, joined in 1997 to build its own distribution network of sections. The main goal of this undertaking was to organise comprehensive sales of steel products from Stalprodukt and other manufacturers in the industry. This project was completed in its principal part in 2000 thanks to the launch of a commercial warehouse in Wrocław. The process of expanding the scope of the distribution network also continued in the following years, thanks to which more commercial warehouses were opened.

In successive years, the company continued its dynamic development, which was based mainly on organic growth, extensive project investments and decisions of strategic importance. The most important ones concerned the withdrawal from the production of dynamo steels, the dynamic growth of the transformer steels segment potential, the increase of production potential and the extension of the cold formed profile and road barrier segment as well as the construction of hot and cold rolled steel service centres.

Acquisitions were also an important element of the development of Stalprodukt.

- In 2005, the Company purchased the Power Engineering Steel Structure Enterprise "ELBUD" in Kraków.
- On 1 October 2008, Stalprodukt acquired - under a new share issue - a controlling share package (51%) in Cynk-Mal S.A. with its registered office in Legnica (1 July 2016, after the purchase of shares held by minority shareholders, Stalprodukt became the sole owner of this company).
- On 7 November 2012, the Company concluded an Agreement with the State Treasury, as a result of which Stalprodukt S.A. acquired 10,961,600 named shares of "Bolesław" Mining and Metallurgical Plant S.A. with its registered office in Bukowno, constituting 86.92% of its share capital.

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- On 15 December 2017, Stalprodukt signed a purchase agreement for 100% of shares in GO Steel Frydek Mistek a.s. with its registered office in Czech Republic from ArcelorMittal S.A. with its registered office in Luxembourg.

Since 2013, Stalprodukt Group has distinguished three basic operating segments as part of its operations:

- a) **Electrical Steels Segment** including the production of electrical transformer steels and toroidal cores;
- b) **Formed Profiles Segment** including production:
  - cold formed sections;
  - protective road barriers;
  - toroidal cores;
  - hot and cold rolled steels - in sheets and strips
- c) **Zinc Segment** - including mining of non-ferrous metal ores, production of zinc and lead, and recycling of zinciferous waste.

Due to non-compliance with the quantitative criteria for classification in a separate operating segment, group sales of goods and other services are shown in "other operations" - to balance the Group's results.

## **2. Sale of core products, markets. Sources of supply of materials**

### **2.1. Electrical Steels Segment**

The Electrical Steels Segment includes the sales of electrical transformer steels and cores conducted by Stalprodukt S.A., as well as the sales of transformer steels conducted by GO Steel Frydek Mistek a.s.

#### **a) Transformer steels and strips**

In 2018, almost 46% more steels were sold in terms of volume than in 2017. In terms of revenues, this increase was even higher and amounted to 54%. The direct cause was the purchase of GO Steel Frydek Mistek a.s. in December 2017. The transaction was closed on 28 February 2018, and its results are consolidated with the results of the Stalprodukt Group from 1 March 2018.

Domestic sales in 2018 accounted for 5.9% of total sales of transformer steels. The estimated share of Stalprodukt S.A. on the domestic market was 26%.

Imports of transformer steels to Poland in the 12-month period of 2018 decreased significantly, by nearly a quarter compared to the same period in 2017 and reached the level of around 14 thousand tonnes. Both the value and prices of imported material have decreased.

The main sources of importing transformer steels to Poland (by country of origin) in 2018 are:

- for strips: Italy (42%), Japan (39%), Czech Republic (10%),
- fore wide coils: Japan (42%) and Germany (36%).

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Table 1. Comparative summary of sales of transformer steels and strips

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Country	4 932	6 410	30.0	33 179	46 828	41.1
Export	80 286	117 663	46.6	485 975	752 705	54.9
<b>Total</b>	<b>85 218</b>	<b>124 073</b>	45.6	<b>519 154</b>	<b>799 533</b>	54.0

### Market situation

The transformer steel market was still largely subject to regulations related to the protection of the market of individual countries or regions of the world.

From the perspective of Stalprodukt as the manufacturer of transformer steels, it should be noted that the customs duties imposed by the United States within the "section 232" also include import of Grain Oriented Electrical Steel (GOES), while the European Commission omitted this assortment in measures restricting imports to the EU. By 2020, however, the measures imposed as a result of the 2015 anti-dumping procedure on the import of rolled flat rolled silicon steel products originating in the People's Republic of China, Japan, the Republic of Korea, the Russian Federation and the United States of America are in force.

Despite the dynamic events on the global steel markets, in the first half of 2018 the Grain Oriented Electrical Steel (GOES) responded quite calmly to the events that happened. Prices were stable or were slightly rising. The demand for conventional CGO steels was still high, and therefore the market sentiment was positive and focused on price increases. Good market sentiment was largely associated with GOES price increases for high and medium grades, which Baosteel used on the domestic market in both the first quarter (USD 92) and the second quarter (USD 123). The price trend of Baosteel and other Chinese manufacturers is usually a benchmark for other regions.

Section 232 used by Donald Trump's administration very quickly brought tangible benefits to the only one American manufacturer of Grain Oriented steel, i.e. AK Steel, whose results year-on-year increased by 80%.

On the European market, the management boards of Tata Steel and ThyssenKrupp approved the merger of the European divisions of both companies. However, there has been still no consent of the European Commission so far for the above merger. The European Commission is continuing its investigation into the planned merger of Tata and ThyssenKrupp's steel operations after the suspension of the case in December, setting a new date of 29 April 2019. The EC's concerns stem from the fact that customers will face a smaller choice of suppliers and higher prices.

According to the Japanese Tex Report service, it is expected that the demand for Grain Oriented steel in the first half of 2019 will increase by around 3% worldwide. Demand is therefore significant worldwide, with the exception of Japan, where the balance of demand and supply is extremely low. There is a

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tendency to focus on the production of higher quality products. The prices of Grain Oriented high quality products are not falling globally. On the other hand, there is also a trend of switching in some solutions from a lower level of high quality GO products to cheaper CGO ones.

**a) toroidal cores**

Over 16% increase in volume and a 22% increase in sales value were obtained on the sales of transformer cores. The increase was recorded both in domestic and export sales. Prices last year increased by an average of 5%.

Such a positive sales result was possible thanks to the development of cooperation and obtaining additional orders for products with more advanced degree of processing (impregnation, varnishing, cutting, Unicores) from the two largest recipients. The sales structure has not changed compared to the previous year (51% is domestic sales and 49% is export sales).

A clear improvement in the result on the domestic market was achieved through the sale of products with a higher degree of processing (rectangular cores, cut, impregnated).

Table 2. Comparative summary of sales of transformer cores

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Country	474	571	20.5	5 805	7 082	22.0
Export	547	617	12.8	5 485	6 715	22.4
<b>Total</b>	<b>1021</b>	<b>1 188</b>	<b>16.4</b>	<b>11 290</b>	<b>13 797</b>	<b>22.2</b>

**Market situation**

Competition on the transformer cores market is getting stronger. The possibility to buy non-standard steel or coil endings at an attractive price, easier access to accessories and the general trend to lower own costs mean that in the case of long, predictable series, customers are looking for cheaper cores abroad. Cheaper import is growing at a dynamic rate – in 2018 it increased by as much as 68%!

Almost half of the total import came from Turkey (49%), then from Italy (24%) and Germany (7%). There were also supplies of cores from more distant regions such as India (5% of import) or China (3% of import).

The second trend is classic examples of vertical diversification backwards – some of the Company's customers start production of cores themselves (mainly toroidal ones but more and more often Unicores).

**2.2. Formed Profiles Segment**

Formed Profiles Segment includes the sale of cold formed sections (pipes and profiles), protective road barriers as well as hot and cold rolled sheets in sheets and strips (products of service centres). This operation is carried out by Stalprodukt S.A. production plants located in Bochnia, Kraków and Tarnów.

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**a) Cold formed sections**

In 2018, the Stalprodukt Group sold almost 189 thousand tonnes of sections and pipes. This result means a nearly 9-percent drop in volume and a nearly 5-percent drop in sales compared to the previous year. The average price increase in the analysed period was 4.5%.

Based on the data of the Analytical Centre - the Tax Administration Chamber in Warsaw and Polish Steel Association (HIPH), the Company estimates its current share in the apparent consumption of cold formed profiles on the domestic market at around 25%. On the other hand, Stalprodukt's share in export of cold formed sections was 55% of total export of this assortment.

The sales results presented above were obtained with the following market conditions (based on information from HIPH in the period January - December 2018):

- drop in the production of cold formed profiles in Poland by almost 14% - to the level of 310 thousand tonnes,
- apparent consumption of pipes unchanged, at the level of the previous period 1 242 thousand tonnes, including the increase in apparent consumption of cold formed hollow sections by 2.3% (up to the level of 506 thousand tonnes),
- increase in imports of hollow sections with outside thread by 19%. (nearly 300 thousand tonnes), and the current main sources of import are: for sections with wall thickness less than 2 mm: Ukraine (36%) and Belarus (21%); for sections with wall thickness above 2 mm Italy (24%), Ukraine (20%) and Russia (10%),
- drop in export of cold formed hollow sections by 11% (101 thousand tonnes).

Table 3. Comparative summary of sales of cold formed sections

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Country	146 772	132 318	-9.8	399 808	371 530	-7.1
Export	59 454	55 794	-6.2	169 938	171 333	0.8
<b>Total</b>	<b>206 226</b>	<b>188 112</b>	<b>-8.8</b>	<b>569 746</b>	<b>542 863</b>	<b>-4.7</b>

**Market situation**

• **Production of steel pipes in the EU**

In the third quarter of 2018, production operations in the steel pipe industry dropped by 0.9% year-on-year - roughly in line with the drop in production registered in the first half of 2018. The downward trend was observed in Germany, France, Italy, Spain and Poland. In the majority of other countries, an increase in production was recorded in the third quarter.

A further decline in production activity in the steel pipe sector in the EU in the third quarter of 2018 was not a surprise, as it was a continuation of the production trend observed in the first half of the year. The



main reason is the depletion of order portfolios for large welded pipes in the main production facilities in the EU, which are mainly located in Germany. In comparison with the high level of production in 2017, the decline in German production year-to-year is very significant. As a consequence, the efficiency of the EU steel pipe sector depends more on the demand for small and medium welded pipes and seamless pipes

In general, the business environment in other EU countries was rather favourable due to the relatively high demand from pipe customers with smaller diameters, such as automotive, metal products, mechanical engineering and construction.

**It is estimated that steel pipe production in the EU fell by 1.1% year-on-year in the fourth quarter of 2018, which resulted in a 1.4% drop in total production in 2018.**

Import pressure on the steel pipe markets in the EU remains high. It has been noted, among others, that the excess supply of large diameter pipes from Russia may increase to nearly 3.9 million tonnes. It is expected that the total production of Russian steel pipes will increase by 3% in 2019, while domestic demand will increase by 1%. Therefore, it is necessary to take into account the increase in supplies also from this source due to the weakening domestic demand in Russia.

**The total production of steel pipes in the EU is expected to increase by 0.5% in 2019 and by 1.4% in 2020.**

The production of pipes in Poland in January-December 2018 according to HIPH amounted to nearly 762 thousand tonnes (decrease by 6%), including cold formed sections, 310 thousand tonnes, which means a decrease by almost 14% compared to the same period in 2017. Operating on this market is getting more and more difficult every year.

The actions taken by the European Commission have a growing influence on the competitive situation of pipe and profile manufacturers. The decisions taken so far regarding the protection of the European steel market have not produced any beneficial effects for manufacturers of cold formed sections. Introduced a few years ago, protection in the import of hot rolled steel in coils with the lack of protection against unlimited import of profiles enabled the entry of new significant players from the Balkans and Turkey into the European market. The result is a regular increase in the import of sections to Poland - 300 thousand tonnes reported in 2018 account for almost 60% of the apparent consumption.

The European Steel Tube Association (ESTA) repeatedly attempted to file a complaint with the European Commission requesting the launch of an anti-dumping procedure. It was not until 28 September 2018 that the European Commission published a notice of initiation of an anti-dumping procedure concerning import of welded pipes, pipelines and hollow profiles of square or rectangular cross-section, made of iron other than cast iron or non-stainless steel, originating in the Former Yugoslav Republic of Macedonia, Russia and Turkey. The investigation of dumping and damage caused by it will cover the period from 1 July 2017 to 30 June 2018. Trend analysis relevant for the assessment of damage covers the period from 1 January 2015 to the end of the investigation period. The investigation (in accordance with the schedule) will be completed within usually 13, but not later than within 14 months from the date of publication of the notice. Provisional measures may normally be imposed no later than seven months and in any case not later than eight months following the date of publication of the notice. The Commission will provide information on the planned introduction of the provisional customs duties three weeks before the imposition of provisional measures. It is difficult to predict today whether and what measures the European Commission can implement in the above procedure.

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In response to the actions taken by Donald Trump's administration, the European Commission introduced customs duties of 25% ad valorem for 28 groups of steel products. The customs duty shall be imposed after the quota allocated for each product group has been exhausted. In the first period, i.e. from July 2018, the quotas were allocated on a "first come, first served" basis, from February 2019, the quotas are additionally determined by country and by period. As opposed to the grain oriented electric steel, sections and round pipes were included as part of the protection measures. In addition, the Regulation of 31 January 2019 included quota allocations in the protection into countries that are listed in the anti-dumping procedure. For cold formed profiles, the following were listed: Turkey Russia, FYR Macedonia, Ukraine, Switzerland, Belarus and other countries.

- in the period from 02 February 2019 to 30 June 2019: 320 thousand tonnes for sections, 698 thousand tonnes for all pipes;
- in the period from 01 July 2019 to 30 June 2020: 817 thousand tonnes for sections, 1 788 thousand tonnes for all pipes;
- in the period from 01 July 2020 to 30 June 2021: 878 thousand tonnes for sections, 1 978 thousand tonnes for all pipes;

Based on the above data, it should be emphasised that the levels of quotas are very high. As a result, introducing a 25% customs duty may not happen at all.

**b) Protective road barriers**

The result obtained on the sale of road barriers in 2018 was by 25% better than in 2017 in terms of value and almost 19% higher in terms of volume as compared to 2017.

A good result is the result of improving operational activities as well as those related to product development both on the domestic and export market. The year 2018 was, for the Company, in accordance with the assumptions, the best period since the time when certification for compliance with the PN - EN1317 standard has been in force. In addition, it was the time for the completion of many project investments started in 2015-2016, of which the design and implementation cycle is from 30 to 36 months, often without winter periods. With such a large scale of undertaking and problems related to the increase of steel prices, increase in prices of subcontracting services, limited number of transport companies, lack of manpower in the construction industry, simultaneous implementation of dozens of construction sites was a huge challenge. Finally, all of the projects under construction were completed within the deadlines required by the ordering parties, and the works carried out in 2018 are currently being settled.

Table 4. Comparative summary of sales of road barriers

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Country	16 860	19 741	17.1	78 519	98012	24.8
Export	5 314	6 542	23.1	22 729	28 298	24.5
<b>Total</b>	<b>22 174</b>	<b>26 283</b>	<b>18.5</b>	<b>101 249</b>	<b>126 310</b>	<b>24.8</b>

## **Market situation**

In 2018, the increase in construction and assembly production in Poland amounted to almost 18%, after a year earlier this industry grew by over 12%. Despite these impressive numbers, the number of insolvencies in construction industry is increasing. In 2018 – according to Euler Hermes data – 172 construction companies were affected by it, which meant an increase of 14 percent compared to the previous year. Companies specialised in infrastructure works make up approx. 70 percent of construction insolvency cases. Along with the ongoing implementation and finalisation of "toxic" orders obtained in 2015-2017, that is before the rapid increase in the cost of materials and labour, the another companies with profitability problems are emerging. There are no indications that the financial condition of the industry will improve this year. Even the new rules for the valorisation of contracts having been introduced since 2019, will not help, as they will only include new contracts. Therefore, the problems may deepen, and memories related to the crisis in construction industry from the period of investments for Euro 2012 will recur increasingly.

Meanwhile, investment programmes run by GDDKiA and PKP PLK have entered the key stage of implementation. The scale of current investment projects totals over PLN 200 billion. The statistics, which present the General Directorate for National Roads and Motorways (GDDKiA) and PKP Polskie Linie Kolejowe (PKP PLK), look optimistic. They show that the implementation of current investment programmes runs smoothly and there is no risk of problems that could jeopardize the timely use of the EU support. National Road Construction Programme for 2014-2023 (with a prospect until 2025) assumes the construction of 240 sections of roads with a total length of nearly 3.3 thousand km, of which more than 700 km have been made available to drivers.

There is a further approx. 1.4 thousand km during implementation, and further hundreds of kilometres are at the stage of tenders or preparation of documentation. The budget of the programme, which in the middle of 2017 was increased from PLN 107 to 135 billion, is to be sufficient to implement all the undertakings included in it.

Still the biggest competitor of Stalprodukt S.A. on the European market is the company Saferoad, which in 2018 once again went to an investment fund, which bought more than 90% of shares and took the company out of the stock exchange. The plans for the possible expansion of Saferoad under the new owner are still unknown. In addition, the competition of the company Prowerk is very noticeable on the domestic market, which despite the raised doubts about the possibility of obtaining certain parameters of barriers (especially rope ones), implement a large number of contracts.

### **c) Steel service centre products**

In 2018, only slightly over 18 thousand tonnes of sheets were sold for PLN 48 million, which means a 28% decrease in volume as compared to the previous year and a drop in the value of sales by over 24%. This means another year of such significant declines in this assortment of the Profiles Segment.

Cheap import is constantly growing - in the range of hot rolled steel products by 21%, in the range of cold rolled steel – by 8%.

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The main sources of import of strips and sheets made of hot rolled steel are: Germany (19%), Czech Republic(18%), Slovakia (12%), Latvia (9%) and Ukraine (9%). The average price per ton in 2018 is PLN 2 642.

The main sources of import of strips and sheets made of cold rolled steel are: Germany (42%), Slovakia (16%) and Italy (12%). The average price per ton in 2018 is PLN 3 358.

Table 5. Sales of steel service centre products

Specification	Quantity (Mg)			Net Value (PLN '000)		
	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Country	21 293	16 273	-23.6	53 529	42 887	-19.8
Export	3 798	1 915	-49.6	10 315	5 311	-48.6
<b>Total</b>	<b>25 091</b>	<b>18 188</b>	<b>-27.5</b>	<b>63 844</b>	<b>48 198</b>	<b>-24.4</b>

## Market situation

According to data presented by Eurometal, European distributors of flat steel products recorded in 2018 a drop in sales volume by 3.1% year-on-year. The decrease in shipments was recorded mainly in the second half of 2018, in parallel to the growing uncertainty in the European automotive industry and related supplier sectors.

The automotive sector is one of the main end users of flat steel in Europe, so the drop in demand for cars puts direct pressure on the steel coil market.

Warehouse turnover index for flat products flat service centres in the EU was 107 days in December 2018, compared to 109 days in the corresponding month of 2017. The indicator assumes the average of year 2015 as a 100-point base.

Eurometal did not disclose specific amounts, but stated that hot-dip galvanized (HDG) coil stocks remain at a high level, which also reflects the drop in demand from the automotive industry - the key end user of HDG products.

The European Commission (EC) imposed final protective measures on the list of imported steel products in the form of rates and tariff quotas on 2 February. While the funds are likely to have a significant impact on steel import in Europe, the exception is HDG, for which the EC decided to extract the material used mainly by the automotive industry from steel used by other sectors. According to Eurometal, deliveries to many distributors in the region increased only by 0.6% year-on-year, as a result of quite positive trends in the construction industry. Stock levels among distributors at the end of the year increased.

## 2.3 Zinc Segment

The Zinc Segment covers the scope of operations of ZGH "Bolesław" S.A. together with subsidiaries, i.e. the extraction of zinc-lead ores and the production of zinc and lead, as well as related operations.

Sales summaries cover the most important products (zinc, lead, galena flotation, Dore metal) produced by

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these companies belonging to the Group, whose operations are related to this business segment, i.e. ZGH "Bolesław" S.A., Huta Cynku "Miasteczko Śląskie" S.A. and Gradir Montenegro d.o.o. Other companies included in the Zinc Segment (Boltech Sp. z o.o., Karo Sp. z o.o.) mainly deal with service operations.

The most important products of the Group are zinc (in Z1 and Z5 grades and zinc alloys), lead (lead refined and galena flotation) and silver (Dore metal).

The sale of these products takes place in accordance with the global standards in force in this regard. The amount of sales revenues is mainly dependent on zinc and lead prices on the London Metals Exchange (LME), silver on the stock exchange (LBM) and the US dollar exchange rate. The development of the value of the above factors is the result of the general state of the global economy.

ZGH and HCM zinc in the highest grade Z1 has been registered on LME. Refined lead with a purity of 99.97% Pb also has a Certificate of the London Metal Exchange.

**a) zinc and zinc alloys**

**Table 6. Summary of zinc sales**

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Country	100 343	96 854	-3.5	1 162 773	1 096 106	-5.7
Export	43 484	51 338	18.1	502 436	574 041	14.3
<b>Total</b>	<b>143 827</b>	<b>148 192</b>	<b>3.0</b>	<b>1 665 209</b>	<b>1 670 147</b>	<b>0.3</b>

In 2018, the volume of sales of zinc and zinc products was 3% higher than in 2017, where the volume of domestic sales dropped by 3.5%, and export sales increased by 18.1%.

Revenues from sales of these products in 2018 were practically at the same level as in 2017 and amounted to PLN 1 665 million.

Z1 Zinc is mainly used as anticorrosion protection of surfaces by hot dip galvanizing, electrolytic galvanizing. Zinc alloys are used in continuous casting lines or high pressure casting lines, being used in the automotive and construction industries as well as home appliances.

Z5 zinc thanks to the increased content of lead is used for the production of brass, bronze, as well as in galvanizing plants, as a cheaper substitute or supplement to Z1 zinc.

**The situation on the LME/London Metal Exchange/ and the foreign exchange market in 2018.**

Observing the behaviour of zinc in 2018, it could be noted that the first two months of the year were not only satisfactory, but moreover, the recorded prices reached 10-year peaks. The record price achieved in February, both in dollars (\$ 3 540) and in zlotys (PLN 11 934), was accompanied by a continuation of the narrative regarding the mining supply shortage, metallurgical production limitations, minimal TC and significant stock declines on the LME (131 thousand ton) and SHFE stock market. Unfortunately, the end of the first quarter was the announcement of the end of a good streak. Gamsberg, MMG, NCR, Lady Loretta are just some mining projects of Vedanta, Dugald River or Glencor, which were to be launched with the intention of supplying the desired concentrates from South Africa and Australia. More and more

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information about the increase in mining production by as much as 2 million tonnes in 2019/2020 caused a sudden collapse of zinc prices. Huta in China, in the face of a disproportionate drop in metal prices to the growth of TC, suffered significant losses, not being able to obtain satisfactory margins in any way. For this reason, they decided to limit the production of metallurgy in June. The market responded with a slight price rebound. Unfortunately, due to the start of a trade war with China by the administration of D. Trump, further increases did not stand a chance of success. Numerous customs duties imposed on each other on imported products caused the price of zinc to fall by 25% in just one month, and the stock inventory increased in half a year by 82%. China's response to the falling prices was the immediate launch of stimulus reforms, tax cuts, increased infrastructure spending, loan preparation for enterprises and strengthening of bank liquidity. At the end of November 2018, despite the fact that there were just over 119 thousand tonnes of zinc in LME warehouses, and backwardation at 3M was reaching \$ 100, the possibility of the Russia-Ukraine conflict, turmoil in Italy, Brexit negotiations and US-China trade uncertainty did not encourage investors to encourage risk appetite and thus prices remained in a downward trend.

**Table 7. Change in macro parameters 2018/2017**

Year	Zn USD	USD/PLN	Zn PLN
2017	2 896	3,7782	10 914
2018	2 922	3,6117	10 510
change	0.9%	-4.4%	-3.7%

Summing up, the average price of zinc in 2018 only slightly exceeded the average price of 2017, while the dollar was weaker by 4.4%. Therefore, the PLN zinc price in 2018 was lower by 3.7% as compared to 2017.

The current offer of the Capital Group includes a wide range of alloys for continuous galvanizing with an aluminium content of 0.1 to 1%, alloys with antimony and alloys for Wegal galvanizing with nickel, manganese and tin with the content tailored to customer requirements.

The largest recipient of the Group's products is Arcelor Mittal.

The Group's largest competitors are the international companies Glencore, Nyrstar and New Boliden.

The Capital Group effectively competes on the market due to the unique complexity of mining and processing processes on a global scale, which enable the production of zinc of the highest quality and allow for constant expansion of the assortment of produced products. In addition, the rich, lifelong experience, financial stability, innovation and the brand of the Company make the company maintain its current position on the market, offering products that meet the expectations of even the most demanding metal buyers.

**b) lead**

**Table 8. Summary of sales of refined lead**

Specification	Quantity (Mg)	Net Value (thousand x PLN)
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	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Country	8 519	9 472	11.2	73 967	79 914	8.0
Export	3 627	3 010	-17.0	33 601	25 147	-25.5
<b>Total</b>	<b>12 146</b>	<b>12 482</b>	<b>2.80</b>	<b>107 568</b>	<b>105 091</b>	<b>-2.33</b>

The sales volume of refined lead in 2018 was 2.8% higher as compared to the previous year. The increase in the sales volume did not cover the 7.7% drop in the zloty prices of lead. Therefore, the sales revenues of this product decreased by 5.6% compared to 2017.

Refined lead is mainly used for the production of batteries and traction batteries, as well as for the production of lead oxides, used to produce, among others, paints and varnishes, and to a minimum degree of lead alloys. Refined lead is also a raw material for the production of steels, wires, ammunition and cables.

**c) galena flotation**

**Table 9. Summary of sales of galena flotation**

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Country	0	0		0	0	
Export	15 368	15 791	2.7	64 586	66 250	2.6
<b>Total</b>	<b>15 368</b>	<b>15 791</b>	<b>2.7</b>	<b>64 586</b>	<b>66 250</b>	<b>2.6</b>

The galena flotation produced in ZGH "Bolesław" (about 77% of the production of this concentrate in GK) and in "Gradir Montenegro" in Montenegro (about 23% of production) is a concentrate containing approx. 60% of lead. The production volume depends on ore mining and lead content in ore. In 2018, the volume of galena production in ZGH "Bolesław" increased due to the increase in lead content in ore, especially in the fourth quarter.

The increase in the sales volume of galena covered the drop in lead prices with a surplus in 2018, hence the revenues from sales of galena concentrates increased by 2.6% compared to the previous year. The whole galena is sold for export.

The share of lead (refined and galena concentrates) in the revenues from sales of products is 8%.

**d) Silver (Dore metal)**

**Table 10. Summary of sales of Dore metal**

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2017	2018	2018/2017 (%)	2017	2018	2018/2017 (%)
Export	22	21	-2.7	46 141	39 551	-14.3

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Dore metal produced by HC "Miasteczko Śląskie" is a high-value usable waste generated during lead refining, suitable only for further processing. It is an alloy with a high silver content.

The amount of production depends on the content of these metals in charges. In 2018, as compared to 2017, both a decrease by almost 3% of the sales volume and a drop in the silver price by 8.8% caused that the value of revenues decreased by 14.3%. The share of silver in revenues from sales of products is 2%.

**Table 11. Metal prices on LME and the USD exchange rate in 2018 and 2017**

Average prices	Year 2017	Year 2018	change (in %)
LME Zn [\$]	\$2 896	\$2 922	0.9
LME Pb [\$]	\$2 317	\$2 242	-3.2
LBM Ag [\$] for an	\$17	\$16	-7.9
\$ exchange rate	PLN 3.7782	PLN 3.6117	-4.4
Zn in PLN	PLN 10 914	PLN 10 510	-3.7
Pb in PLN	PLN 8 746	PLN 8 073	-7.7
Ag in PLN for a kg	PLN 2 071	PLN 1 824	-8.8

Zinc prices on the London Metal Exchange in 2018 showed a slight increase compared to 2017, while lead prices dropped by over 3%, while silver prices fell by almost 8%. On the other hand, the dollar exchange rate in this period fell by 4.4%. These factors meant that PLN zinc prices for 2018 were lower by 4% than prices in 2017, PLN lead prices by 8% lower, and PLN silver prices fell by almost 9%.

### **Sales of other products of the Zinc Segment**

#### **Sulphuric acid**

The acid is produced in ZGH "Bolesław" and in Huta Cynku "Miasteczko Śląskie" as a by-product of the process of roasting sulphate concentrates. Due to the growing use of cheaper oxide materials in the production of zinc, the production and sale of sulphuric acid decreases. The recipients of the acid are domestic and foreign clients.

Sulphuric acid is very important in various industries. It is used, among others, for the production of other acids, for the production of dyes, artificial fibres, explosives, and fertilisers. It is used for the production of detergents, medicines and is used as electrolyte in lead batteries. It is a frequently used reagent in laboratories.

#### **Dolomite aggregates**

Dolomite aggregates are produced in the subsidiary Boltech Sp. z o.o., mainly based on dolomite produced as a by-product in the process of initial enrichment of ore from the "Olkusz-Pomorzany" mine. Due to the end of exploitation of this mine, the "Ujków Stary" dolomite mine was launched in order to be able to continue production of aggregates in a smooth way.

The main recipients of aggregates are road building executive companies, plants producing mineral-bituminous compounds and manufacturers of road accessories.



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**Utilisation services for zinciferous materials**

Utilisation of zinciferous materials is carried out by Huta Cynku "Miasteczko Śląskie" and ZGH "Bolesław". At ZGH, utilisation is carried out in the Waelz process on two waste streams. The first group consists of wastes from zinc hydrometallurgy, while the second basic waste stream is steelmaking dust from the steel production process in electric arc furnaces. The oxide from steelmaking dust is the charge for the production of zinc in ZGH "Bolesław", while the oxide from the processing of sludge is the charge for the production of zinc and lead in HC "Miasteczko Śląskie".

When analysing the territorial structure of sales of all the Group's products, it should be noted that there was an increase in the share of export sales in 2018 to 45.9%. In 2018 it was 40.9%.

2.4 The segment of other operations recorded a 71.5% increase in revenues compared to 2017 and an increase in results by 13.7%.

**2.5 Revenues and results of individual operating segments of the Stalprodukt S.A. Capital Group**

**Table 12. Sales of operating segments of the Capital Group**

OPERATING SEGMENTS				
Steels Segment		2017	2018	Change (2018/2017)
Segment revenues	<i>thousand x PLN</i>	530 443	813 330	53.3%
Segment result	<i>thousand x PLN</i>	46 875	108 403	131.3%
Segment margin	%	8.8%	13.3%	
Profiles Segment				
Segment revenues	<i>thousand x PLN</i>	736 478	738 259	0.2%
Segment result	<i>thousand x PLN</i>	16 801	1 038	-93.8%
Segment margin	%	2.3%	0.1%	
Zinc Segment				
Segment revenues	<i>thousand x PLN</i>	2 005 191	2 012 301	0.4%
Segment result	<i>thousand x PLN</i>	404 082	337 816	-16.4%
Segment margin	%	20.2%	16.8%	
Segment of other operations of Stalprodukt S.A. Capital Group				
Segment revenues	<i>thousand x PLN</i>	228 978	392 798	71.5%
Segment result	<i>thousand x PLN</i>	18 962	21 567	13.7%
Segment margin	%	8.3%	5.5%	
Operating segments in total				

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Segments' revenues	<i>thousand x PLN</i>	<b>3 501 090</b>	<b>3 956 688</b>	13.0%
Segments' result	<i>thousand x PLN</i>	<b>486 720</b>	<b>468 824</b>	-3.7%
Segments' margin	%	<b>13.9%</b>	<b>11.8%</b>	

It is worth emphasizing that there was an increase in revenues (by 53.3%) and results (by 131.3%) of the Electric Steels Segment, which was caused by the acquisition of GO Steel Frydek Mistek a.s. and its incorporation into consolidation as of 1 March 2018. It is worth to note that an increase in the margin of this Segment was 13.3% (from 8.8% in 2017).

Regarding the Formed Profiles Segment, the Group managed to maintain revenues at the level of 2017, however, the result of this Segment dropped significantly, i.e. by 93.8%. The result of the above was a drop in the Segment's margin to the level of 0.1%.

The Zinc Segment maintained sales at the level of 2017, but its margin decreased from 20.2% to 16.8%. The segment of other operations recorded an increase in revenues by 71.5% and an increase in the result by 13.7%.

## **2.6. Assortment structure of sales of the Capital Group with division into operating segments**

**Table 13. Assortment structure of sales of the individual operating segments**

<b>Assortment</b>	<b>2017</b>		<b>2018</b>	
	<b>value (thousand x PLN)</b>	<b>share (%)</b>	<b>value (thousand x PLN)</b>	<b>share (%)</b>
Electrical Steels Segment	530 443	15.2	813 330	20.6
Formed Profiles Segment	736 478	21.0	738 259	18.7
Zinc Segment	2 005 191	57.3	2 012 301	50.9
Other operations GK	228 978	6.5	392 798	9.9
Total	3 501 090	100.0	3 956 688	100.0

Due to the significant increase in the value of transformer steels sales in 2018, the share of the Electrical Steels Segment in the Group's sales structure increased (from 15.2% in 2017 to 20.6% in 2018). The share of sales made by the Profiles Segment decreased from 21.0% in 2017 to 18.7% in 2018. The sales value of the Zinc Segment remained at the level of 2017, however, due to the increase in the total revenues of the Group, its share in the sales structure decreased from 57.3% to 50.9%.

### **Sources of supply of materials for production**

Almost 90% of purchases made by Stalprodukt are hot and cold rolled steel coils. Purchases of this material are made directly in steel works. ArcelorMittal Europe - Flat Products has been the largest supplier for the company for several years. These materials are used in the basic production processes implemented in the Company related to the production of: electrical transformer steels, cold formed sections and road barriers. It should be emphasized that materials intended for the production of individual products differ from each other in technical parameters, i.e. chemical composition, steel grade, thickness and width of coils, etc.

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Hot and cold rolled steels are also used in the service centres owned by the Company, which perform longitudinally cutting operations (into strips) or transversally ones (into sheets). As part of the adopted specialisation, the service centre for hot rolled steels is located in Bochnia, while the service centre for cold rolled steels is located in Tarnów.

The material in strips is mainly used for internal needs of Stalprodukt, it is the charge for profiling lines for the Company's production departments located in Bochnia (Dept P2), in Kraków (Dept P3) and in Tarnów (Dept P4). In turn, steels in sheets are sold exclusively to Stalprodukt's external customers - both directly and through Stalprodukt's domestic distribution network.

In 2018, the main supplier of charge materials for Stalprodukt, whose value of deliveries exceeded 10% of sales revenues, was ArcelorMittal FCE Poland sp. z o.o.; this share amounted to 41.37% for unit revenues. ArcelorMittal Flat Carbon Europe is a distribution unit of ArcelorMittal concern.

### 3. Assessment of the economic and financial situation

SELECTED FINANCIAL DATA	thousand x PLN		thousand x EUR	
	2018	2017	2018	2017
I. Net revenue from sales of products, goods and materials	3 956 688	3 501 090	927 278	824 814
II. Profit (loss) from operating activities	299 847	359 614	70 273	84 721
III. Gross profit (loss)	349 004	347 474	81 793	81 861
IV. Net profit (loss) including:	284 652	275 428	66 712	64 888
– Net profit attributable to shareholders of the parent company	270 288	254 452	63 345	59 946
– Net profit attributable to minority shareholders	14 364	20 976	3 367	4 942
V. Net cash flow from operating activities	349 888	431 518	82 001	101 660
VI. Net cash flow from investment activities	-336 582	-156 645	-78 882	-36 904
VII. Net cash flow from financial activities	-38 755	-63 015	-9 083	-14 845
VIII. Total net cash flow	-25 449	211 858	-5 964	49 911
IX. Total assets	4 357 371	3 937 757	1 013 342	944 102
X. Liabilities and provisions for liabilities	1 659 531	1 702 089	385 937	408 087
XI. Non-current liabilities	497 848	485 665	115 779	116 441
XII. Current liabilities	747 289	884 641	173 788	212 098
XIII. Own equity including:	2 699 840	2 235 668	627 870	536 016
– Attributed to shareholders of the parent company	2 593 547	2 145 299	603 151	514 349
– Minority capital	106 293	90 369	24 719	21 667
XIV. Share capital	11 161	11 161	2 596	2 676
XV. Number of shares	5 580 267	5 580 267	5 580 267	5 580 267
XVI. Profit (loss) per ordinary share (in PLN/EUR)	51.01	49.36	11.95	11.63
XVII. Book value per one share (in PLN/EUR)	483.82	400.72	112.52	96.08
XVIII. Dividend declared or paid per one share (in PLN/EUR)	3.00	3.00	0.70	0.71

#### Basic economic and financial values

In 2018, revenues from total activity of Stalprodukt Capital Group amounted to PLN 3 956.7 million. This means an increase of 13% compared to 2017. The generated profit on the level of operating activity

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amounted to PLN 299.8 million, while the net profit amounted to PLN 284.6 million (in 2017, the operating profit amounted to PLN 359.6 million, and the net profit amounted to PLN 275.4 million). In the period under review, EBITDA reached PLN 448.9 million (compared to PLN 497.1 million in 2017).

In 2018, the sales profitability at individual levels was as follows (in %):

<b>Specification</b>	<b>2018</b>	<b>2017</b>
Return on sales	7.9	9.9
Operating return	7.6	10.3
Gross return	8.8	9.9
Net return	7.2	7.9

Return on assets and equity is illustrated by the following values (in %):

<b>Specification</b>	<b>2018</b>	<b>2017</b>
Return on assets	6.5	7.0
Return on equity	10.5	12.3

Financial liquidity in a static approach is presented by the following ratios:

<b>Specification</b>	<b>2018</b>	<b>2017</b>
Acid test ratio	2.7	2.1
Increased liquidity ratio	1.7	1.4

In 2018, cash flows from operating activities amounted to PLN 349.9 million.

Compared to 2017, in the accounting period the assets of Stalprodukt S.A. Capital Group increased by PLN 421.6 million, i.e. by 11%. Fixed assets increased by PLN 277.6 million compared to the previous year and amount to PLN 2 313.5 million.

In the discussed period, the value of current assets increased by PLN 144.0 million.

In 2018, equity increased from PLN 2 235.7 million (2017) up to PLN 2 699.8 million and accounts for 62% of the balance sheet total.

Non-current liabilities of Stalprodukt S.A. Capital Group as on 31 December 2018 amounted to PLN 497.8 million, of which long-term loans and borrowings constitute PLN 150.8 million.

In comparison to 2017, there was an increase in non-current liabilities by PLN 12.2 million.

In non-current liabilities, the amount of PLN 296.1 million is related to the recognition of the risk related to the acquisition of ZGH "Bolesław" S.A., i.e. costs of liquidation of "Olkusz-Pomorzany" mine, liability for mining damages, possibility of not recovering the funds put into in Gradir Montenegro, severance pay for employees of the mining division, claims related to coal allowance in kind and guarantees and sureties. Short-term loans and borrowings at the end of 2018 amounted to PLN 160.8 million. Net working capital increased from PLN 1 017.2 million in 2017 to PLN 1 988.5 million at the end of 2018.

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Return on equity in Stalprodukt Capital Group in the analysed period amounted to 10.5%, and the balance of cash as on 31 December 2018 amounted to PLN 472.6 million.

#### **Assessment of the results and financial situation**

In terms of results obtained, the year 2018 was worse for Stalprodukt Capital Group than 2017. The Group recorded an increase in sales revenue by 13%, however, the profit on sales (down 20% YoY), operating profit (down 26% YoY) and net profit (down 9% YoY).

The Capital Group has not experienced payment bottlenecks consistently implementing the adopted policy in risk management. The parent company is also not threatened by changing exchange rates due to the mainly natural hedging of this risk. On the other hand, ZGH "Bolesław" S.A. and its subsidiaries conduct an active hedging policy. In accordance with the strategy of hedging against the effects of a drop in prices of zinc, lead and silver as well as the dollar exchange rate, subsidiaries identify and assess the impact of the risk related to changes in metals prices and the exchange rate on the financial result, cash flow and balance sheet on an ongoing basis.

In 2018, there were slight changes in the shaping of the assets and sources of its financing. There was an increase in fixed assets by PLN 277.6 million, i.e. 14%, as well as current assets by PLN 142.0 million, i.e. 8%. In the current assets group, stocks increased by 24% and non-current receivables increased by 12%, respectively.

The Group's assets increased by PLN 419.6 million, that is by 11%. The increase in assets was accompanied by a drop in financing sources in the position of provisions and liabilities by 3%.

In the analysed period there was an increase in non-current liabilities on account of deliveries by 24%. Equity accounts for 62% of equity and liabilities, and liabilities- 38%. The book value per one ordinary share increased from PLN 400.72 to PLN 483.82 (by 21%).

Throughout the accounting period, the Parent Company and the majority of companies from the Capital Group maintained good financial liquidity, as evidenced by liquidity ratios and timely performance of all liabilities, both towards employees and suppliers as well as the budget and financial institutions.

The Capital Group is not overly indebted, the use of current loans throughout the period was moderate. In the opinion of the financing banks, the Stalprodukt Group has continuous creditworthiness, and the results achieved as well as the transparent property and ownership situation enable it to obtain financing in various forms.

In the accounting period, the Parent Company and subsidiaries renewed contracts with banks for multi-purpose lines of credit aimed at hedging the Group's financing sources.

The Management Board does not expect deterioration of the Group's financial situation in 2019. In order to maintain good financial situation and liquidity, works on restructuring Group companies and further undertakings are being carried out, in particular in the area of gaining new markets for supply and sales, rational stock and receivables management as well as cost reductions.

The management of financial resources should be considered as correct, as evidenced by the achievement of good economic ratios and maintaining financial liquidity and creditworthiness, as well as timely performance of liabilities.

#### **4. Assessment of factors and unusual events affecting the result of operations for the financial year, with determination of the degree of impact of these factors or unusual events on the result achieved**

- positive impact on the financial results achieved in the previous year had better results of the Steels Segment by 53.3% due to the acquisition of GO Steel Frydek-Mistek a.s. based in the Czech Republic;
- on the other hand, the consolidated result of Stalprodukt was adversely affected by the results of the Profiles Segment; their drop amounted to over 93.8% (from PLN 16.8 million to PLN 1.0 million) while maintaining the level of revenues at the level of 2017. In this segment, a 25% increase in revenue from the sales of road barriers should be positively assessed, while the sales of service centre products (a 25% decrease) had a negative impact.
- The following factors played an important role in the Zinc Segment:
  - an increase in annual average zinc prices of 0.9%, a drop in the annual average prices of lead and silver by 3% and 8% respectively;
  - changes in annual average USD/PLN exchange rates by -4%;
  - increase in the prices of coke, coke breeze and gas;
  - 2018 is another year of decline in mining production resulting from the depletion of the deposits in "Olkusz-Pomorzany" mine, which means the end of mining operations planned for the end of 2020. The Gradir Montenegro mine in Montenegro increased its ore mining and concentrate production in 2018, however it did not offset the drop in total production in the Capital Group, as it is a small mine with an annual output of approx. PLN 600 thousand tonnes of ore;
  - zinc metallurgical production in 2018 was at a slightly lower level than in 2017, i.e. 160 thousand tonnes (in 2017: 162 thousand tonnes);
  - refined lead metallurgical production in 2018 was comparable to 2017, while less silver was produced in the form of Dore metal;
  - lower sulphuric acid production in 2018 means less use of sulphide charges in zinc production, and more use of oxide charges.
- **Steel market situation**

According to data published by Worldsteel, 1,789.6 million tonnes of steel were produced in the world in 2018, which means an increase of 4.5 percent compared to 2017. In the European Union, steel production dropped by 0.3 percent, to 168.5 million tonnes, and in Poland this drop was higher and amounted to 1.3% (down to approx. 10.3 million tonnes).

As a result of these negative trends, the share of the EU producers in the world production of crude steel once again decreased (from 9.7% in 2017 to 9.3% in 2018). Among the ten largest steel producers in the world there is only one EU country – Germany (7th place with production of 42.4 million tonnes). China with production at the level of 928.3 million tonnes, which constitutes 51.3% of global steel production, remains in the first place of this list. At the same time, this means maintaining a high, over 6-percent growth in relation to 2017.

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It is estimated that the increase in apparent consumption of steel in the European Union amounted to approx. 2.2% (to the level of approx. 163 million tonnes), which means slightly higher growth rate than in 2017. (1.3 %).

The biggest problem for European Union producers is excessive steel import. In the whole year of 2018, it increased by over 12%. For comparison, the European Union producers managed to sell only 0.6% more volumes to the EU market than in the previous year.

A strong increase in import in the second half of the year clearly shows that despite the provisional protective measures imposed by the European Commission in July 2018, the European Union producers continued to fail to compete with importers. Such a situation proves that access to the market of other regions was more effectively blocked by the protectionist measures imposed on them, which in turn led to the uninterrupted supply of steel to the EU market.

#### **• General economic situation**

The economic conditions on the domestic market positively affected the Company's operations in 2018.

According to initial estimates, gross domestic product in 2018 increased in real terms by 5.1% annually (against an increase by 4.8% in 2017). Domestic consumption demand remained the main growth driver. Total consumption was higher than a year before by 4.3%, including consumption in the household sector increased by 4.5%. Gross accumulation was higher than a year before by 9.2% (6.2% in 2017), including gross expenditure on fixed assets increased by 7.3% (against a 7.9% drop in the previous year). Domestic demand was 5.3% higher than a year before (when it increased by 4.9%). Gross added value in the national economy increased at a faster pace than the one recorded in the previous year (5.0% vs. 4.7%). In manufacturing, gross added value increased by 5.5%, and in construction industry increased by 17%.

#### **5. Information on concluded contracts significant for the issuer's operations, including contracts known to the issuer concluded between shareholders (partners), insurance contracts, collaboration or cooperation contracts**

On 15 December 2017, a contract was signed for the purchase of the shares of GO Steel Frydek Mistek a.s. with registered office in the Czech Republic from ArcelorMittal S.A. with registered office in Luxembourg. The final remuneration, which consists of cash payment, conditional payment and the value assigned to a signed trade contract, amounted to EUR 40 million. The agreement was conditional and its entry into force was conditional on obtaining consent for the concentrations of relevant antitrust authorities in Austria, Turkey and Germany. On 16 February 2018, the Issuer obtained the last required consent of the antitrust authority in Turkey, thereby fulfilling the condition suspending the entry into force of the contract for the purchase of shares of the entity Go Steel Frydek Mistek a.s. The transaction was completed on 28 February 2018. Consequently, Go Steel Frydek Mistek a.s. is consolidated from 1 March 2018 by full consolidation method.

#### **6. Organisational and capital links with other entities**

Stalprodukt S.A., together with 11 subsidiaries, forms the Capital Group. Stalprodukt holds 100% shares in subsidiaries, with the exception of Zakłady Górniczo-Hutnicze "Bolesław" S.A., in which

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it holds 94.92% of shares.

Stalprodukt S.A., as the parent company in the group, sets out the directions of operations and development of subsidiaries established as a part of restructuring process and taken over to expand production, commercial and service operations.

The main objects of operations of the Capital Group companies are:

- production of electrical transformer steels - parent company Stalprodukt S.A., GO Steel Frydek Mistek a.s.,
- production of cold formed sections, safety road barriers as well as cold rolled and hot rolled steels and cut strips - parent company Stalprodukt S.A.,
- mining of non-ferrous ores and production of zinc and lead – ZGH "Bolesław" S.A. together with subsidiaries:
  - Huta Cynku "Miasteczko Śląskie" S.A. – production of rectified zinc, lead and cadmium,
  - Boltech Sp. z o.o. – energy, laboratory and mechanical-construction services, transport-equipment and forwarding services, production of dolomite aggregates, zinc products and zinc alloys,
  - Gradir Montenegro d.o.o. – zinc-lead ore mining and concentrate production,
  - Agencja Ochrony Osób i Mienia "Karo" Sp. z o.o. - protection of property and persons,
  - PRD Olkusz S.A. – road construction and repairs (subsidiary of Boltech Sp. z o.o.).
- trade operations:
  - Stalprodukt-Centrostal Kraków Sp. z o.o.,
  - Stalprodukt-Zamość Sp. z o.o.
- other production and service operations:
  - production of galvanized lightning hoop irons and wires as well as steel strips - Cynk-Mal S.A.,
  - production of cold rolled steels – GO Steel Frydek Mistek a.s.,
  - production and remanufacturing of spare parts – Stalprodukt-Wamech Sp. z o.o.,
  - installation, repairs and maintenance of machinery – Stalprodukt-Serwis Sp. z o.o.,
  - production of steel structures – STP Elbud Sp. z o.o., Stalprodukt-Wamech Sp. z o.o.,
  - galvanizing services – STP Elbud Sp. z o.o. and Cynk-Mal S.A.,
  - construction, maintenance of roads and motorways – Stalprodukt MB Sp. z o.o.,
  - protection of property and people – Stalprodukt-Ochrona Sp. z o.o.,
  - designing of equipment related to the use of renewable energy sources – Anew Institute Sp. z o.o.



## **7. Transactions concluded by the issuer or its subsidiary with affiliated entities on terms other than market conditions**

Transactions with affiliated entities in 2018 concern:

- sales of products and goods to companies within Stalprodukt Capital Group,
- provision of services for Stalprodukt S.A. by subsidiaries.

These are typical and routine transactions, provided on a continuous basis, concluded on market terms within the capital group and resulting from current operating activities. Other significant transactions with affiliated entities did not occur.

## **8. Information on loan and borrowing contracts concluded or terminated in 2018**

In the accounting period, the Capital Group used loan limits in current accounts.

### **Contracts concluded by Stalprodukt S.A.**

In 2018, the Company concluded 3 loan contracts:

- with Bank Societe Generale S.A. with its registered office in Warsaw for a multi-purpose loan limit of PLN 15 000 thousand, intended for the use of overdrafts, opening letters of credit and granting guarantees (up to PLN 5 000 thousand),
- with Bank PKO BP S.A. with its registered office in Warsaw for an investment loan in the amount of PLN 100 000 thousand for refinancing expenses related to the purchase of shares of Go Steel Frydek Mistek a.s. Loan granted for the period up to 30 June 2023
- with Bank Handlowy, on 22 February 2018, contract for payment of loan in the amount of PLN 80 000 thousand for the purchase of GO Steel Frydek Mistek shares, with repayment date 21 December 2018. Interest was collected on a monthly basis, the interest rate was based on WIBOR 3M. The hedging was freezing the amount of PLN 80 000 thousand established on the property account of ZGH "Bolesław" and a blank bill of exchange. The loan was repaid in full at once on 31 August 2018.

In addition, the following loan contracts were extended with the annexes:

- Contract on a multi-purpose line of credit for overdrafts, guarantees and letters of credit with BGŻ BNP Paribas S.A. with registered office in Warsaw, with a limit of PLN 50 000 thousand. As part of the loan limit, Stalprodukt-Wamech Sp. z o.o., a company of the capital group, may use a sublimit in the amount of PLN 2 000 thousand. The contract is valid until 30 September 2019.
- Credit limit at Bank Handlowy w Warszawie S.A. for a revolving credit for granting bank guarantees and opening letters of credit with a revolving limit of up to PLN 65 000 thousand. The line of credit concerns the amount of PLN 50 000 thousand for the purpose of overdraft and issuing guarantees and letters of credit with a deadline of up to 18 months (this contract is valid until 4

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January 2019) and PLN 15 000 thousand for long-term guarantees up to 6 years (in this scope valid until 5 July 2019).

As at the balance sheet date, the following contracts were also in force:

- with Bank PKO BP S.A. with its registered office in Warsaw for a multi-purpose loan limit of PLN 150 000 thousand, intended for the use of overdrafts (up to PLN 95 000 thousand), opening letters of credit and granting guarantees (up to PLN 40 000 thousand). As part of the loan limit, Stalprodukt-Centrostal Kraków z o.o. and STP Elbud Sp. z o. o., companies of the capital group, may use sublimits in the amount of PLN 5 000 thousand, PLN 10 000 thousand respectively. The term of the contract is: 12 August 2019.
- with Bank Pekao S.A. with its registered office in Warsaw for a line of credit up to the total amount of PLN 100 000 thousand for the overdraft limit (up to PLN 72 000 thousand) and for issuing guarantees and opening letters of credit (up to PLN 10 000 thousand). As part of the credit limit, STP Elbud Sp. z o.o. and Cynk-Mal S.A., companies of the capital group, may use sublimits in the amount of PLN 13 000 thousand and PLN 15 000 thousand respectively. The term of the contract is: 30 September 2019.

**A list of ZGH "Bolesław" S.A. lines of credit**

In the accounting period, ZGH "Bolesław" used the loan limits in open accounts:

- ING Bank Śląski S.A. for USD 10 000 thousand,
- Bank Polska Kasa Opieki S.A. for the amount of PLN 30 000 thousand,
- BNP Paribas Bank Polska S.A. for PLN 15 000 thousand,
- Deutsche Bank Polska S.A. for the amount of USD 350 thousand and PLN 1 554 658,
- HSBC Bank Polska S.A. for the amount of EUR 6 000 thousand. The currency used is PLN, USD, EUR.

**Other loan contracts of ZGH "Bolesław" S.A.**

On 2 April 2015, the Company concluded a borrowing contract with National Fund for Environmental Protection and Water Management (NFOŚiGW) in Warsaw for co-financing the implementation of the undertaking entitled "Construction of the Flotation Waste Processing Plant – Processing system in the process of flotation enrichment of flotation waste obtained from the settling ponds of Zakłady Górniczo-Hutnicze" Bolesław "S.A.". A borrowing in the amount of PLN 42,161.8 thousand was granted for the period from 01 February 2015 to 20 December 2022 and has an interest rate of 3.5% per annum. The balance of debt as at 31 December 2018 is PLN 34.4 million.

In connection with the merger of 03 April 2017 of ZGH Zakłady Górniczo-Hutnicze "Bolesław" S.A. with the company Bolesław-Recycling Sp. z o.o., ZGH took over the liabilities resulting from Borrowing No. 243/2011/WN-06/OZ-UK/P for financing the implementation of the undertaking entitled "Expansion of the Rolldown Furnace System in Bolesław Recycling Sp. z o.o.". The borrowing in the amount of PLN 29,332,800 was granted for the period from 1 October 2011. up to 20 December 2020, the interest rate of 3.5% per annum.

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At the request of ZGH Bolesław "S.A. on 06 July 2018, a part of the borrowing in the amount of 7,915,550.00 constituting 28.19% of the borrowing amount has been decommitted by National Fund for Environmental Protection and Water Management with Resolutions No. B/39/02/2018 of 17 September 2018 and B/41/1/2018 of 02 October 2012. The value of the debt is 0.

Due to the fact that ZGH "Bolesław" on 02 January 2018 acquired an organised part of the enterprise, i.e. ZPC Zespół Kotłowni, which includes assets financed with funds from loan contracts with Voivodeship Fund for Environmental Protection and Water Management (WFOŚiGW) in Kraków, on 29 January 2018 there were contracts signed to take over the Rights and Obligations resulting from the aforementioned loan contracts:

- Borrowing No. P/114/15/21 for the financing of the task called "Development of a dust collection system from boilers located in Bolesław boiler plant" in the amount of PLN 4 742 900 until 15 December 2022. The debt level as at 31 December 2018 is PLN 2.7 million.
- Borrowing No. P/115/15/21 for the financing of the task called "Development of a dust collection system from boilers located in Dąbrówka boiler plant" in the amount of PLN 890,995.99 until 15 December 2020. The debt level as at 31 December 2018 is PLN 0.4 million.
- Borrowing No. P/116/15/21 for the financing of the task called "Development of a dust collection system from boilers located in Olkusz boiler plant" in the amount of PLN 1,104,900.00 until 15 December 2020. The debt level as at 31 December 2018 is PLN 0.4 million.

**Lines of credit of Huta Cynku "Miasteczko Śląskie" S.A.**

In 2018 Huta Cynku "Miasteczko Śląskie" had open credit lines in the following banks, using three-currency credit lines and transaction limits for treasury transactions.

- GETIN NOBLE BANK S.A. PLN 5,000 thousand,
- Credit Agricole Bank POLSKA PLN 5,000 thousand,
- PKO BP SA. PLN 10,000 thousand,
- Pekao SA. PLN 15,000 thousand,
- ING Bank Śląski S.A. PLN 30,000 thousand

The contract with GETIN NOBLE Bank expired at the end of 2018, the company did not extend cooperation.

The Steel Works cooperated with Alior Bank S.A., Bank BGŻ BNP Paribas S.A. and mBank S.A in the area of treasury transactions within the limits of transaction limits.

**Other loan contracts of HCM S.A.**

Huta Cynku "Miasteczko Śląskie" has a loan contract with National Fund for Environmental Protection and Water Management (NFOŚiGW) in the amount of PLN 37.0 million and with Voivodeship Fund for Environmental Protection and Water Management (WFOŚiGW) for PLN 20.4 million. Debt as at 31 December 2018 due to this is PLN 48.4 million.

Other companies of the Capital Group had open lines of credit in banks.

**9. Information on borrowings, sureties and guarantees granted in 2018**

**a) borrowings, sureties and guarantees granted by Stalprodukt S.A.**

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The balance of other loans granted only to affiliated entities was as at the balance sheet date as follows:

- interest-bearing borrowing (WIBOR 1M + margin) in the amount of PLN 12 000 thousand granted on 28 October 2009 to Cynk-Mal S.A. Remaining amount to be paid is PLN 6 000 thousand, according to the annex to the loan contract of 29 October 2018, repayment is due on 31 December 2020;
- interest-bearing borrowing (WIBOR 1M + margin) in the amount of PLN 20 000 thousand granted on 24 May 2009 to Stalprodukt-Profil S.A. Remaining amount to be paid is PLN 10 000 thousand, according to the annex to the loan contract of 21 December 2018, repayment is due on 31 December 2019;
- interest-bearing borrowing (WIBOR 1M + margin) in the amount of PLN 20 000 thousand granted on 24 May 2009 to StalNet Sp. z o.o. Remaining amount to be paid is PLN 10 000 thousand, according to the annex to the loan contract of 21 December 2018, repayment is due on 31 December 2019.
- interest-bearing borrowing (WIBOR 1M + margin) in the amount of PLN 500 thousand granted on 5 December 2018 to the subsidiary Anew Institute Sp. z o. o. It is due for repayment on 31 December 2019.

In addition, as at the balance sheet date, the surety issued by Stalprodukt S.A. of the blank bill of exchange issued by STP Elbud Sp. z o.o. for the bank Pekao S.A. with its registered office in Warsaw in connection with the investment loan of PLN 13 000 thousand taken in 2015. The outstanding loan amount is PLN 5 200 thousand, repayment date is 31 December 2020.

As at the balance sheet date, the company has no contingent liabilities other than due to the aforementioned bill of exchange surety and performance bond regarding the production and assembly of road barriers. As at 31 December 2018, the total amount of unexpired guarantees in this respect is PLN 20 775 thousand.

**b) borrowings, sureties and guarantees granted by companies of Stalprodukt S.A. Capital Group**

ZGH "Bolesław" Capital Group has contingent liabilities, which at the end of 2018 amounted to PLN 174.4 million, which includes the value of established sureties and guarantees, including:

- performance bond for the contracts concluded with National Centre for Research and Development (NCBiR) for co-financing 5 investment projects for the total amount of PLN 61.4 million,
  - "Verification based on the trial line of the new technology of ZGH Bolesław S.A. for high purity zinc electrolytic separation in order to increase the share of secondary raw materials in the electrolytic zinc production process to the level that is a breakthrough in the industry", (POIR.01.01.02-00-0159/16-00). The investment project value is PLN 38,873,197. The expiration date of the liability is 30 June 2026.
  - "Demonstration in the operational conditions of the innovative process of producing ZN-Pb-AG flotation concentrate to increase recovery of Ag and Zn from slurries from the extraction process of roasted zinc concentrates being the key to effective management of mining waste after processing of zinc and lead ores (POIR.01.01.02-00-0080/17-00). The investment project value is PLN 4,976,178. The expiration date of the liability is 31 March 2026.

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- "Development of an innovative technology for the recovery of zinc in the rolldown process from metallurgical waste mixtures along with the treatment of post-process slags to the form of poor iron ore substitute" (POIR.01.01.02-00-0206/17-00). The investment project value is PLN 12,000,000. The expiration date of the liability is 31 August 2025.
- performance bond for the contracts concluded by Huta Cynku "Miasteczko Śląskie" for co-financing of two investment projects for a total amount of PLN 5.6 million,
- performance bond for repayment of loan to National Fund for Environmental Protection and Water Management (NFOŚiGW) in Warsaw taken for financing two investment tasks (in ZGH and HCM) in the amount of PLN 72.0 million,
- performance bond for repayment of the remaining amount of loans to Voivodeship Fund for Environmental Protection and Water Management (WFOŚiGW) in Kraków taken over as a result of the purchase from BOLTECH sp. z o.o. of the Heating Plant - PLN 3.5 million,
- bank guarantees granted to suppliers of materials (culm, fuels, electricity, zinc concentrates, coking coal) - PLN 13.1 million,
- performance bond for the contract 856/IG/2012 concluded with the State Treasury - Minister of the Environment for the use of geological information on the zinc and lead ore deposit "Pomorzany" for remuneration up to the amount of PLN 10.5 million,
- performance bond for leasing contracts - PLN 13.4 million,
- other performance bonds - PLN 0.4 million.

In addition, as at 31 December 2018, the ZGH "Bolesław" Capital Group has asset securities on property for a total amount of PLN 95.9 million:

- contractual mortgage on KW GLIT/00094659/8 - PLN 37 million,
- court registered pledge on the collection of purchased or manufactured goods - PLN 37 million,
- court registered pledge on coking coal stock - PLN 1 million,
- transfer of receivables from the term deposit account in the amount of PLN 20.6 million,
- contract on transfer of ownership of tangible fixed assets for the amount of PLN 0.3 million.

## **10. Information on the use of proceeds from the issue by the issuer**

In the period covered by the statement, the Company did not issue any securities.

## **11. Information on own shares owned by the Company**

The issuer did not have own shares during the accounting period.

## **12. Information on branches owned by the Company**

The company has two branches, being production departments of cold formed sections:

- a) Stalprodukt S.A., Formed Profiles Department P3, ul. Nad Drwiną 10, 30-741 Kraków
- b) Stalprodukt S.A., Formed Profiles Department P4, Al. Piaskowa 122, 33-100 Tarnów

## **13. Explanations of differences between the financial result reported in the annual statement and the previously published forecasts of results for a given year**

The Company does not publish forecasts.

#### **14. Assessment of financial resources management**

The management of financial resources should be considered as correct, as evidenced by the achievement of good economic ratios and maintaining financial liquidity and creditworthiness, as well as timely performance of liabilities.

#### **15. Information on financial instruments**

Detailed information on financial instruments in the scope of:

- a) risks: related to changing prices, loan, major obstructions to cash flow and cash flow loss, to which the entity is exposed,
- b) goals and financial risk management methods adopted by the entity, including hedging methods for crucial types of intended transactions to which hedge accounting is applied have been included in the Stalprodukt S.A. Financial Statement (Section 7. Financial Instruments and Risk Management Assessment).

#### **16. Assessment of possibility to implement the intended investments**

The current, broad investment plan in the organic development of the Company (increase in the production of transformer steels, new lines for the production of sections, equipment for service centres) was implemented entirely from the developed own resources.

The amount of depreciation write-offs and planned financial results indicate that there is no threat in the implementation of further intended investments.

#### **17. Investment operations and R&D works**

##### **17.1 Investment operations**

- a) Stalprodukt S.A.

The most important investment tasks carried out in 2018 in the parent company include:

- installation and acceptance of equipment for collection and removal of internal flash for profiling lines 3 and 9 (Profiles Department in Bochnia);
- modernisation of the control system of another Ipsen furnace at the Transformer Steels Department;
- obtaining a permit to use a compression and hydrogen loading station. As a result, in the second half of 2018, hydrogen sales started;
- continuation of the construction of a five-star hotel at ul. Kopernika in Kraków. At the end of 2018, finishing works were started (the planned launch of the hotel is expected in the second half of 2019);

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- commencement of the investment task to monitor utilities and the "Start - Stop" system;
- modernisation works related to the M-1 wind farm with a vertical rotary axis with power of 200 kW.

**b) Capital Group**

The investment operations were carried out mainly by companies belonging to the Zinc Segment.

In 2018, expenditures on non-financial fixed assets in ZGH "Bolesław" S.A. Capital Group amounted to PLN 155.1 million and were almost twice as high as in 2017 (PLN 84.4 million).

The high value of investment expenditures incurred in 2018 results from the implementation of several significant (in terms of volume) investment projects in the metallurgical part of the Group, including: "Construction of the new Tub Hall", "Construction of the Charge Batcher Hall in ZGH "Bolesław" S.A." and "Expansion of the System for Recovery of Zinciferous Waste in Recycling".

Investment "System for the production of 2-ton SHG and ZnAl alloys" and modernisation of the Wet Electrostatic Precipitator was being implemented in Huta Cynku, "Miasteczko Śląskie".

The most important investment tasks completed in 2018 in the mining area at ZGH "Bolesław" were: "Expanding the mining area" Klucze I", "Preparatory activities related to the "Laski" investment project, "Construction of the Zn-Pb-Ag flotation concentrate system", tasks related to the construction and maintenance of settling ponds.

Gradir Montenegro, on the other hand, incurred expenditures for works related to the construction of a new settling pond, construction of a bar mill and water recovery, water treatment system, and a filter press.

## **17.2 Research and development works**

**a) Stalprodukt S.A.**

Stalprodukt S.A. completed in June 2018 the implementation of a project in the field of renewable energy sources. The consortium established in 2013 and composed of three entities, i.e. Stalprodukt S.A. (as the leader), a subsidiary Anew Institute Sp. z o.o. and the AGH University of Science and Technology in Kraków, obtained funding from the National Centre for Research and Development for the implementation of the project under the Demonstrator+ programme under the name: "Innovative wind power plant with a vertical axis of rotation, with power of 1.5 MW, equipped with a converter system to obtain high efficiency of converting wind energy into electricity at low wind speeds. Design project for a wind farm demonstration model with a vertical rotation axis with power of 1.5 MW".

As part of this project, a model (prototype) of the turbine was constructed, which was placed in Miasteczko Śląskie on the premises belonging to the company from the Capital Group - Huta Cynku "Miasteczko Śląskie" S.A. In accordance with the contract concluded with National Centre for Research and Development (NCBiR), the Company submitted the final report on the project implementation.

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During the start-up works, there was a failure of the compensator (which was repaired), and then the turbine wings. It is anticipated that due to the required scope of works, the re-start of testing the turbine will commence at the end of 2019.

**b) Capital Group**

Capital expenditures of 2018 implemented by ZGH "Bolesław" S.A. should be supplemented with expenditures on R&D operations in the amount of PLN 23.1 million, resulting from three projects implemented under contracts signed by ZGH "Bolesław" with the National Centre for Research and Development:

- a) "Verification based on the trial line of the new technology of ZGH Bolesław S.A. for high purity zinc electrolytic separation in order to increase the share of secondary raw materials in the electrolytic zinc production process to the level that is a breakthrough in the industry";
- b) "Demonstration in the operational conditions of the innovative process of producing Zn-Pb-Ag flotation concentrate to increase recovery of Ag and Zn from slurries from the extraction process of roasted zinc concentrates being the key to effective management of mining waste after processing of zinc and lead ores;
- c) "Development of an innovative technology for the recovery of zinc in the rolldown process from metallurgical waste mixtures along with the treatment of post-process slags to the form of poor iron ore substitute".

In the Zinc Segment, research and development works are constantly carried out due to complicated technological processes that require continuous and systematic optimisation. These works concerned mainly the possibilities of enriching alternative charges, recovery of metals from various waste materials, management of sludge and other technological waste, possibility of increasing the production of zinc and lead from oxide raw materials, reduction of pollutants in water and air, and the possibility of post-reduction excess gas management. The vast majority of these works are commissioned to research institutes or other institutions.

In 2018, ZGH "Bolesław" completed the research work under the INNOTECH programme entitled "Development of technology for the production of innovative zinc alloys for dip galvanizing adapted to specific types of steel products".

The total amount of ZGH "Bolesław" expenditures for R&D works in 2018 amounted to PLN 23.8 million.

Huta Cynku "Miasteczko Śląskie" S.A., as an industrial partner of the Institute of Non-Ferrous Metals, participated in the RIGaT project, which aims to recover metals - indium, germanium in metallic form from the steelworks circulation materials.

In addition, HCM implemented two research projects under the INNOSTAL programme:

- development of a computer system supporting the production process of zinc and lead, adapted to the capabilities and needs of Huta Cynku in Miasteczko Śląskie;
- development of an innovative technology of electricity generation from metallurgical waste gases with simultaneous reduction of chlorine ion emission in sewage.



The amount of HCM expenditures for R&D works in 2018 is PLN 3.8 million.

In total, the ZGH "Bolesław" Capital Group spent PLN 27.6 million on R&D works in 2018 (in 2017 it was PLN 5.3 million).

## **18. Information on employment, remuneration and training**

Detailed information on employment, its structure, level of remuneration and training were included in the statement on non-financial information.

## **19. Information on the adopted development strategy of the issuer and its capital group and activities undertaken as part of its implementation in the period covered by the statement along with a description of the issuer's development prospects at least in the following financial year**

The company has been planning to strengthen its position on the transformer steels market for many years. This operating segment is crucial from the point of view of the impact on Stalprodukt's unit results. The issuer already a few years ago signalled the possibility of taking over one of the foreign manufacturers of transformer steels. Such a potential step was assumed, as in the Development Directions of Stalprodukt Capital Group for 2011-2015 announced by the Management Board in May 2011. This scenario of the strategy implementation became possible in 2017, when the purchase contract was signed for 100% shares in GO Steel Frydek Mistek a.s. with its registered office in the Czech Republic, belonging to the ArcelorMittal group. The successful completion of this transaction took place on 28 February 2018, and from 1 March of last year the results of this entity are consolidated within Stalprodukt Group. The consequence of this acquisition is the increase of production capacity of transformer steels from 100 thousand tonnes/year to 150 thousand tonnes/year, as well as expanding the Group's production offer by previously non-manufactured cold rolled steels. Actions were taken to exploit the synergy effects between Stalprodukt S.A. and GO Steel Frydek Mistek a.s. Marketing and price policy within the Group has been unified, and purchases of charge materials for both companies are made jointly with the same supplier (using the economies of scale). In addition, thanks to the transaction, Stalprodukt gained access to cold rolled steels, which are used to produce cold formed sections.

For several years, the company has also been implementing a project to launch the production of high quality transformer steels (so-called HiB). In 2018 regular tests were carried out with charge material with appropriate quality parameters. Thanks to the improvement of the process, a significant increase in the production of HiB material was achieved last year.

The strategy for the Zinc Segment announced in 2016 is being implemented successively. The most important elements of this strategy include:

- a) obtaining a license for the exploitation of Klucze I deposit and extending the operation life of "Olkusz-Pomorzany" mine by 2020;

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- b) commissioning a flotation waste processing plant;
- c) merger of ZGH "Bolesław" S.A. and Bolesław-Recycling sp. z o.o.;
- d) construction of a new tub hall

"Klucze I" deposit is a deposit richer in terms of metal content than currently extracted. The exploitation of the ore from this part of the deposit will allow for the extension of the mining part until 2020 (previous plans assumed that operations would cease by 2017).

In 2016, ZGH "Bolesław" S.A. completed the investment project entitled "Construction of flotation waste processing plant". The new system has started production of blended concentrate since January 2017. In the first year of operation of the system, nearly 10 thousand tonnes of concentrate. The target production volume is about 20 thousand tonnes of concentrate/year). It should be added that technical and economic works are underway on the possibility of producing a selective concentrate from flotation waste (currently the plant produces Zn-Pb concentrate, sold to Huta Cynku "Miasteczko Śląskie"). In 2018, the first tests were carried out, which brought positive results.

According to the plans, as part of the simplification of the organizational structure of the Zinc Segment, on 3 April 2017, the merger of Bolesław-Recycling Sp. z o.o. and ZGH "Bolesław" S.A. in accordance with the Merger Plan, i.e. by transferring all assets of the acquired company Bolesław-Recycling Sp. z o.o. to the acquiring company ZGH "Bolesław" S.A. without creating new shares and increasing the share capital of the acquiring company.

Since 2017, ZGH "Bolesław" has been implementing a key investment named "Construction of the new Tub Hall", which aims to replace the old, worn out facility with a new facility using the latest technical and technological solutions in the field of zinc production. New Tub Hall will be a fully automated facility, providing a 1.5% lower energy consumption in production and a decisive improvement of working conditions at the "zinc extractor" workstation.

Implementation of this investment will allow for increasing the electrolytic zinc production capacity of the company from 80 thousand to 100 thousand tonnes per year. In addition, it will be possible to increase the share of secondary raw materials in the production of zinc by electrolysis method.

## **20. Characteristics of external and internal factors important for the issuer's business development**

### **External factors significant for development of the Company and the Group**

- **GDP level**

In 2019-2020, the dynamics of domestic GDP will gradually decline. Domestic consumption will remain an important factor in the growth of domestic demand, which will be supported by the continued improvement of the situation on the labour market, positively affecting disposable income and consumer sentiment.

- **Domestic demand**

In the NBP projection, household consumption will remain the main source of economic growth. Favourable development of the situation in the labour market, from the point of view of the employees, resulting in maintaining the dynamics of the remuneration budget at a high level will contribute to a relatively high consumption. The situation on the labour market, as well as the payment of benefits from the "Rodzina 500 plus" programme, positively influence the mood of households, increasing their propensity to consume. Private consumption increase will also be driven by a low level of interest rates that reduces the cost of financing consumer spending with a loan. However, in the years 2019-2020 higher than in the current year inflation will start to limit the purchasing power of households more significantly. Thus, the consumption growth rate will gradually decrease.

In the current year, the dynamics of investment will accelerate, and the sector of government and self-government institutions will remain as the main source of growth in this category. In the following years, the growth rate of gross fixed capital formation will begin to gradually decrease with the growing share of private sector investment.

The high dynamics of public investments in 2018 mainly consists of growing expenditures of local government units. The increase of investments implemented by these entities was caused, on the one hand, by the acceleration of the inflow of EU funds in this year, and on the other hand - by projects implemented in connection with local government elections.

In 2019-2020, the dynamics of gross fixed assets expenditures of the public finance sector will significantly decrease in the wake of the slower growth rate of absorption of the EU funds, after reaching a high level of their use already in 2018.

It is expected that the forecasted growth of private sector investment will accelerate over the next quarters, but it will not reach the maximum level from previous business cycles and in 2020 it will decline again.

- **Inflation**

According to the NBP's forecast, the CPI inflation rate will grow and in 2019-2020 it will reach 3.2% in 2019 and 2.9% in 2020.

The rise in CPI inflation will be caused - affecting prices with delay - growing cost and demand pressure in the Polish economy. The costs of businesses are increased, in particular, by the higher remuneration growth rate, which in real terms exceeds the increase in labour productivity. Higher inflation will also be driven by demand pressure, reflected in the positive demand gap in the years 2018-2020, while the sensitivity of price growth to changes in the domestic economic situation has decreased in recent years.

At the same time, energy prices for households and businesses will increase, the increase will be the strongest in 2019. The acceleration of inflation of domestic energy prices in 2019 and - to a lesser extent - in 2020, is associated with the temporal influence of the recorded in the current year increase in energy commodity prices on global markets.

- **Exchange rates**

In recent months, due to increased uncertainty on global markets, zloty weakened against the currencies of Poland's main trading partners. The current level of the domestic currency is currently below the level resulting from fundamental factors. The forecast expects that the effective real exchange rate of zloty will

strengthen, gradually approaching the equilibrium exchange rate. The scale of the expected strengthening of zloty is limited by the declining interest rate disparity. The drop in disparity results from the assumption in the forecast of the lack of changes in NBP interest rates with a simultaneous increase in the cost of money in the environment of the Polish economy.

### **The level of demand for steel products**

According to the forecast prepared by EUROFER, given that the increase in activity in steel-using sectors in the European Union will slow down in 2019-2020, explicit steel consumption is expected to continue to decrease. The average increase in real steel consumption was 2.7% per annum in 2014-2017. Apparent consumption of steel in the EU is expected to increase by 0.5% in 2019 and by 1.2% in 2020.

### **The most important internal factors of the Group's development include:**

- the need to achieve a significant increase in the share of production of high grades of transformer steels (HiB). Taking into account the trends on the market, it is a necessary condition for improving the Company's competitive position;
- optimisation and better use of the potential (including in particular production capacities) of the Profiles Segment;
- improving the functioning of the national distribution network after the organisational changes that took place in mid-2018 (taking over off-site warehouses from Stalprodukt Centrostal Kraków and including them in the structure of the Stalprodukt marketing director division);
- better use of the new version of IFS Applications (including in particular the production management module);

## **21. Description of significant risk factors and threats, including the extent to which the issuer is exposed to them**

### **a) macroeconomic environment**

- The results of the Capital Group's operations are strongly dependent on the general economic situation on the local market and in the European Union countries, in particular the development of such industries as construction industry and manufacturing. Although the forecasts for 2019 prepared by the NBP assume a slightly lower (4%) growth rate of Polish GDP than in 2018 (5.1%), it is still a relatively high level, especially in relation to other EU countries.

The PKO BP Bank also raised its forecasts regarding the pace of growth of Polish GDP in 2019 (in relation to earlier assumptions). According to its analysts, GDP in 2019 will increase by 4.1 percent instead of the previously anticipated 3.7 percent. The basis for higher forecasts is the fiscal impulse, i.e. changes proposed by the government.

Similar forecasts were presented by the Fitch Rating Agency, which in March of this year increased forecasts of GDP growth in Poland in 2019 to 4.0 percent from 3.8 percent in December. Its correction is also justified by fiscal stimulation.

However, the economy of Germany, the most important export market in Poland, which is expected to grow by only 0.8 percent in 2019, may have an adverse effect on demand (forecast prepared by independent economic advisers of the government).

- High expenditures on infrastructure investments should positively affect the sale of road barriers by the Company. A threat to the positive scenario of the development of the situation in this product group may be the deepening problems of construction companies implementing large road projects.

**b) demand for steel products in Europe**

The demand for steel products on the European Union markets is an important factor in the growth of sales of products manufactured by the Group. In 2018, the increase in apparent consumption of steel in the European Union was 2.6%. However, forecasts for the current year are less favourable and assume an increase of 0.5%.

Unfortunately, there are concerns that imports from third countries will continue to grow, which will translate into lower sales of the European Union manufacturers and further loss of market share.

**c) situation on the market of supply of charge materials and measures to protect the EU market**

Introduced measures to protect the EU market against excessive steel imports in the form of quantitative quotas and customs duties imposed after exceeding the admissible import volumes limit the access of the EU processing companies to competitively priced charge materials (mainly hot rolled steels, which are the basic material used for the production of cold rolled steels or products such as pipes and profiles). Consequently, this leads to unfavourable price relations between the costs of purchasing charge materials and the prices of finished products. This causes a drop in margins and deterioration in the profitability of many processing companies.

Stalprodukt Group has noticed these problems for several years, especially in relation to the Profiles Segment. The situation of service centres, that is, those with a relatively low degree of processing, is particularly difficult. Effective competition on this market, especially with the local steels manufacturer (ArcelorMittal) is very difficult.

At the same time, there are still no effective measures to protect the market for finished products (especially such as pipes and profiles manufactured by the Company). The high level of quotas imposed

as a result of the European Commission's protection procedure means that a 25% customs duty can only be a potential obstacle for importers from third countries.

Possible deterioration of competitiveness as a result of undertaken protective measures on the EU market is an important risk factor for the Profiles Segment.

**d) Existing measures to protect the market of transformer steels manufacturers**

Solutions introduced by the European Commission in 2015 with regard to imports of transformer steels from outside the EU also did not meet their expectations. The applied mechanism of minimum

import prices turned out to be ineffective, as prices of imported material fell to the level of minimum prices.

**e) further increase in production costs, especially electricity.**

Due to the nature of technological processes, both Stalprodukt and zinc steelworks operating within the Zinc Segment are energy-consuming companies. High prices of CO<sub>2</sub> emissions, which persist in recent months, affect the increase in prices of electricity supplied by power companies. The continuation of this trend may adversely affect the profitability of the Capital Group and the level of future results.

**f) risks associated with the operations of the Zinc Segment**

The market risk related primarily to changes in metal prices and exchange rate fluctuations is naturally entered into the operations of the Zinc Segment. Limiting this risk to a safe level is carried out through active risk management involving the use of derivative instruments and entering into hedging transactions.

Other threats to the further operations of the Zinc Segment include:

- risk of changes in the prices of energy resources,
- risk of changes in the prices of CO<sub>2</sub> emission rights,
- short perspective of own resource base,
- upcoming process of liquidation of "Olkusz-Pomorzany" mine (possibility of submerging),
- price fluctuations of zinc concentrates and the possibility of limited access to raw materials resulting from increased global demand,
- owner consolidation of the zinc industry in the mining and metallurgical area.

An important factor influencing the reduction of zinc production costs is the cost of energy carriers, i.e. electricity, coking coal and gas. For many years, investment companies have been implementing investments that reduce the energy consumption of processes. Such activities in reducing the costs of coking coal, gas and electricity consumption are also planned for the next years. In addition, in the case of electricity prices, a policy of concluding short and medium term contracts based on a fixed purchase price is applied.

**g) risk of an industrial accident**

Due to the nature of the business and the risks associated with it, Stalprodukt S.A. is exposed to events that may affect the safety of people and the environment. The plant is currently not classified as an increased or high risk of an industrial accident, as demonstrated by the *Analysis of the Plant's Application*. Despite this, the Plant declares maintaining a safety management system in which the following functions operate: Accident Prevention Programme and elements of the management system required by the Environmental Protection Act.

In addition, the Company has a document regulating the procedure in the event of a failure - "Manual for the prevention of major industrial accidents at Stalprodukt S.A. in Bochnia". The purpose of the

manual is to ensure identification and counteracting potential dangerous incidents that may affect people and the environment, as well as defining post-failure procedures that limit the effects of these potential incidents.

**h) risks related to financial instruments**

Other risks arising from financial instruments, i.e. credit and contract risk, liquidity risk and market risk are described in detail in the Additional Information and Explanatory Notes to the Financial Statement (Section 7: Financial Instruments and Risk Management Assessment).

**22. Changes in the basic principles of managing the issuer's business and its capital group**

In 2018, there was a significant change in the scope of the principles of the sales network of the Profiles Segment's products.

Taking into account the changes taking place on the market and in its competitive environment, assumptions of organizational changes related to the functioning of the sales network of products of the Profiles Segment (excluding barriers) were developed jointly with the management of the subsidiary Stalprodukt-Centrostal Kraków Sp. z o.o. It should be recalled that previously the aforementioned subsidiary managed the national product distribution network on the basis of trade warehouses leased from Stalprodukt S.A., located in Gliwice, Wrocław, Radom, Szczecin and Włocławek.

The most important reasons for introducing changes include improvement of the efficiency of warehouse management of finished products and reduction of costs related to the sales network.

**Due to the above, as of 1 July 2018, changes in the functioning of the national distribution network took place, including:**

- creation of the Off-site Warehouses department in the structure of the Marketing Director Division, with simultaneous liquidation and takeover of all warehouses from the structures of Stalprodukt-Centrostal Kraków Sp. z o.o. currently located there - including ready-made products (termination of lease agreements),
- taking over warehouse employees of Stalprodukt-Centrostal Kraków by Stalprodukt on the basis of Article 23 of Labour Code,
- repurchase of finished products by Stalprodukt located in Stalprodukt-Centrostal Kraków as at the end of June this year at market prices,
- sale of the products of Stalprodukt Profiles Segment by Stalprodukt-Centrostal Kraków based on an agency contract (this contract was signed on 28 June 2018). Under its terms, purchases and sales are not made on the subsidiary's own account, but on behalf and for the account of Stalprodukt - based on the powers of attorney granted.

**23. All contracts concluded between the issuer and executives, providing for compensation in the event of their resignation or dismissal from their position without a valid cause or when their dismissal proceeds for a reason of merging the issuer by takeover**

The benefits due to Members of the Management Board in connection with the termination of their employment relationship are specified in individual employment contracts concluded with the Members of the Management Board.

According to the aforementioned contracts if the Management Board member is removed from office during the term of office, the Company is obliged to pay compensation, depending on the function performed within the Management Board, in the amount of 6- or 12-month average remuneration of the member of the Management Board.

Employment contracts also contain anti-competition clauses after the termination of the employment relationship. According to these provisions, a Member of the Management Board is obliged to refrain from activities competitive to the Company for a period of 12 months from the termination of the employment relationship.

Depending on the function performed within the Management Board, he/she is entitled to 100 percent compensation during this time or 75 percent average salary (for the first 6 months) and 50% average remuneration for the next six months.

**24. Value of remuneration, bonuses or benefits paid, due or potentially due, separately for each member of the Management Board and Supervisory Board**

1. Value of remuneration of executives (in PLN):

	Basic salary	Performance bonus	Remuneration due to performing functions in the authorities of subordinated entities	Total
Piotr Janeczek	1 324 774	616 809	189 065	<b>2 130 648</b>
Józef Ryszka	451 789	316 526	50 724	<b>819 039</b>
Łukasz Mentel	446 329	316 526	100 561	<b>863 416</b>
<b>Total</b>	<b>2 222 892</b>	<b>1 249 861</b>	<b>340 350</b>	<b>3 813 103</b>

2. Value of remuneration of officers (in PLN):

	Allowance	Remuneration due to performing functions in the authorities of subordinated entities	Total
Janusz Bodek	81 516	57 387	<b>138 903</b>
Sanjay Samaddar	0		<b>0</b>
Magdalena Janeczek	76 857		<b>76 857</b>
Agata Sierpiska-Sawicz	83 844		<b>83 844</b>



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Romuald Talarek	76 857		76 857
<b>Total</b>	<b>319 074</b>	<b>57 387</b>	<b>376 461</b>

The above information is consistent with the knowledge available to the Company as at the date of the statement.

**25. Information on any liabilities arising from pensions and similar benefits for former executives, officers or former members of administrative bodies and liabilities under these pensions**

The issuer does not have any obligations arising from pensions and similar benefits for the executives, officers or former members of the Company's administrative bodies.

**26. Total number and nominal value of all stocks (shares) of the issuer and stocks and shares in the affiliated entities of the issuer, in the possession of the executives and officers of the issuer, separately for each person**

**26.1 Stalprodukt S.A. shares owned by executives and officers**

**a) executives:**

<b>Full name</b>	<b>Number of Issuer's shares</b>	<b>Nominal Value (PLN)</b>
Piotr Janeczek	115 053	230 106
Józef Ryszka	504	1 008
Łukasz Mentel	100	200

**b) officers:**

<b>Full name</b>	<b>Number of Issuer's shares</b>	<b>Nominal Value (PLN)</b>
Janusz Bodek	61974	123948

According to the knowledge held by the Company, other officers did not own Stalprodukt S.A. shares

**26.2 Stocks (shares) in affiliated entities of the Issuer, owned by the executives**

The table below presents stocks/shares owned by Mr. Piotr Janeczek.

<b>No.</b>	<b>Name of the entity</b>	<b>Quantity of owned stocks/shares</b>	<b>Nominal Value (PLN)</b>
1.	STP Investment S.A.	9908 000	9 908 000
2.	Stalnet Sp. z o.o.	60	60 000
3.	Stalprodukt Profil S.A.	210 000	210 000

Moreover, indirectly, i.e. through the STP Investment S.A. entity, Mr. Piotr Janeczek owns 50,200 shares in the company F&R Finanse Sp. z o.o., whose nominal value is PLN 25,100,000.00.

Other members of the Management Board and the Supervisory Board did not owe any shares in the Issuer's affiliated entities.

**27. Information on contracts known to the issuer (including the ones concluded after the balance sheet date), which can bring in the future changes in the proportions of shares held by the present shareholders**

In the accounting period, as well as in the period after the balance sheet date, there were no contracts known to the Company, as a result of which future changes may occur in the proportions of shares owned by the existing shareholders.

**28. Indication of significant proceedings pending before the court, competent arbitration tribunal or public administration authority regarding liabilities and receivables of the issuer or its subsidiary**

An important proceeding pending before the court is the case brought by Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o in Olkusz against ZGH "Bolesław" S.A. for payment of compensation for mining damages in the amount of PLN 64,015,224.00 (reference number IX GC 99/14).

On 25 April 2018, the District Court in Kraków, IX Commercial Division (combined cases, ref. No. IX GC 543/13), issued judgements in the following cases regarding ZGH "Bolesław" S.A.:

- a. in the case brought by Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o in Olkusz against ZGH "Bolesław" S.A. for payment of compensation for mining damages in the amount of PLN 64,015,224.00 (reference number IX GC 99/14) issued a judgement, acknowledging the complaint of PWiK sp. z o.o. in Olkusz as justified as to the principle. The possible amount of compensation will be the subject of further proceeding and can amount to a maximum of PLN 64 million. In connection with the process, ZGH "Bolesław" S.A. created a reserve of PLN 15 million in 2015. The judgement is not final. The company announced that it would appeal against the judgement;
- b. in the case brought by the company against PWiK sp. z o.o. in Olkusz to determine that the Company is not responsible for the lack of water supply from mine drainage after its liquidation and is not liable for contamination of existing or former water intakes of PWiK sp. z o.o. (ref. No. IX GC 543/13), issued a judgement in which it dismissed the complaint. The judgement is not final. The company announced that it would appeal against the judgement.

The Issuer informed about the aforementioned judgements and the opinion of the company ZGH "Bolesław" S.A. in this matter, in the current report No. 6 of 25 April 2018. The Issuer acknowledges the opinion of the subsidiary (the "Company") contained in this report, which is given below:

- a. *since the beginning of 2017 PWiK sp. z o.o. ceased using the mine water made available by the Company for its statutory operations. From that moment, it uses only the water supply system it built*

*itself, based in particular on water intakes in Kolbark, Cieślin and Bydlin. The above intakes seem to be enough to supply Olkusz region with water;*

- b. the value of expenditures of PWiK sp. z o.o. on the construction of a new water supply system is recognised as a damage to the case. In this state, it should be pointed out that as of today PWiK sp. z o.o. has spent around PLN 29 million gross on this purpose. These are funds for the construction of water intakes described above and the construction of pipelines for its distribution. Therefore, at the moment, the potential damage is this amount, not PLN 64 million;*
- c. in the Company's opinion, the possible amount of compensation should be the net amount (excluding VAT, which PWiK sp. z o.o. may deduct). This means that the amount indicated above should be reduced by 23%;*
- d. in the construction of the PWiK water supply network sp. z o.o. benefited from the EU funding in the amount of 60-80% of the investment value. In the Company's opinion, in this respect, the opponent did not suffer any damage;*
- e. when determining the amount of compensation, it is necessary to exclude investments related to the water-supply operations, e.g. equipment for chlorination of water, UV irradiation;*
- f. the above issues will probably be the subject of a further process, including valuations made by experts.*

In addition, it should be noted that the aforementioned judgements are directly related to the issue of contingent liabilities related to the acquisition of ZGH "Bolesław" S.A., which was described in detail in the consolidated financial statements of Stalprodukt S.A. for 2013. (section 11. Settlement of the purchase price of ZGH "Bolesław" S.A.). Contingent liabilities were defined as resulting from risks identified by the acquiring entity related to, among others, the costs of liquidation of "Olkusz-Pomorzany" mine and liability for mining damage. The total amount resulting from the aforementioned estimates amounted to PLN 296 115 thousand. This amount was presented in the balance sheet as at 31 December 2013 in the item "contingent liabilities due to the purchase of ZGH" Bolesław "S.A.".

## **29. Information on the control system of employee shares schemes**

The Company does not operate the employee shares schemes.

## **30. Information on the selection of an audit firm**

Indication:

- a) the date of conclusion of the contract by the issuer with an audit firm to analyse or review the financial statements or consolidated financial statements and the period for which the contract was concluded**

The contract with the audit firm Polscy Biegli Sp. z o.o. was concluded on 20 July for a period of two years and includes an annual audit and a review of semi-annual separate and consolidated financial statements of Stalprodukt S.A.

- b) did the issuer use the services of the selected audit firm, and if so, in what period and what was the scope of these services,**

Until conclusion of the aforementioned contracts for analysis and review of financial statements, the Company did not use other services of the selected audit firm.

- c) the body that selected the audit firm,**

The choice was made by the Supervisory Board of the Company based on the recommendation of the Audit Committee.

- d) remuneration of an audit firm paid or due for the financial year and previous financial year, separate analysis of the annual financial statement, other assurance services, including a review of the financial statement, tax advisory services and other services, provided that the obligation is considered fulfilled if the place where this information is included in the financial statement is indicated.**

The remuneration for the audit company was:

- for the review of the semi-annual separate statement – PLN 18,000;
- for the review of the semi-annual consolidated statement – PLN 16,000.

In addition, the price for auditing annual financial statements shall be:

- separate financial statement – PLN 45,000;
- consolidated financial statement – PLN 22,000.

## **Part II. Declaration on the application of corporate governance principles in the Company**

This Declaration on the application of corporate governance by Stalprodukt S.A. in 2018 has been prepared on the basis of Article 49 (2a) of the Act of 29 September 1994 on Accounting (consolidated text Journal of Laws of 2019, item 351) and § 70 (6)(5) of the Regulation of the Minister of Finance of 29 March 2018 regarding current and periodic information provided by issuers of securities and conditions for recognising information required by the law of a non-member state as equivalent (i.e. Journal of Laws of 2018, item 757).

### **a) indication**

- **of a set of corporate governance principles to which the issuer adheres and the place where the text of the set of principles is publicly available**

The company is subject to the corporate governance principles contained in the document "Good Practices of Companies Listed on WSE 2016". The content of this document is available on the Company's website ([www.stalprodukt.com.pl](http://www.stalprodukt.com.pl)), in the section "Investor relations" and the tab under the name "Corporate governance".

- **of a set of corporate governance principles that an issuer could choose to use voluntarily, and a place where the text of the collection is publicly available**

The company has not decided to adopt other corporate governance principles to apply than those presented above.

- **of all information about the corporate governance practices applied by the issuer, going beyond the requirements provided for by domestic law together with information on the practices in the area of corporate governance applied by it**

The company does not implement corporate governance practices that go beyond the requirements provided for by domestic law.

- b) to the extent that the issuer has waived the provisions of the set of corporate governance principles referred to in letter and the first and second indents, an indication of these provisions and an explanation of the reasons for this waiver**

**The company did not declare the following principles and recommendations:**

✓ **Principle I.Z.1.16:**

*The company runs a corporate website and publishes, in a legible form and a separate place, in addition to information required by law, information on the planned broadcast of the general meeting - no later than 7 days before the date of the general meeting,*

Due to the relatively small participation of shareholders in general meetings of the Company, the broadcast of the general meeting seems pointless, all the more due to the necessary organisational

and technical conditions and the disproportionately high costs of implementing such a solution. In the event of a request to broadcast the general meeting by a larger number of shareholders, the Company will consider changing policy in this respect.

✓ **Principle I.Z.1.20. :**

*The company runs a corporate website and publishes, in a legible form and a separate place, in addition to the information required by law, a record of the proceedings of the general meeting, in the form of audio or video.*

Due to the non-application of the principle related to the broadcast of the general meeting, the Company does not publish relevant entries either in the form of audio or video.

✓ **recommendation IV.R.2.**

*If it is justified due to the shareholder structure or the expectations of shareholders proposed to the company, if the company is able to provide the technical infrastructure necessary for the smooth conduct of the general meeting by means of electronic communication, it should enable shareholders to participate in the general meeting using such means, in particular through:*

- 1) *real-time broadcast of the session of the general meeting,*
- 2) *real-time two-way communication, under which shareholders can make comments on the course of the session of the general meeting, staying at a place other than the place of the session of the general meeting,*
- 3) *exercising, in person or by an authorised representative, the voting right in the course of the general meeting.*

In accordance with the previous opinion of the Company, the provisions of the Articles of Association do not allow shareholders to participate in the general meeting by means of electronic communication or to exercise their voting rights. As regards the possible broadcast of the general meeting in real time, an appropriate explanation was included in the comment to the principle I.Z.1.16.

**c) description of the main features of internal control and risk management systems used in the issuer' business with regard to the process of preparation of financial statements and consolidated financial statements**

The financial statements are prepared by the Head of Accounting and Tax Department based on financial data from the IFS financial and accounting system, subject to the arrangements specified in the accounting principles (policy) of Stalprodukt S.A.

From 1 January 2005, Stalprodukt S.A. prepares financial statements in accordance with the International Financial Reporting Standards adopted by the European Union, and to the extent not regulated by the above Standards, in accordance with the requirements of the Polish Accounting Act.

Substantive supervision over the process of preparing financial statements and periodic reports of the Company is performed by the Finance Director who performs preliminary control of the financial statements

and then submits them to the Management Board for final verification.

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The Corporate Affairs and Special Projects Office located in the Chief Executive Officer division, is responsible for the organisation of works related to the preparation of annual and semi-annual financial statements.

In addition, the Audit Committee operating within the Supervisory Board monitors the financial accounting process.

Annual and semi-annual financial statements are subject to independent analysis and review by expert who express their opinion on the reliability, correctness and clarity of these statements and the correctness of the accounting books that constitute the basis for their preparation. The expert auditor is selected by the Supervisory Board taking into account the recommendations of the Audit Committee.

**d) indication of the shareholders holding, either directly or indirectly, substantial packages of shares, along with the indication of number of shares held by these entities, their percentage share in initial capital, number of votes resulting from them and their percentage share in the overall number of votes at the general meeting,**

As at the date of this report, shareholders holding at least 5% of the total number of votes at the General Meeting of Shareholders include:

- STP Investment S.A. holding 1 829 319 shares, constituting 32.78% share in the capital and 5 875 691 votes, constituting 48.17% of the total number of votes at the General Meeting of Shareholders.
- Stalprodukt Profil S.A. holding 579 652 shares, representing 10.39% of the share in the capital and 1 095 488 votes, constituting 8.98% of the total number of votes at the General Meeting of Shareholders.
- ArcelorMittal Sourcing and société en commandite par actions holding 1 066 100 shares, constituting 19.10% of share in the capital and 1 066 100 votes, constituting 8.74% of the total number of votes at the General Meeting of Shareholders.

In addition, Piotr Janeczek holds indirectly, i.e. through:

- STP Investment S.A. - 1 829 319 shares, constituting 32.78% share in the capital and 5 875 691 votes, constituting 48.17% of the total number of votes at the General Meeting of Shareholders.
  - Stalprodukt Profil S.A. - 579 652 shares, representing 10.39% of the share in the capital and 1 095 488 votes, constituting 8.98% of the total number of votes at the General Meeting of Shareholders,
  - F&R FINANSE sp. z o.o. - 43 807 shares, constituting 0.79% of share in the capital and 43 807 votes, constituting 0.36% of the total number of votes at the General Meeting of Shareholders,
  - Stalnet sp. z o.o. - 135 564 shares, constituting 2.43% share in the capital and 383 572 votes, constituting 3.14% of the total number of votes at the General Meeting of Shareholders
- i.e. a total of 2 588 342 shares, constituting 46.38% share in the capital and 7 398 558 votes, constituting 60.65% of the total number of votes at the General Meeting of Shareholders.

Taking into account the shares held directly by Mr. Piotr Janeczek, jointly (i.e. directly and indirectly) he holds 2,703,395, shares of Stalprodukt S.A., constituting 48.45% of share in the capital and 7 973 471 votes, constituting 65.36% of votes at the General Meeting of Shareholders.

**e) indication of holders of any securities that would give special control rights along with description of these rights,**

There are no securities giving special control rights.

**f) indication of any restrictions with regard to exercising the voting right, such as restriction in exercising the voting right by holders of a certain part or number of votes, time limitations concerning exercising the voting right or provisions, according to which, in cooperation with the Company, equity rights related to securities are separated from holding securities,**

There are currently no restrictions regarding the exercise of voting rights assigned to the Company's shares.

**g) indication of any restrictions on the transfer of ownership of the issuer's securities,**

The A, B and E series shares issued by the Company are registered preference shares. Pursuant to § 12 (2) and (3) of the Articles of Association of Stalprodukt S.A.:

*The management of registered shares requires the prior written consent of the Management Board. The decision of the Management Board regarding the consent or lack of consent should be issued within 7 days from the date of submission of the application in this case by the seller or buyer (§ 12 (2)).*

*In the event of failure to consent to the seller referred to in the preceding paragraph, the Management Board shall indicate the buyer of the shares within 7 days of receipt of the application (§ 12 (3)).*

The remaining shares of the Company - series C, D, F and G - are bearer shares, listed on the Warsaw Stock Exchange. There are no restrictions in trading these shares.

**h) description of the principles concerning appointment and dismissal of executives and their rights, in particular the right to make decision on issue or repurchase of shares**

The Management Board of the Company operates based on the provisions of the Commercial Companies Code and the Articles of Association. Pursuant to § paragraph 1 of the Articles of Association, the Management Board consists of two to four persons appointed for a three-year period by the Supervisory Board as follows: The President of the Management Board is appointed by the Supervisory Board from among candidates proposed by Members of the Supervisory Board, other members of the Management Board are appointed by the President of the Management Board. The Supervisory Board dismisses members of the Management Board – with the exception of the President of the Management Board.

The President and members of the Management Board may also be appointed from outside the group of shareholders. A contract of employment with the President and members of the Management Board shall be concluded on behalf of the Company - the Chairman of the Supervisory Board or another representative of the Supervisory Board delegated from among its members.

The Management Board represents the Company outside in relation to the authorities, third parties, in court and outside the court. The President of the Management Board alone or two Members of the



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Management Board jointly or one Member of the Management Board with one of the persons having joint commercial representation

he Management Board is responsible for conducting current affairs of the Company. The detailed course of action of the Management Board, as well as matters requiring a resolution of the Management Board and matters that may be dealt with on behalf of the Management Board by its individual Members, are defined in the Management Board Regulations (this document is available on the Company's corporate website). These Regulations are adopted by the Management Board itself at the request of the President of the Management Board and are subsequently approved by the Supervisory Board.

According to Article 36 of the Articles of Association of Stalprodukt S.A., reducing or increasing the share capital of the Company is within the competence of the General Meeting.

According to Article 431 of the Commercial Companies Code, the increase of the share capital requires amendment of the Articles of Association and takes place by issuing new shares or increasing the nominal value of the existing shares.

In turn, according to Article 417 § 1 of the Commercial Companies Code, redemption of shares is made at the price quoted on the regulated market, according to the average exchange rate from the last three months before adopting a resolution or when shares are not listed on a regulated market at a price determined by an expert selected by the general meeting.

**i) description of the principles of changes in the Articles of Association or the issuer's company deed.**

The amendment of the Articles of Association is adopted by the General Meeting. Resolutions of the General Meeting regarding amendments to the statute require a 3/4 majority of votes cast. Amendments to the Articles of Association are made in accordance with the Commercial Companies Code and are in the competence of the general meeting under the Articles of Association.

**j) manner of operation of the general meeting and its basic powers as well as the description of the shareholders' rights and the manner of exercising them, in particular principles resulting from the regulations of the general meeting, if such regulations have been adopted, unless the information in this respect stems directly from the law**

The General Meeting of Shareholders of the Company operates based on the regulations contained in the Commercial Companies Code and the Articles of Association. The manner of operation of the general meeting and its basic powers are specified in the Regulations of the General Meeting of Shareholders of Stalprodukt S.A. approved by Resolution No. XXVI/16/2010 of the General Meeting of Shareholders of 25 June 2010.

**Pursuant to § 2 of the Regulations of the General Meeting of Shareholders:**

1. *The general meeting can be ordinary or extraordinary.*
2. *The Ordinary General Meeting is convened by the Management Board of the Company based on the adopted resolution, the date falling not later than six months after the end of each financial year.*
3. *The extraordinary general meeting is convened by the Management Board on its own initiative, at a request of the shareholder(s) or at representing at least one twentieth of the share capital. The request to convene an extraordinary general meeting, must be submitted by the shareholder or shareholders to*

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*the Management Board of the Company in writing or in electronic form to the Company's valid e-mail address: [walne.zgromadzenie@stalprodukt.pl](mailto:walne.zgromadzenie@stalprodukt.pl). In the case of submitting the request in electronic form, the Management Board of the Company is authorised to take the necessary actions to verify the credibility of the submitted application. If the Management Board of the Company is unsure about the origin of the request, the Shareholder or Shareholders are obliged to provide the Company with declarations or documents confirming the right to submit the request.*

- 4. The Supervisory Board may convene an ordinary general meeting if the Management Board of the Company fails to convene it within the time specified in the provisions of the commercial companies code or the articles of association, and an extraordinary general meeting if it considers it necessary to convene it.*
- 5. Shareholders may convene an extraordinary general meeting based on authorisation by the Registry Court, if within 2 weeks from the date of submitting the request to the Management Board, the meeting has not been convened. The court calls the Management Board to make a statement and appoints the chairman and date of the meeting.*
- 6. Shareholders representing at least half of the share capital or at least half of all votes in the company can convene an extraordinary general meeting. Shareholders appoint the chairman of such meeting.*

**Pursuant to § 3 of the Regulations of the General Meeting of Shareholders:**

- 1. The general meeting may adopt resolutions only in matters included in the agenda.*
- 2. The detailed agenda is set by the Management Board of the Company and specified in the notification.*
- 3. A shareholder or shareholders who represent at least one twentieth of the Company's share capital may request that specific matters are placed in the agenda of the general meeting. The request should be submitted to the management board no later than twenty one days before the set date of the meeting. The request should contain the justification or draft resolution concerning the suggested item in the agenda. The request may be submitted in electronic form.*
- 4. A shareholder or shareholders representing at least one twentieth of the share capital may, before the date of the general meeting, propose the company in writing or by electronic means, draft resolutions concerning matters placed in the agenda of the general meeting or matters which are to be put in the agenda. The Company shall promptly publish the draft resolutions on its website.*
- 5. In cases not covered by the agenda - the resolution cannot be adopted, unless the whole share capital is represented at the general meeting and none of the present persons reported objection concerning adoption of the resolution.*
- 6. Each shareholder may submit draft resolutions during the general meeting concerning matters introduced to the agenda of the general meeting.*
- 7. The requests for convening an extraordinary general meeting and requests of regulations nature may be adopted even if they have not been included in the agenda.*

**In turn, pursuant to § 31 of the Articles of Association:**

- 1. The General Meeting may adopt resolutions only in matters included in the agenda.*
- 2. The Management Board of the Company adopts the agenda.*
- 3. A shareholder or shareholders who represent at least one twentieth of the Company's share capital may request that specific matters are placed in the agenda of the General Meeting. The request should be submitted to the Management Board no later than twenty one days before the set date of the*

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*meeting. The request should contain the justification or draft resolution concerning the suggested item in the agenda. The request may be submitted in electronic form.*

- 4. A shareholder or shareholders representing at least one twentieth of the share capital may, before the date of the General Meeting, propose the company in writing or by electronic means, draft resolutions concerning matters placed in the agenda of the General Meeting or matters which are to be put in the agenda. The Company shall promptly publish the draft resolutions on its website.*
- 5. Each shareholder may submit draft resolutions during the General Meeting concerning matters introduced to the agenda.*

**Competences of the General Meeting include (§ 36 of the Articles of Association):**

- 1. Dismissal of the President of the Management Board.*
  - 2. Consideration and approval of the annual financial statements of the Company, the annual statement of the Management Board on the operations of the Company, as well as the consolidated financial statements of the Capital Group.*
  - 3. Deciding on the distribution of profits or on the method of covering losses.*
  - 4. Acknowledgement of the fulfilment of duties by authorities of the Company.*
  - 5. Amendment of the Articles of Association.*
  - 6. Increase or decrease of the share capital of the Company.*
  - 7. Change in the subject of the Company's business.*
  - 8. Merger or transformation of the Company.*
  - 9. Liquidation of the Company, selection of liquidators and determination of the division of the Company's assets after liquidation.*
  - 10. Issuance of bonds.*
  - 11. Provisions concerning claims for compensation for damage caused when establishing the Company and managing or supervising.*
  - 12. Deciding on the use of supplementary capital and deciding on the creation and allocation of reserve capitals.*
  - 13. Other competencies under the Commercial Companies Code to the sole properties of the meeting of shareholders, except for consent to the purchase and sale of real estate, perpetual usufruct or a share in real estate, which has been delegated to the competence of the Supervisory Board*
- k) description of the issuer's management, supervisory or administrative bodies and their committees, together with an indication of the composition of these bodies and the changes that have occurred in them during the last financial year, including. l**

**Management Board**

The Management Board of the Company operates based on the provisions of the Commercial Companies Code, the Articles of Association and the Regulations of the Management Board approved by the Resolution of the Supervisory Board No. 17/X/2016 of 16 December 2016. According to § 16 of the Articles of Association, the Management Board of the Company consists of two to four persons appointed for a three-year term by the Supervisory Board.

In the current term of office, the Management Board of Stalprodukt S.A. operates in a three-member team:

- Mr Piotr Janeczek - President of the Management Board-Chief Executive Officer

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- Mr Józef Ryszka - Member of the Board-Chief Marketing Officer
- Mr Łukasz Mentel - Member of the Board - Chief Financial Officer

In 2018, there were no changes in the composition of the Management Board. The detailed course of action of the Management Board, as well as matters requiring a resolution of the Management Board and matters that may be dealt with on behalf of the Management Board by its individual Members, are defined in the Management Board Regulations.

### **Supervisory Board**

The supervisory body of the issuer is the Supervisory Board, which may be composed of 5 to 7 people (in the current term of office, the Supervisory Board consists of 5 people).

The Supervisory Board in 2018 included:

- Janusz Bodek - Chairman
- 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

In 2018, there were no changes in the composition of the Supervisory Board.

The Supervisory Board meets once a quarter or more often at the invitation of the Chairman. In addition, the meeting of the Supervisory Board must be convened at the written request of three members of the Supervisory Board, submitted to the Chairman or at the request of the Management Board.

The specific duties of the Supervisory Board include:

- 1) *Election of the President and Members of the Management Board. Dismissal of Members of the Management Board, with the exception of the President of the Management Board.*
- 2) *Assessment of the financial statement, the statement of the Management Board on the Company's operations and the requests of the Management Board as to the distribution of profit or covering the loss for the previous financial year.*
- 3) *Consideration of balance sheets covering quarterly periods with the right to make comments with requests for explanations from the Management Board, checking commercial books and the Company's cash at any time at its own discretion.*
- 4) *Submission of a statement on the performance of duties to the General Meeting of Shareholders during the financial year.*
- 5) *Suspension in activities for important reasons of the President and members of the Management Board.*
- 6) *Delegating own members to temporarily perform the duties of members of the Management Board who can not perform their functions.*
- 7) *Approving the Regulations of the Management Board of the Company and the organisational regulations of the Company's business.*
- 8) *Expressing consent for the Company to acquire shares in another company as well as for the sale of those stocks or shares.*
- 9) *Expressing consent to contribute a part of the Company's assets as a contribution in kind to another company.*

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- 10) *Expressing consent to the conclusion of a long-term contract by the Company that obliges the Company to provide a benefit in excess of 10% of equity.*
- 11) *Expressing consent for the disposal of fixed assets by the Company, the value of which exceeds 1% of equity and for donations exceeding PLN 50,000.*
- 12) *Adoption of the plans of the Company's business at the request of the Management Board.*
- 13) *Selection of an expert auditor to analyse the financial statement of the Company.*
- 14) *Adoption of the "Regulations of allowances and remuneration of the Management Board".*
- 15) *Permission to buy or sale a real estate, right of perpetual usufruct or share in real estate.*
- 16) *Appointment of the Audit Committee (if such an obligation results from generally applicable legislation). In such a case, the Supervisory Board adopts the regulations of the Audit Committee, in which it specifies the detailed principles of its functioning.*

The Audit Committee operates within the Supervisory Board. It is composed by:

- 1) Ms Agata Sierpińska-Sawicz - Chairwoman
- 2) Mr. Romuald Talarek - Vice Chairman
- 3) Ms Magdalena Janeczek - Member of the Committee

**l) as regards the audit committee or, where appropriate, the supervisory board or other supervisory or control body where that body exercises the duties of the audit committee, an indication of:**

**-people who meet the statutory independence criteria**

The statutory independence criteria are met by 2 members of the Audit Committee, i.e.:

- Pani Agata Sierpińska-Sawicz;
- Pan Romuald Talarek.

**- people with knowledge and skills in the field of accounting or analysing of financial statements, with an indication of the way of acquiring them**

The person with knowledge and skills in the field of accounting or analysing of financial statements is Ms Agata Sierpińska-Sawicz, who holds a PhD in economics. She acquired this knowledge during her master's studies at the University of Economics, and then doctoral studies at SGH Warsaw School of Economics.

The research issues she dealt with during her studies included such issues as: financial analysis of a business, controlling, financial management of businesses, economics of a business, financial analysis. In turn, her didactic activity includes financial analysis and controlling.

**- people with knowledge and skills in the industry in which the issuer operates, with an indication of the way of acquiring them**

The knowledge and skills in the field of metallurgy, in which Stalprodukt S.A. operates, are possessed by Mr Romuald Talarek, holding PhD in technical sciences. He gained his knowledge during Master's studies at the University of Silesia (faculty of physics, specialisation - solid state physics), and then doctoral studies (metallurgy specialisation) at the Silesian University of Technology. He also completed post-graduate studies (specialisation: metal physics and metal science) at the AGH University of Science and Technology in Kraków. He has

documented training and courses in the management and organisation of production, technology and quality control, information systems, modern technologies in metallurgy.

He acquired his skills while working in companies in the steel industry (Huta Batory in Chorzów and Batorex Sp. z o.o.). Mr R. Talarek was also a long-term president of Polish Steel Association in Katowice.

During his professional career he was also a member of several teams and programme councils at various ministries and he acted in international committees and industry steel organisations (e.g. EUROFER and ESTA).

- **whether there were services provided to the issuer by an audit firm analysing its financial statement being non-audit services and therefore whether the independence of the audit firm was assessed and consent to the provision of such services was given**

The audit firm Polscy Biegli Sp. z o.o., which analysed the financial statement of Stalprodukt S.A., did not provide other non-audit services to the Company.

- **main assumptions of the policy developed for the selection of an audit firm to carry out the analysis and the policy of the audit firm conducting the analysis by affiliated entities to this audit firm and by a member of the audit firm's network of permitted non-audit services**

**The most important assumptions of the policy of selecting an audit firm:**

- in accordance with the regulations applicable to the Company, the entity authorised to conduct the audit is selected by the Supervisory Board, acting on the recommendation of the Audit Committee;
- it is forbidden to introduce any contractual clauses that would require the Supervisory Board to choose an entity authorised to carry out analysis from among a specified category or list of entities authorised to carry out analysis;
- The Supervisory Board when making the final selection, and the Audit Committee at the stage of preparing recommendations, is guided by the following guidelines regarding the entity authorised to carry out the analysis:
  - price proposed by the entity authorised to carry out the analysis;
  - ability to provide a full range of services specified by Stalprodukt S.A. (analysis of unit statements, analysis of consolidated statements, inspections, etc.);
  - previous experience of the entity in the analysis of statements of units with a business profile similar to the Stalprodukt S.A. Group;
  - entity's previous experience in examining the statements of public interest units;
  - professional qualifications and experience of persons directly involved in the conducted analysis;
  - availability of qualified experts in the field of specific issues in financial statements, such as the valuation of actuarial provisions, valuation of derivative instruments, analysis of tax issues,
  - ensuring that the analysis is conducted in accordance with the International Standards on Auditing and Assurance Services and compliance with the International Standard on Quality Control 1;

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- confirmation of the independence of the entity authorised to carry out the analysis as early as at the stage of the selection procedure, this confirmation should apply to Stalprodukt S.A. Group

**The most important Policy assumptions in the scope of providing additional services by the audit firm, an affiliated entity to the audit firm or a member of its network.**

An expert auditor or an audit firm that performs statutory analysis of Stalprodukt S.A. or any member of the network to which the expert auditor or audit firm belongs must not provide directly or indirectly to the analysed entity, its parent company or its entities controlled by it, any prohibited services that are non-audit services of financial statements in the following periods:

- (a) during the period from the start of the period analysed to the issuance of the analysis statement;  
and
- b) in the financial year immediately preceding the period referred to in letter a);

Prohibited services should be understood as defined in Article 5 of the REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL (EU) NO. 537/2014 of 16 April 2014 on detailed requirements regarding joint analysis of financial statements of public-interest units, repealing Commission Decision 2005/909/W in connection with Article 136 of the Act of 11 May 2017 on expert auditors.

Provision of additional, non-prohibited services referred to in Article 136 (2) of the Act of 11 May 2017 on expert auditors, is possible after obtaining the approval of the Audit Committee, based on its assessment of threats and safeguards of independence. The Audit Committee may issue guidelines regarding the use of these services.

- **whether the recommendation regarding the selection of an audit firm to conduct the analysis met the applicable conditions, and whether the selection of the audit firm did not concern the extension of the contract for analysis of the financial statement - whether this recommendation was drawn up following the selection procedure organised by the issuer that met the applicable criteria**

The recommendation regarding the selection of an audit firm to conduct the analysis met the applicable conditions. In addition, the recommendation was prepared following a procedure organised by the issuer that met the applicable criteria.

- **number of meetings of the audit committee or meetings of the supervisory board or other supervisory or controlling body dedicated to performing the duties of the audit committee**

In 2018, the Audit Committee held three meetings.

- **in the event of performing the duties of the audit committee by the supervisory board or another supervisory or controlling body - which of the statutory conditions giving the opportunity to exercise this option have been met, together with the relevant data**

Not applicable. In the case of Stalprodukt, these duties were performed by the Audit Committee.

**m) a description of the diversity policy applied to the administrative, management and supervisory bodies of the issuer**

In accordance with the IZ1.15. principle included in the document "Good Practices of Companies Listed on the WSE 2016", the Management Board of Stalprodukt S.A. adopted last year "Diversity policy in relation to the company's governing bodies and its key managers".

In accordance with the above-mentioned document, the purpose of diversity management at Stalprodukt S.A. is "to create a work environment in which every employed person feels respected

and appreciated, and in which they can fully realize their potential, which contributes to the company's success." In addition, it should be emphasized that the Company creates equal opportunities for employees in terms of access to professional development and promotion regardless of skin colour, religion, sex, age, nationality, sexual orientation, citizenship, marital status, the number of children, political views, disability or other status protected by law.

Pursuant to the "Diversity policy" at Stalprodukt S.A., decisions regarding the employment of employees as well as the selection of members of the Management Board and the Supervisory Board are made on the basis of objective criteria. The company strives to ensure versatility and diversity of the Company's bodies, especially in the area of sex, education, age and professional experience, with the main selection criteria being high qualifications, professionalism and competence of the candidate to perform a particular function.



## **Part III. Declaration on non-financial information**

While preparing this Declaration, Stalprodukt mainly used the Non-Financial Information Standard developed by the Reporting Standards Foundation, however the final form of the report and the scope of information disclosed therein was adjusted to the specific nature of the Capital Group's operations and significant diversification of its individual operating segments.

### **1. Management area**

#### **1.1. Description of the business model and strategic development directions**

Since starting its operations, Stalprodukt S.A. bases its economic strategy on two basic elements, i.e. organic growth and acquisitions. The constantly changing micro- and macroeconomic environment forces continuous optimization and restructuring activities in the Company itself, as in the whole Capital Group. Thanks to this, the Company could focus on its core operations – production (in two main product groups, i.e. transformer sheets and cores, as well as road profiles and barriers), while auxiliary and service activities were taken over by subsidiaries. Such a strategy allows the optimization of operating costs while taking advantage of the synergy effects between companies operating within the Group (these effects are presented in detail in the statement on the operations of Stalprodukt Capital Group).

Stalprodukt S.A. faces in its core activity (steel industry) a significant risk that is related to the cyclical nature of this industry. This risk results from fluctuations in the prices of raw materials, energy mediums, as well as formal and legal business conditions, such as, recent and frequent application of market protection measures (customs and quotas), which significantly disturb healthy competition.

This risk was partially diversified through the purchase of shares of ZGH "Bolesław" S.A. (and indirectly of its subsidiaries) involved in the mining of metal ores (zinc and lead) and the production of zinc, lead and silver, as well as the recycling of the above-mentioned metals. The demand for risk diversification is currently reflected in the three main operational segments of the Group – Electronic Steels, Profiles and Zinc, which currently account for over 90%. Group's revenues and its financial result.

The Management Board of the parent company sets the development directions of the Capital Group, coordinates the strategy of individual companies. It also initiates and supervises optimization activities that streamline the Group's operations. The effect of such activities are, among others, mergers of companies that have taken place in the last few years:

- connection of O cynkownia Stalprodukt – Bolesław with STP-Elbud Sp. z o.o.
- merger of subsidiaries of ZGH "Bolesław" S.A., i.e. Boloil, Bolsped and Boltherm, and the establishment of the Boltech company;
- merger of ZGH "Bolesław" S.A. and Bolesław Recycling Sp. z o.o.

These activities contribute to simplifying the Capital Group's structure and reducing the costs of its operations while maintaining the existing scope of the functions and tasks performed.

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The better use of production capacity, and thus the increase in sales revenues, is one of the most effective ways of combating the growing trend of costs and other charges of the company. In order to achieve it, it is necessary not only to improve the productivity of the production factors used, but also to gain increasingly greater shares in the markets where the Company's products may be placed and thus generate higher revenue.

A conservative approach to the methods of financing its operations (fixed assets are fully financed with equity) is also the basis of the Company's strategy. As a result, a strong capital base and financial independence is achieved thanks to a safe level of debt.

The company has been planning to strengthen its position on the transformer sheet market for many years. This operating segment is crucial from the point of view of the impact on Stalprodukt's unit results. This scenario of strategy implementation became possible in 2017, when a contract was signed for the purchase of 100% shares of GO Steel Frydek Mistek a.s. with its registered office in the Czech Republic. On 28 February 2018 the transaction was successfully closed and from 1 March 2011 the results of this entity are consolidated in the Stalprodukt Group. The consequence of this acquisition is the increase of production capacity of transformer sheets to the level of 150 thousand tonnes/year, as well as expanding the Group's production offer by non-manufactured cold rolled sheets.

In 2016, a strategy for the Zinc Segment was announced. The most important elements of this strategy are:

- obtaining a license for the exploitation of "Klucze I" deposit and extending the operation life of "Olkusz-Pomorzany" mine by 2020;
- commissioning a flotation waste processing plant;
- merger of ZGH "Bolesław" S.A. and Bolesław-Recycling sp. z o.o.;
- construction of a new tub hall

This strategy is being implemented successively.

"Klucze I" deposit is a deposit richer in terms of metal content than currently extracted. The exploitation of the ore from this part of the deposit will allow for the extension of the mining part until 2020 (previous plans assumed that operations would cease by 2017).

In 2016, ZGH "Bolesław" S.A. completed the investment project entitled "Construction of flotation waste processing plant". The new system has started production of blended concentrate since January 2017. In the first year of operation of the system, nearly 10 thousand tonnes of concentrate. The target production volume is about 20 thousand tonnes of concentrate/year).

It should be added that technical and economic works are underway on the possibility of producing a selective concentrate from flotation waste (currently the plant produces Zn-Pb concentrate, sold to Huta Cynku "Miasteczko Śląskie"). In 2018, the first tests were carried out, which brought positive results.

According to the plans, as part of the simplification of the organizational structure of the Zinc Segment, on

3 April 2017, the merger of Bolesław-Recycling Sp. z o.o. and ZGH "Bolesław" S.A. in accordance with the Merger Plan, i.e. by transferring all assets of the acquired company Bolesław-Recycling Sp. z o.o. to the acquiring company ZGH "Bolesław" S.A. without creating new shares and increasing the share capital of the acquiring company.

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Since 2017, ZGH "Bolesław" has been implementing a key investment named "Construction of the new Tub Hall", which aims to replace the old, worn out facility with a new facility using the latest technical and technological solutions in the field of zinc production. New Tub Hall will be a fully automated facility, providing a 1.5% lower energy consumption in production and a decisive improvement of working conditions at the "zinc extractor" workstation.

Implementation of this investment will allow for increasing the electrolytic zinc production capacity of the company from 80 thousand to 100 thousand tonnes per year. In addition, it will be possible to increase the share of secondary raw materials in the production of zinc by electrolysis method.

## **1.2. Division of the Capital Group's entities into operating segments**

For the purposes of this Management Statement on the operations of the Capital Group, the following allocation of companies to individual operating segments was introduced (this classification is also consistent with the division into operating segments presented in the Stalprodukt's consolidated financial statement).

<b>Segment</b>	<b>Companies</b>	<b>Object of operations</b>
<b>Electrical Steels Segment</b>	Stalprodukt S.A. parent company	Production of transformer steels and cores.
	GO Steel Frydek Mistek a.s.*	Production of transformer steels
<b>Formed Profiles Segment</b>	Stalprodukt S.A. parent company	Production of cold rolled profiles, road barriers, steel sheets and strips (hot- and cold rolled).
	Stalprodukt-Centrostal Kraków sp. z o.o.	Wholesale and retail sale of metal products
<b>Zinc Segment</b>	ZGH „Bolesław” S.A.	Mining of non-ferrous metal ores and production of zinc and lead
	Huta Cynku Miasteczko Śląskie S.A.	Production of rectified zinc, lead and cadmium
	Boltech sp. z o.o.	Energy, laboratory and mechanical-construction services, transport-equipment and forwarding services, production of dolomite aggregates, zinc products and zinc alloys.
	Gradir Montenegro d.o.o.	Mining of zinc ores and production of concentrate

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	Karo sp. z o.o.	Security of people and property
<b>Other</b>	Stalprodukt-Wamech sp. z o.o.	Production of structures and spare parts, as well as provision of repair services
	Stalprodukt-Serwis sp. z o.o.	Repair services
	Stalprodukt-Zamość sp. z o.o.	Production of joinery and trade in steel products
	Stalprodukt-MB sp. z o.o.	Construction and maintenance of roads, assembly of safety road barriers
	STP Elbud sp. z o.o.	Production of steel structures and galvanizing services
	Cynk-Mal S.A.	Production of galvanized strip and galvanized wire
	Anew Institute sp. z o.o.	Design of renewable energy sources
	Stalprodukt-Ochrona sp. z o.o.	Providing security services

\*production of cold rolled steel strips and sheets by GO Steel Frydek-Mistek a.s. is recognized in the Segment of other operations

### **1.3 Managerial governance**

- Stalprodukt S.A.

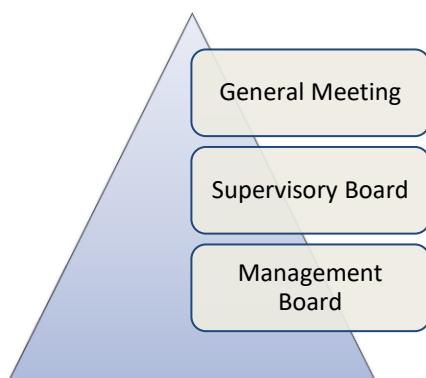
Stalprodukt S.A. as the parent company in the Capital Group operates pursuant to the provisions of the Commercial Companies Code (Act of 15 September 2000 Journal of Laws, 2000, No. 94, item 1037, with later amendments) and the Company's Articles of Association. The company is subject to the corporate governance principles contained in the document "Good Practices of Companies Listed on the WSE 2016".

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### Statement of the Management Board on the activities of the Capital Group

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The structure of the corporate governance in the Stalprodukt S.A. parent company of the Capital Group is as follows:



The Company's Management Board consists of three persons, whereas the Supervisory Board consists of five persons.

The detailed mode and functioning of individual Company's bodies are presented in the Statement on the application of the corporate governance principles in the Company, being an part of this Management Statement on the operations of the Capital Group

- Companies of Stalprodukt Capital Group

The structure of corporate governance in subsidiaries of Stalprodukt Capital Group is similar to that of the parent company.

The management boards of the Companies consist of one to two persons, whereas the Supervisory Board consists

of three persons. Stalprodukt-Ochrona Sp. z o.o., Stalprodukt-MB Sp. z o.o., Stalprodukt-Serwis Sp. z o.o., Stalprodukt-Wamech Sp. z o.o. and Karo sp. z o.o. due to their size do not have a supervisory body.

### 1.3 Key non-financial effectiveness indicators

The Management Board of Stalprodukt S.A. identified key non-financial effectiveness indicators, which were defined as follows:

- effectiveness of operations, i.e. revenue per 1 employee,
- effectiveness of energy consumption, i.e. energy consumption per unit of revenue.

In 2017-2018, the above-mentioned indicators for the parent company and for the entire Capital Group were as follows:

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Indicator	Stalprodukt S.A.		Capital Group	
	2018	2017	2018	2017
Revenue per employee (thousand x PLN)	977.7	790.4	657.4	575.1
Energy consumption per unit of revenue (GJ/PLN 1 thousand)	1.04	1.21	2.81	2.93

It is worth noting an improvement in both indicators presented, i.e. an increase in revenue per 1 employee, as well as a reduction in energy consumption per unit of revenue - both in the case of the parent company (Stalprodukt S.A.) and the entire Capital Group.

#### **1.4. Social and environmental risk management**

- Stalprodukt S.A.

Due to the nature of the business and the risks associated with it, Stalprodukt S.A. is exposed to events that may affect the safety of people and the environment. The plant is currently not classified as an increased or high risk of an industrial accident, as demonstrated by the *Analysis of the Plant's Application*. Despite this, the Plant declares maintaining a safety management system in which the following functions operate: Accident Prevention Programme and elements of the management system required by the Environmental Protection Act.

In addition, the Company has a document regulating the procedure in the event of an accident entitled "Manual for the prevention of major industrial accidents at Stalprodukt S.A. in Bochnia". The purpose of the manual is to ensure identification and counteracting potential dangerous incidents that may affect people and the environment, as well as defining post-failure procedures that limit the effects of these potential incidents.

- ZGH „Bolesław” Group

ZGH „Bolesław” Group defines the risk as uncertainty, which is an integral part of its operations and which may result in opportunities as well as threats to the achievement of business objectives.

In the ZGH "Bolesław" Group, two companies - ZGH "Bolesław" and HC "Miasteczko Śląskie" - were classified as plants with an increased or high risk of a serious industrial accident in accordance with the provisions of the Environmental Protection Act and based on the provisions of the Regulation of the Minister of Development of 29 January 2016 on the types and quantities of hazardous substances present in the plant.

In ZGH "Bolesław" every substance used in the production of electrolytic zinc has a current safety data sheet. Pursuant to the manufacturer's recommendations, substances are transported, used and stored in accordance with the recommendations indicated in the sheets.

In implementing the liabilities included in the regulations, the company has developed:

- Programme for Preventing Major Accidents (PZA),
- Report on Safety (RoB),
- Internal Operational and Rescue Plan (WPOR),
- Procedure to be adopted by residents when facing an accident and chemical hazard,

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- Information on security measures and procedure to be adopted when facing an industrial accident at ZGH "Bolesław" S.A.

As a result of a detailed analysis of the hazards to the installations and facilities of the Company made for the purposes of the Report on Safety, potential and representative emergency scenarios were identified. The risk analysis carried out showed no significant impact of failures on the area outside the plant.

Huta Cynku "Miasteczko Śląskie", due to the storage and processing of substances within the grounds of the plant, which are toxic for aquatic organisms, in quantities exceeding the threshold values specified in the Regulation of the Minister of Development of 29 January 2016, the plant was determined to pose a high risk of a serious industrial accident. The plant has the following documents required by the Environmental Protection Law:

- Notification of High Risk Plant,
- Programme for Preventing Accidents (PZA),
- Report on Safety (RoB),
- Internal Operational and Rescue Plan (WPOR),

The above-mentioned documents, pursuant to the requirements of the Act, were submitted to the Silesian Voivodeship Commandant of the State Fire Service and the Silesian Voivodeship Inspector for Environmental Protection.

- Other companies of Stalprodukt Capital Group

Due to the scale and extent of its operations, there are no significant hazards to other subsidiaries of the Capital Group that would pose a significant risk to the environment. The companies operate on the basis of internal provisions regulating the safety of people and the environment.

In Cynk-Mal S.A., there is a chemical rescue group. The group includes employees of the Zakład Wyrobów Cynkowych. Members of the chemical rescue group regularly participate in the exercises in the scope of major industrial accidents, the purpose of which is to check resources, equipment and personnel in terms of readiness to eliminate the potential consequences of an accident and to combat potential environmental threats. The Zakład Wyrobów Cynkowych is qualified for the "Other Potential Perpetrators of Major Industrial Accidents".

The companies of the Capital Group have assessed the environmental aspects in order to eliminate or possibly reduce the negative effects of their operations on the environment.

## **1.5. Ethics management**

The companies of the Stalprodukt Capital Group base their activities on the principles of integrity, reliability and transparency of activities undertaken by its employees. The principles are applied for running a business based on generally accepted norms and values.

In 2018, the Stalprodukt S.A. parent company adopted the Code of Ethics, which is supplemented by the Anti-Corruption and Protection of Whistle-Blowers Policy. Other companies of the Group were required to implement the Code and accompanying regulations. These documents contain a set of standards,

principles

and guidelines that determine the ethical behaviour in the course of conducting operations by the companies forming the Capital Group. The values and regulations contained in the documents are applicable to all employees and other persons working in individual companies or for their benefit.

The regulations contained in the above documents simultaneously meet the requirements and recommendations regarding the scope of non-financial reporting, principles resulting from the document "Good practices in public companies 2016", as well as guidelines on corruption policy and whistle-blower protection included in the document "Recommended standards for compliance management system in the field of counteracting corruption and protection system for whistle-blowers in companies listed on the markets organized by the Warsaw Stock Exchange S.A.", developed from the initiative of the Compliance Committee of the WSE.

In addition, Rules of Labour are applicable in all companies of the Capital Group, which include regulations resulting from the Labour Code.

## **2. The environmental area**

In the context of operating activities, the enterprises forming the Capital Group are autonomous. Due to the varied profile and specificity of the activities of the companies forming the Capital Group, solutions based on certified management systems implemented in individual subsidiaries are the basis for the management of the environmental areas.

All elements of the companies' activities that may have an impact on the environment have been identified. Taking into consideration the specificity of the industries belonging to the Capital Group, we are particularly aware of their significant impact on the environment. The impact of environmental aspects identified in the Capital Group's entities is constantly monitored and the activities aimed at limiting harmful impact on the environment are performed.

The closed circuit economy model is increasingly more important for the future of the economy and the state of the natural environment. The ZGH "Bolesław" Group is an example of building a closed circuit in the zinc industry, which perfectly fits into the European Union's policy. This policy is assumed to prefer an economy where resources are used in a more sustainable way, i.e. rationalizing land resources and increasing the proportion of recyclable materials.

The report includes data on the main segments of the Group's operations, the influence of which has a significant impact on the environment. In the case of the companies whose impact on the environment is marginal, they have been omitted in this part of the report, whereas all entities operate on the basis of regulations related to environmental protection and are subject to monitoring.

- Stalprodukt S.A.

Stalprodukt S.A. is a leading company in the field of production and sale of highly processed steel products. The Company's Quality Policy is implemented through the management of the quality level of products using, as a certified tool, a Quality Management System that meets the requirements of ISO 9001. The Integrated Quality and Environment Management System operating at Stalprodukt S.A. includes processes related to the production and sale of electrical sheets and strips, sheets and strips of unalloyed steel, cold rolled steel sections, safety road and bridge barriers, wound and step lap cores,



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laminations, sheets cut from hot and cold rolled steel, as well as energy, water and waste water, and waste management related to production and social-living processes.

The Quality Management System of Stalprodukt S.A. leads to improvement of the system, manufacturing and management processes, as well as manufactured products and is implemented by constant optimization of cooperation with customers and suppliers based on the results of monitoring and analysis of their needs, their expectations and satisfaction with cooperation with our company, continuous modernization of manufacturing and management processes and their results, i.e. manufactured products, by undertaking organizational and investment activities, meeting legal and other requirements, systematic training of the company's personnel to increase its competence and ensure high qualifications resulting from increasingly more perfect manufacturing and management processes, continuous improvement of the work environment so that it is perceived by the employees as friendly and enabling optimal implementation of the objectives of the Quality Policy, continuing modernization and internal development of IT systems that determine the proper flow of information.

The Environmental Management System used in Stalprodukt S.A. in the production and sale of highly processed steel products is compliant with the international ISO 14001 standard and sets out the most important elements of mutual interactions between the company and the environment and the direction of continuous improvement in the areas of design, production and supply of our products to a customer, as well as the utilization of waste and defective products.

Planning and implementing activities of Stalprodukt S.A. for the benefit of the natural environment concern

in particular the use of technologies compatible with the best available techniques - BAT, limiting the consumption of raw materials, materials and energy, reducing emissions to the environment, minimizing the amount of waste generated and making their management proper, meeting legal requirements and other that concern environmental aspects, raising employees' awareness regarding the impact of their work on the natural environment and the potential consequences of non-compliance with applicable rules of conduct.

Individual installations that are in possession of Stalprodukt S.A. operate on the basis of permits issued by the authorities competent to issue these decisions. Two installations are covered by the CO<sub>2</sub> emissions trading scheme.

Administrative decisions held by Stalprodukt S.A. in 2018:

- Integrated permit for a landfill in Borek,
- Permit required by Water Law Act for special use of water through drainage of treated rainwater and snow water, drainage water from the plant site and post-cooling water to the surface water - the Raba river,
- Permit required by Water Law Act for special use of water through surface water intake,
- Permit for generating waste in the Dept P3,
- Integrated permit for the installation of the Transformer Steels Department,
- Permit for generating waste in the Dept P4,
- Permit for waste processing in the recovery process,
- An integrated permit for running the installation for treatment of industrial waste water,
- Authorisation for emission of greenhouse gases from the boiler room of the plant,

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- Permit for discharging gases and dust into the air from the installation of the Dept P2 and the boiler room of the plant,
- Permit for generating waste for the Dept P2 and for the installation for processing waste emulsions,
- Permit for emission of greenhouse gases from the installation of the Transformer Steels Department,
- Permit required by Water Law Act for Dept P4,
- Permit required by Water Law Act for the landfill in Borek,
- Approval for instructions for running the Stalprodukt S.A. landfill in Borek.

In the company, the registers of legal acts and environmental aspects are updated on an on-going basis. Measurements of gas and dust emissions are carried out in accordance with applicable standards, as well as measurements of noise input into the environment and monitoring of consumption of energy mediums and consumption of fuel. Stalprodukt S.A. operates the landfill site, monitored in accordance with applicable regulations, for its own use. Record of waste generated and stored is kept. In accordance with the Act on Waste, a remediation service fund is maintained for the landfill.

The obligation to recover and recycle packaging waste is carried out through a recovery organization and an agreement.

Within the statutory deadline, statements are submitted to the offices in the field of waste management, packaging management, water and waste water management, gas and dust emission, as well as in the scope of pollutant release and transfer (PRTR). The statements of accrued and paid fees for using the environment are also forwarded to Marshals' Offices.

In 2017, the following administrative decisions regarding the use of the environment were obtained:

- Decision - authorisation for CO<sub>2</sub> for the installation of the Transformer Steels Department,
- Decision changing the permit for generating waste for the installation of the Department P2,
- Decision - permit required by Water Law Act for the Department P4 in Tarnów,
- Decision - permit required by Water Law Act for the landfill in Borek,
- Decision - change of decision granting permit for generating waste for the Department P2,
- Decision - change of the decision granting the integrated permit for the installation of the Transformer Steels Department.

In 2018, the following administrative decisions regarding the use of the environment were obtained:

- Decision - change of the decision granting the integrated permit for the waste disposal installations in Borek,
- Decision - approval for instructions for running the Stalprodukt S.A. landfill in Borek,
- Decision - change of the decision granting the permit to discharge gases and dust into the air from the installation of Dept P2 and the boiler room of the plant,
- Decision - permit for generating waste in connection with the operation of the installations for the production of cold rolled steel sections, sheets in coils, steel sheets and road barriers in the Department P2 and for the installation for processing waste emulsions located in Dept TE,
- Decision - change of the decision granting the permit for greenhouse gas emissions from the installation of the boiler room of the plant,

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- Decision - change of the decision granting the permit to discharge gases and dust into the air from the installation of Dept P2 and the boiler room of the plant,

- ZGH „Bolesław” Group

When analysing the environmental aspects of the operations of the ZGH "Bolesław" S.A. Group, all companies Forming the Zinc Segment are taken into account. Due to the scale of environmental impact, Huta Cynku "Miasteczko Śląskie" S.A. has a significant impact on the environment, apart from ZGH "Bolesław" S.A. itself.

ZGH "Bolesław" S.A. and Huta Cynku "Miasteczko Śląskie" S.A. are one of the largest enterprises in the Olkusz and Tarnogóra region. Their operations, including ore mining, its processing and subsequent technological processes in the production of zinc, both by electrolysis and by pyrometallurgy (ISP), significantly impact the natural environment. During their operations, the companies care for the natural environment by promoting themselves as socially responsible companies. Such long-term pro-ecological and pro-social policy shaping of the companies strengthens the image and creates added value for both companies and the local community.

Both companies comply with environmental standards resulting from increasingly more strict law by systematically modernizing the installations built in the past as well as building new low-emission ones.

The currently used technologies meet international standards. What confirms this state of affairs is the fact that ZGH Bolesław S.A. is the holder of ISO: 9001: 2015 and 14001: 2015 certificates, and HC "Miasteczko Śląskie" is the holder of ISO: 9001:2015 certificates

Gradir Montenegro d.o.o. operates in Montenegro and its activity includes ore mining and the production of zinc-lead concentrates. The company is subject to the jurisdiction of Montenegro and operates in accordance with local regulations, including those pertaining to the environment.

ZGH "Bolesław" S.A. has a regulated formal and legal status regarding the use of the environment in all its components, including integrated permits for:

- the installation for the production of electrolytic zinc and its alloys, valid for an indefinite period,
- the installation of deep dechlorination, defluoridation and leaching of raw zinc oxide, valid for an indefinite period,
- the installation for flotation enrichment and filtration of wastes from zinc hydrometallurgy, valid for an indefinite period,
- the installation of IPPC rotary furnace for the production of zinc concentrate from waste zinciferous materials in the Waelz process, valid for an indefinite period

In addition, it holds the following sectoral environmental decisions:

- Permit for generating waste for the Mining and Processing Part of the ZGH Bolesław S.A., valid until January 2025,
- The decision authorizing the operation of the mining waste disposal facility, valid until April 2022,
- Permit for the production of mining waste obtained from the mining waste disposal facility, valid until June 2027,
- Permit for waste treatment in the recovery process in the Olkusz-Pomorząny Mechanical Treatment Department, valid until January 2025,

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- Permit for waste treatment in the recovery process at the mining waste disposal facility – settling ponds, valid until January 2025,
- Permit for use of waste falling within code 10 05 80 to fill in badly transformed areas – Bolesław open-cast pit, valid until January 2025,
- Mining waste management programme approved by decision of 30 November 2017,
- Permit for generating waste including processing in the process of recovery by flotation enrichment of waste falling within code 01 03 81 obtained (extracted) from the mining waste disposal facility – settling ponds for flotation waste at the ZGH "Bolesław" S.A. Flotation Waste Processing Plant, valid until July 2027,
- Permit for discharging the following amounts of gases and dusts into the atmosphere through the boiler room installation: "Bolesław", "Dąbrówka", "Olkusz", valid until December 2025.
- Decisions on drainage of the mining plant, collection and discharge of water and waste water through the canals: Dąbrówka and Southern, valid until December 2019, decision on drainage of the mining plant in the liquidated Mieczysław shaft, valid until December 2019. Decision – Integrated permit for industrial waste water treatment plant (OSP), valid for an indefinite period.

The production of zinc and lead in Huta Cynku "Miasteczko Śląskie" conducted via the pyrometallurgical method (ISP) is included in the BAT list. The company has a regulated formal and legal status regarding the use of the environment, including the following permits and authorisations:

- Integrated permit for installations for the production of non-ferrous metals from metal ores, concentrates or recovered products as a result of metallurgical and chemical processes of 28 March 2012 – decision of the Marshal of the Silesian Voivodeship No. 726/OS/2012 amended by decisions No. 1723/OS/2013 of 5 August 2013, No. 2706/OS/2014 of 24 November 2014 and No. 1296/OS/2015 of 25 June 2015,
- Integrated permit for the hazardous waste landfill of 4 November 2014 – decision of the Marshal of the Silesian Voivodeship No. 2240/OS/2014 amended by decision No. 2382/OS/2014 of 4 December 2014,
- Permit required by Water Law Act of 29 March 2013 - decision of the Marshal of the Silesian Voivodeship No. 780/OS/2013,
- Permit for greenhouse gas emissions from 4 October 2018 - decision of the Marshal of the Silesian Voivodeship No. 03078/OS/18 (replacing the authorisation No. 00322/OS/17 of 1 February 2017).

- Other companies of Stalprodukt Capital Group

Only the companies whose environmental impact can be considered significant are taken into account. This applies in particular to Stalprodukt-Zamość sp. z o. o., STP Elbud sp. z o. o., Cynk-Mal S.A. and newly acquired GO Steel Frydek Mistek. Considering the type and scale of operations of other entities of the Capital Group, their impact on the environment is negligible, and as a result they have been omitted in the environmental area. It should be noted that all subsidiaries located in Bochnia in the area of Stalprodukt S.A. are covered by the supervisory system in force in the parent company. In addition, all outsourced processes are supervised. This supervision is ensured by contracts containing all legal and quality requirements.

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*Stalprodukt Zamość sp. z o.o.*

Stalprodukt Zamość sp. z o.o. is a producer of steel doors, aluminium joinery and sectional doors. It also conducts trade operations pertaining steel products.

The Company holds the following permits and decisions issued by relevant authorities for its operations:

- Permit to discharge gases or dust into the air,
- Decision – permit for generating waste,
- Decision - permit required by Water Law Act for special use of water in the scope of its collection from own intake.

*STP Elbud sp. z o.o.*

STP Elbud sp. z o.o. is a producer of hot-dip galvanised steel structures for the needs of energy, telecommunications, construction and road engineering. The company's quality policy is implemented through quality management of products using as a certified tool - the Integrated Management System that meets the requirements of ISO 9001, ISO 14001, EN 1090-1, EN 1090-2 and ISO 3834-2. The Integrated Management System operating in the STP Elbud sp. z o.o. covers processes related to the production and hot-dip galvanizing of steel structures.

Planned and implemented activities of STP Elbud sp. z o.o. for the benefit of the natural environment concern in particular the use of technologies compatible with the best available techniques - BAT, limiting the consumption of raw materials, materials and energy, reducing emissions to the environment, minimizing the amount of waste generated and making their management proper, meeting legal requirements and other that concern environmental aspects, raising employees' awareness regarding the impact of their work on the natural environment and the potential consequences of non-compliance with applicable rules of conduct.

The following are the administrative decisions currently held by "STP ELBUD" sp. z o.o.:

- Permit for generating waste for the installations for production of steel structures on the premises of the Steel Structures Department in Kraków,
- Permit for discharge of gases and dust into the air from the installation for production of steel structures on the premises of the Steel Structures Department in Kraków,
- Integrated permit for the installation for hot-dip galvanizing on the premises of the Product Galvanizing Department in Bukowno,
- Permit for discharge of gases and dust into the air for the installation for painting steel structures in the Product Galvanizing Department in Bukowno,
- Permit for generating waste for the installation for painting steel structures in the Product Galvanizing Department in Bukowno.

*Cynk-Mal S.A.*

The core operations of the Cynk-Mal S.A. production plant with its registered office in Legnica is production and sale of hot-dip galvanized steel products and provision of hot-dip galvanizing services. The plant has an innovative production technology, a line for continuous galvanizing of steel strips, which allows to provide services in the field of anti-corrosion protection.

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The installations that are in possession of Cynk-Mal S.A. operate on the basis of permits issued by the authorities competent to issue these decisions. Administrative decisions held by Cynk-Mal S.A.:

- Decision integrated permit, Reg. No. DM.S.IV.7650-2858/08/10, L.dz.IV/LS/7660-46/352-III/09/10, Decision No. PZ 184/2010. of 20 August 2010,
- Modification of the decision, integrated permit, DOW-S-IV.7222.108.2014.LS, L.dz. 690/12/2014, Decision No. PZ 184.1/2014 of 4.12.2014,
- Decision on the production of waste (sector permit), Ref. No. DM-SV7654-2859/08/10 L.dz.V/KB/7654-69/353-III/0, Decision No. P 48/2010 of 20 August 2010,
- Decision on the production of waste (sector permit), Ref. No. DOW-S-V.7221.62.2012.RSt, L.dz.1818/11/687-III/12, Decision No. P 48.1/2012 of 09.11.2012,
- Permit required by Water Law Act for discharge of rainwater purified by the sand separator from the plant to the drainage ditch, Ref. No. ER.6210/14-1/99 of 19.07.1999,
- Permit required by Water Law Act for special use of water, i.e. water intake from the underground water inlet (drilled well No. 1), Ref. No. OŚR.6210/8/2005 of 22.07.2005.

*GO Steel Frydek Mistek*

GO Steel Frydek Mistek A.S. is a producer of cold rolled steel strips and sheets. The main range offered consists of steel strips and sheets for anisotropic electrical engineering and, on a smaller scale, steel strips and sheets for isotropic electrical engineering and strips as well as sheets of alloy and non-alloy steel.

The scope of the operational activity corresponds to the activities included in the integrated permit issued by the Regional Office of the Moravian-Silesian Region in Ostrava, which has been in force since 13.07.2009, and which has been updated 13 times. The integrated operating permit is classified in category 2.6 - i.e. devices for surface treatment of metals and plastics using electrolytic or chemical processes, if the Spa content is greater than 30 m<sup>3</sup>.

The plant operates on the basis of secondary legislation resulting from the regulations regarding Environmental Protection applicable in the Czech Republic (V – register - duties used in EMS).

**The acquisition and incorporation of GO Steel Frydek Mistek to the Capital Group influenced the compilation of data on environmental impact (i.e. consumption of raw materials and materials, consumption of fuels and energy, water consumption, volume of emissions to the atmosphere, waste size, etc.). Therefore, there was an increase of figures in certain items given above in relation to the previous year.**

In all the above-mentioned companies, the consumption of energy mediums and fuel consumption is monitored. The obligation to recover and recycle packaging waste is carried out through a recovery organization.

Within the statutory deadline, statements are submitted to the offices in the field of waste management, packaging management, water and waste water management, gas and dust emission. The statements of accrued and paid fees for using the environment are also forwarded to Marshals' Offices.

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## 2.1 Consumption of raw materials and other materials

Below is a table summarising consumption of the most important materials used in production processes. With regard to the summary presented in the Statement for 2017, the presentation of data regarding the consumption of materials and raw materials to the ZGH "Bolesław" Group was modified. Currently, the consumption of input materials is given in terms of production of metallic zinc, moreover, ore mining from the "Olkusz-Pomorzany" mine is given in tonnes of wet weight, i.e. mined in real terms.

Organisational unit	Type of material	Unit	Consumption	
			2018	2017
Stalprodukt S.A.	Hot rolled steel	thousand x Mg	336.7	335.2
	Cold rolled steel	thousand x Mg	19.9	25.1
	Galvanized steel	thousand x Mg	3.7	5.0
	<i>The cost of used materials in relation to net revenue from the sale of products</i>	%	75.8	71.6
ZGH „Bolesław” Group	Ore mined from the "Olkusz-Pomorzany" mine	thousand x Mg (wet weight)	1 674	1 797
	Ore mined from the Gradir Montenegro mine	thousand x Mg (wet weight)	593	534
	Ore purchased	thousand x Mg (wet weight)	51	54
	Sulphide concentrates from import	thousand x Mg (Zn)	28.7	36.6
	Concentrates from flotation waste <sup>(1)</sup>	thousand x Mg (Zn)	4.2	3.4
	Own oxides from steelmaking dusts <sup>(1)</sup>	thousand x Mg (Zn)	29.2	28.3
	Oxides from import <sup>(1)</sup>	thousand x Mg (Zn)	41.9	44.6
	Concentrates from sludge	thousand x Mg (Zn)	5.6	5.8
	Dusts and other zinciferous waste <sup>(1)</sup>	thousand x Mg (Zn)	15.3	8.6
	<i>Value of external raw materials used as % of income</i>	%	39	42
Other companies of the Capital Group	Hot rolled steel sheets	Mg	96 529	-
	Steel	Mg	33 043	26 978
	Zinc	Mg	3 258	2 229
	Paints	Mg	153	100
	Hydrochloric acid	Mg	208	186
	Pickling acids	l	1 401 081	572 959

<sup>1</sup> – from recycling

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*Stalprodukt S.A.*

Over 90% of charge materials used by Stalprodukt S.A. are coils of hot and cold rolled steel. These materials are used in the basic production processes implemented in the Company related to the production of: electrical transformer steels, cold formed sections and road barriers. It should be emphasized that materials intended for the production of individual products differ from each other in technical parameters, i.e. chemical composition, steel grade, thickness and width of coils, etc.

Hot and cold rolled steels are also used in the service centres owned by the Company, which perform longitudinally cutting operations (into strips) or transversally ones (into sheets). As part of the adopted specialisation, the service centre for hot rolled steels is located in Bochnia, while the service centre for cold rolled steels is located in Tarnów.

The material in strips is mainly used for internal needs of Stalprodukt, it is the charge for profiling lines for the Company's production departments located in Bochnia (Dept P2), in Kraków (Dept P3) and in Tarnów (Dept P4). In turn, steels in sheets are sold exclusively to Stalprodukt's external customers - both directly and through Stalprodukt's domestic distribution network.

*ZGH „Bolesław” Group*

The main raw materials on which the zinc production technology is based are ZnS mine concentrates and concentrates produced from zinciferous waste. These are owned and purchased raw materials.

ZGH "Bolesław" S.A. possesses the last active zinc mine in Poland, "Olkusz-Pomorzany", producing concentrates for the needs of both Huta Bolesław and HC "Miasteczko Śląskie". In the face of shrinking zinc and lead ore deposits, the Company directed a raw materials policy to improve production technologies based on secondary raw materials. This approach allows to reduce the amount of waste and limit the consumption of primary raw materials. Therefore, the second charge for the production of zinc, besides its own ZnS mine concentrate, is the ZnO concentrate - zinc oxide from the processing of steelmaking dust. Steelmaking dust is a waste material originating from the production of steel in electric steelworks. Zinc concentrate is made from waste containing more than a dozen percent of zinc by the Waelz process.

Another element in building a closed cycle in the zinc industry is the use of sedimentary waste from flotation ore enrichment stored on the settling ponds. In 2017, a new Flotation Waste Processing Plant was launched, recovering zinc and lead minerals in the form of a certified concentrate. This concentrate is the charge for the production of zinc and lead in Huta Cynku "Miasteczko Śląskie" S.A. The construction of the Plant was co-financed by the National Fund for Environmental Protection and Water Management from the "Rational Waste Management" programme in the form of a borrowing of PLN 42,000,000.

In 2018, attempts were made to produce a selective zinc concentrate for Huta Bolesław.

The Capital Group buys the missing amount of charge mainly from imports - from Australia, Mexico, the Balkans region, Germany and Sweden. These are: primary sulphide concentrates, zinc oxides, steelmaking dusts, ores and other zinciferous materials.



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Due to the fact that the production of zinc in the Capital Group is conducted on the basis of very close technological links between production companies - products of one company are a charge for another company, the table presents the use of main raw materials in the Capital Group.

*Other companies of Stalprodukt Capital Group*

The type and amount of raw materials and materials consumption in other companies of the Capital Group depends on the profile of the company's operations.

Stalprodukt Zamość sp. z o.o. is a producer of steel doors, aluminium joinery and sectional doors. As a production charge, it mainly uses steel.

STP Elbud sp. z o.o. is a producer of hot-dip galvanized steel structures for the needs of energy, telecommunications, construction and road engineering. In the production, it uses steel for making steel constructions, zinc and hydrochloric acid for galvanizing structures and paints for painting ready-made constructions.

Cynk-Mal S.A. is a producer of hot galvanized steel products. For the production of products, it mainly uses steel, zinc, pickling acids.

GO Steel Frydek Mistek AS as a producer of transformer steel sheet and cold rolled steel for production uses hot rolled steel as the main charge, additionally sulphuric acid and other auxiliary materials.

## 2.2. Fuel and energy consumption

Below is a table summarising energy consumption according to their main types.

Organisational unit	Type of fuels and energy	Unit	Consumption	
			2018	2017
Stalprodukt S.A.	Electricity	GJ	659 011	652 436
	Natural gas, propane and butane	GJ	647 712	584 331
	Bituminous coal	GJ	336 152	343 479
	Fuels	GJ	4 583	5 453
	Heating oil	GJ	2 325	1 630
ZGH „Bolesław” Group	Electricity <sup>(1)</sup>	GJ	2 294 831	2 268 000
	Coking coal and coke breeze <sup>(2)</sup>	GJ	4 242 494	4 253 956
	Natural gas	GJ	1 133 145	1 124 491
	Bituminous coal	GJ	757 697	497 771
	Thermal energy	GJ	490 232	441 668
	Heating oil	GJ	19 016	3 390
Other companies of the Capital Group	Electricity	GJ	123 992	41 422
	Natural gas, propane and butane	GJ	398 968	38 260
	Thermal energy	GJ	7 898	7 143
	Fuels	GJ	4 730	4 954

<sup>1</sup> - use mainly by ZGH "Bolesław" S.A.

<sup>2</sup> - use mainly by HC "Miasteczko Śląskie" S.A.

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*Stalprodukt S.A.*

The highest energy consumption is generated by the Electrical Steels Segment as a result of thermal treatment of steel.

The Company's activities are aimed at reducing the consumption of energy mediums. These activities include:

- installing meters for heat, electricity, drinking water, processing water reception
- charging the costs to individual organizational units,
- assembling and modernising industrial automation systems.

*ZGH „Bolesław” Group*

In ZGH "Bolesław" S.A., the basic energy carrier is electricity. It is one of the most important items in the cost structure by type. Electricity is a decisive factor in both the production and safety of the plant. Due to the specifics of operations, ZGH is an energy-consuming plant.

In HC "Miasteczko Śląskie" S.A., the basic energy carrier is coking coal and gas. The technology of zinc production using the ISP method is based on these fuels.

High consumption of energy mediums means high costs of zinc production. Hence, for many years the Group has been operating a responsible policy of using energy and fuels:

- reducing energy consumption by investing in modern machines, devices and technologies,
- development of network infrastructure improving energy security,
- organizational and legal activities:
  - establishment of the Electricity Management Department,
  - creating actively free electricity market through the management of the Chamber of Industrial Energetics and Energy Customers, establishment and management of the operations of the Forum of Electricity and Gas Customers, cooperation with the Energy Regulatory Office and the Ministries for Economy and the Environment,
- works on the recovery of processing heat from the Waelz process.

*Other companies of Stalprodukt Capital Group*

The highest energy consumption is generated by GO Steel Frydek Mistek, Cynk-Mal SA and STP Elbud sp. z o.o.

## **2.3 Water consumption**

The table below presents a summary of water consumption according to the main sources of its acquisition together with their purpose. In the case of the ZGH "Bolesław" Group, the scope of the data was modified. The amount of water that comes from mine drainage is not given because the water is mostly not used, it is discharged to surface watercourses.

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Organisational unit	Water characteristics and origin	Unit	Consumption	
			2018	2017
Stalprodukt S.A.	Water supply network	m <sup>3</sup>	33 377	33 743
	Surface water intake	m <sup>3</sup>	679 511	623 525
	Water consumption for social and living purposes	%	4.7	5.1
	Processing water consumption	%	95.3	94.9
ZGH „Bolesław” Group	Water supply network	m <sup>3</sup>	24 675	31 119 *
	Underground water	m <sup>3</sup>	12 865 963	11 320 506
	Water consumption for social and living purposes	%	2.5	2.5
	Processing water consumption	%	97.5	97.5
Other companies of the Capital Group	Water supply network	m <sup>3</sup>	22 173	19 126
	Surface water intake	m <sup>3</sup>	2 816 524	-
	Water consumption for social and living purposes	%	5.1	36.2
	Processing water consumption	%	94.9	63.8

\* - value corrected - data published in the Statement for 2017 did not include full consumption

#### *Stalprodukt S.A.*

The main source of water for Stalprodukt SA is its own intake from the Raba river and, in addition, water from the water supply network. The plant collects water from its own surface intake in accordance with the conditions specified in the permit required by Water Law Act.

Consumption of drinking and processing water is metered. In addition, in the context of monitoring, cyclical environmental monitoring is carried out for water and waste water testing in accordance with the required permits and applicable regulations.

It should be noted that water is reused in a closed circuit, which is presented in the table below.

	Unit	2018	2017
Water collected from the Raba river	m <sup>3</sup>	679 511	623 525
Reused water	m <sup>3</sup>	269 713	236 375
% of water reuse	%	39.7	37.9

#### *ZGH „Bolesław” Group*

The issue of water consumption and circulation is particularly important in ZGH "Bolesław", because the characteristic feature of the Zn-Pb ore deposits of the Olkusz-Bolesław region is their very high water accumulation. Total underground water inflow to mine workings, currently reaching approx. 220 m<sup>3</sup>/min (historically max. up to 370 m<sup>3</sup>/min).

In ZGH Bolesław S.A., all water from the mine drainage is used for all processes. Excess water is discharged through the Southern Canal, the Dąbrowka Canal and the West Canal into the White Przemsza river in accordance with the permits required by Water Law Act.

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ZGH Bolesław S.A. regularly monitors the quality of the underground water in the vicinity of its plants and the parameters of discharged waste water to ensure that the Company's activities meet environmental standards.

The total water consumption in the Company for technological, social and living needs is an order of magnitude of about 10 million m<sup>3</sup>/year. Therefore, water is a very valuable and strategic resource for the Company. In the case of the Mechanical Processing Department of "Olkusz-Pomorzany" and the Flotation Waste Processing Plant, the water from the drainage circulates between the ore enrichment plant and the waste recovery plant, and the waste disposal facility - settling ponds for flotation waste.

The idea of using water from drainage of the mining plant in ZGH Bolesław S.A. is as follows:

MINE	DEPARTMENT FOR MECHANICAL TREATMENT OF Zn-Pb ORES  FLOTATION WASTE PROCESSING PLANT	WASTE SETTLING POND	DEPARTMENT FOR MECHANICAL TREATMENT OF Zn-Pb ORES  FLOTATION WASTE PROCESSING PLANT
MINE	STEELWORKS TECHNOLOGICAL PRODUCTION PROCESS	INDUSTRIAL SEWAGE TREATMENT PLANT	

HC "Miasteczko Śląskie" consumes about 1.8 million m<sup>3</sup> of underground water per year for industrial, social and living purposes.

*Other companies of Stalprodukt Capital Group*

The highest energy consumption is generated by GO Steel Frydek Mistek, which uses water for industrial purposes in over 95%. Water is taken from the surface watercourse (Ostravice river) on the basis of an integrated permit.

The highest amount of water from the water supply network is consumed by Cynk-Mal SA and STP Elbud sp. z o.o.

## **2.4. Biodiversity protection**

The operations of all companies of the Capital Group do not directly cover areas protected by law. None of the companies operates in the immediate, impactful vicinity to the areas of national parks, complexes and health resorts, areas included in the "World Heritage" list and areas covered by the Natura 2000 programme. However, in the vicinity of ZGH "Bolesław" there is the border of Jurassic Landscape Parks and the ecological area of Natura 2000, i.e. Błędów Desert (PLH 120014).

Regular monitoring of the environment is carried out through water and waste water tests, emissions and noise measurements, as well as monitoring of the landfill in accordance with the permits obtained.

## **2.5 Emissions into the atmosphere**

The table below presents the amount of emissions of harmful substances into the atmosphere.

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Organisational unit	Emissions type	Unit	Emissions	
			2018	2017
Stalprodukt S.A.	CO <sub>2</sub>	Mg	70 438	64 318
	CO	Mg	101	107
	Dusts	Mg	2.1	2.6
	SO <sub>2</sub>	Mg	97	74
	NO <sub>x</sub>	Mg	48	47
	Aromatic hydrocarbons and aliphatic hydrocarbons	Mg	0.90	0.90
	Hydrofluorocarbons	Mg	0.097	0.031
	Sulphuric acid	Mg	0.2	0.2
ZGH „Bolesław” Group	CO <sub>2</sub>	Mg	578 986	572 929
	CO	Mg	3 773	1 280
	Dusts	Mg	46	33
	SO <sub>2</sub>	Mg	1 148	1 129
	NO <sub>x</sub>	Mg	249	172
	Zinc	Mg	4.1	4.4
	Lead	Mg	1.1	1.1
Other companies of the Capital Group	CO <sub>2</sub>	Mg	1 800	1 638
	CO	Mg	44.67	5.10
	Dusts	Mg	0.85	0.61
	NO <sub>x</sub>	Mg	12.56	1.95
	Chlorine	Mg	2.22	1.74
	Zinc	Mg	0.04	0.07
	Ammonia	Mg	0.15	0.13

*Stalprodukt S.A.*

The emission sources in Stalprodukt S.A. are the following:

- coal-fired boiler house and gas boiler house in Bochnia
- gas and oil heating appliances - for heating halls and buildings and for social purposes,
- technological sources of emissions, including
  - decarburization annealing furnaces, dryers, stress relief annealing furnaces and a normalizing annealing furnace,
  - blasting,
  - sulphuric acid digestion,
  - cold rolling of steels,
  - hydrogen production,
  - installations for the production of cold-formed steel sections and sheet metal.

The following methods are used to reduce atmospheric emissions:

- dust emission sources are equipped with dust extraction systems such as multicyclone or batteries cyclone and bag filters,
- the sulphuric acid emission source is equipped with a two-compartment absorption vessels.

Monitoring of gas and dust emissions is carried out in accordance with the binding regulation on the requirements for the measurement of emissions and the obligations imposed by administrative decisions.

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The measurements did not show any emission excesses, and the measurement reports were submitted to the Marshal's Office and the Voivodeship Inspectorate for Environmental Protection.

Emissions into the air do not under any circumstances threaten the applicable air quality standards, and in residential areas they represent a small fraction of the limit values. The annual measurements of emissions are carried out in accordance with the reference methodology and demonstrate that the air quality standards are met.

*ZGH „Bolesław” Group*

The extraction of Zn-Pb ore and then its processing and production of zinc are inextricably linked to the environmental impact. The Capital Group implements a programme of systematic reduction of process emissions to the environment in all its components. The result of these activities is the achievement of emission parameters in accordance with the European Union legislation and national law. Industrial installations meet stringent emission standards, and the condition of atmosphere protection equipment and the impact of activities on the environment is systematically controlled by state environmental protection services. The high level of environmental protection is confirmed by obtaining and maintaining sector decisions and integrated permits.

Both ZGH Bolesław S.A. and Huta Cynku "Miasteczko Śląskie" take part in the system of trade in greenhouse gas emissions.

*Other companies of Stalprodukt Capital Group*

GO Steel Frydek Mistek, Cynk-Mal S.A. and STP Elbud sp. z o.o. are responsible for the largest amounts of emissions. The largest CO<sub>2</sub> emitter is STP Elbud, in case of CO emissions it is mainly GO Steel Frydek Mistek.

The companies own installations consisting of a number of devices and emitters which emit pollutants into the air.

The plants are obliged to measure the amount of emission into air from the emitters located in their areas. The measurements carried out did not show any emission excesses.

Emissions into the air do not under any circumstances threaten the applicable air quality standards, and in residential areas they represent a small fraction of the limit values.

## **2.6 Waste management**

The amount of waste produced is shown in the table below.

Organisational unit	Waste type	Unit	Amount	
			2018	2017
Stalprodukt S.A.	Hazardous waste	Mg	2 214	2 256
	Waste other than hazardous	Mg	34 059	34 604
	<i>Total waste</i>	<i>Mg</i>	<i>36 273</i>	<i>36 860</i>
	Stored waste	Mg	858	948

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	Waste recovered	Mg	1 426	1 553
	Waste sent to recovery organisations	Mg	33 989	34 359
ZGH „Bolesław” Group	Hazardous waste	thousand x Mg	136.8	119.7
	Waste other than hazardous	thousand x Mg	1 282.9	1 357.9
	<i>Total waste</i>	thousand x Mg	<i>1 419.7</i>	<i>1 477.6</i>
	Stored waste	thousand x Mg	62.4	48.6
	Waste recovered	thousand x Mg	1 357.3	1 429.0
Other companies of the Capital Group	Hazardous waste	Mg	2 084	2 109
	Waste other than hazardous	Mg	17 031	2 936
	<i>Total waste</i>	<i>Mg</i>	<i>19 115</i>	<i>5 045</i>

*Stalprodukt S.A.*

In the administrative decisions obtained by Stalprodukt S.A., the types and amount of waste allowed to be generated during the year were determined.

Generated waste inventory record is kept. Monitoring of the landfill site is carried out in accordance with applicable regulations and administrative decisions. The company also keeps inventory record of waste stored and waste sent to other entities holding a permit for waste management.

All waste storage areas shall be marked and adequately protected against unauthorised entry. The Plant has developed and updated the Industrial Waste and Packaging Management Instruction in Stalprodukt S.A. Waste is collected selectively, in designated areas which do not pose a threat to the environment. The waste is sent to entities holding appropriate permits for the management of individual waste.

With respect to waste management, the following activities are carried out in order to prevent the generation of waste or to reduce the amount of waste and its negative impact on the environment:

- proper storage of waste and raw materials,
- continuous monitoring of the installation,
- observance of proper operation of facilities, machines and equipment,
- maintenance of equipment in good technical condition, ongoing inspections and repairs of installations,
- maintaining order and compliance with waste management procedures,
- training the team in the correct handling of the generated waste,
- reasonable and economical management of materials and raw materials.

*ZGH „Bolesław” Group*

The general objective of the Group's policy on rational waste management is to continue using its own waste from technological lines at each stage of production and foreign waste (from outside) in order to maximise the recovery of Zn without affecting the natural environment.

In the area of own waste, the construction and technical and technological start-up of the Flotation Waste Processing Plant is an evidence of such activity at ZGH "Bolesław". This unique technology - not only in the scale of ZGH Bolesław S.A., but also in the scale of the country and the world - makes it possible to produce zinc concentrates on the basis of post-flotation waste deposited at settling ponds. They constitute an additional charge for the production of metallic zinc in the steelworks of ZGH Bolesław S.A. Capital

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Group. This action is a credible confirmation not only of the business, but also of the eco-effective use of available waste (raw material) in accordance with the principle of sustainable development.

*Other companies of Stalprodukt Capital Group*

In administrative decisions for individual companies, the types and amount of waste allowed to be generated during the year were determined. The inventory record of waste generated and waste sent to other entities holding a permit for waste management is kept.

Waste is collected selectively, in designated areas which do not pose a threat to the environment. All waste storage areas shall be marked and adequately protected against unauthorised entry.

With respect to waste management, the following activities are carried out in order to prevent the generation of waste or to reduce the amount of waste:

- proper storage of waste and raw materials,
- continuous monitoring of the installation,
- observance of proper operation of facilities, machines and equipment,
- maintenance of equipment in good technical condition, ongoing inspections and repairs of installations,
- maintaining order and compliance with waste management procedures,
- training the team in the correct handling of the generated waste,
- reasonable and economical management of materials and raw materials.

The amount of waste water produced is shown in the table below.

Organisational unit	Waste water	Unit	Amount	
			2018	2017
Stalprodukt S.A.	Total amount of water and waste water	thousand of m <sup>3</sup>	1 303	1 257
	Discharged	thousand of m <sup>3</sup>	459	427
	Treated	thousand of m <sup>3</sup>	844	829
ZGH „Bolesław” Group	Total amount of water and waste water	thousand of m <sup>3</sup>	120 399	113 944
	Discharged	thousand of m <sup>3</sup>	116 655	110 814
	<i>including mine water</i>		<i>116 213</i>	<i>110 367</i>
	Treated	thousand of m <sup>3</sup>	3 744	3 577

*Stalprodukt S.A.*

Industrial waste water is treated in our own waste water treatment plant. The treated waste water is largely reused in the process and partly discharged into the river on the basis of an integrated permit.

In accordance with the holding permit, the following measurements are carried out:

- continuous measurement of the amount of waste water discharged,



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- analyses of the condition and composition of waste water discharged into waters, periodical measurements of waste water quality after individual stages of treatment,
- periodic reviews of the technical condition of buildings, equipment and networks.

*ZGH „Bolesław” Group*

In the metallurgical part of ZGH "Bolesław" the used water from dewatering, as process waste water, before being discharged to the surface receiver, is treated in the company's industrial waste water treatment plant.

The quality parameters of mine and technological waters introduced into the Baba and Biała rivers and the Warwas River, belonging to the Biała Przemsza catchment area, do not cause significant physical, chemical and biological changes that would prevent proper functioning of water ecosystems.

In Huta Cynku "Miasteczko Śląskie" all technological waste water (combined with rainwater) is treated in the final mechanical and chemical treatment plant before being discharged to surface waters. Acid waste water is pre-treated in a neutralisation and desalination plant. The generated waste is subject to recovery processes, only 2.3% of the waste is stored at its own hazardous waste landfill. The pollution of the earth's surface according to the initial report is of a historical nature.

*Other companies of Stalprodukt Capital Group*

On the premises of GO Steel Frydek Mistek there is a company waste water treatment plant, where industrial waste water generated on the premises of the plant as well as technological waters and rainwater are discharged.

The majority of other companies using water from water supply networks discharge their waste water to municipal treatment plants. In the case of Cynk-Mal, waste water in the form of acidic solutions is treated as waste and is sent to entities holding appropriate permits for the management of this waste.

## **2.7 Other environmental aspects**

In the accounting period there were no administrative proceedings related to the infringement of environmental regulations by the Capital Group companies. There were no accidents with environmental effect and no infringement of environmental regulations.

Apart from the areas of environmental impact described above, the operating activities of the companies' entities do not generate any other special factors affecting the surrounding environment.

## **2.8 Enhanced environmental responsibility**

- Stalprodukt S.A.

The development of the company with simultaneous reduction of the impact on the natural environment is one of the elements of the strategy of Stalprodukt S.A.

The environmental management system applied in accordance with the international standard ISO 14001 enables us to identify the most important elements of the interaction between the company and the environment and to take constructive actions in the areas of design, production, product delivery and

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waste disposal. The environmental management system is integrated into the overall management system of the company.

Environmental activities are planned and implemented, which mainly concern:

- the use of materials and technologies which, to the best of the available knowledge, are considered to be the least harmful,
- reduction of the emission of pollutants into the atmosphere,
- proper waste management,
- prevention of major industrial accidents,
- comply with legal and other requirements that relate to the identified aspects,
- raising employees' awareness of the impact of their work on the natural environment and the potential consequences of non-compliance with the applicable rules of conduct.
- taking account of economic conditions when determining activities,

The effects of the actions are evaluated. The environmental policy is implemented taking into account local conditions, aims at continuous improvement of environmental protection and is accepted by the highest management of the Company. Environmental policy and information on actions taken to implement it shall be made available to suppliers, customers and other interested parties.

When setting environmental objectives and targets, legal and other requirements, technological and financial options, operational requirements arising from the conduct of the business, as well as from the point of view of the interested parties, shall be taken into account. The objectives and targets are consistent with the established environmental policy. The top management of Stalprodukt S.A. performs regular reviews of Integrated Quality and Environment Management System (ZSZJiŚ). The aim of the review is to assess the usefulness, adequacy and effectiveness of the functioning ZSZJiŚ, implementation of the established quality and environmental policy and objectives, opportunities for improvement as well as the necessity to introduce changes in the system.

In order to ensure that the employees know the requirements of ZSZJiŚ, trainings are conducted for individual professional groups on the principles and documents of the system and methods of performing activities.

The Company has planned and implemented appropriate monitoring and measurement processes, as well as analysis and improvement for:

- demonstrating compliance with the requirements concerning the product,
- ensuring compliance of ZSZJiŚ with specific requirements,
- continuous improvement of ZSZJiŚ.

In the documents of ZSZJiŚ the methods of monitoring and measurement as well as conducting analyses have been specified, and appropriate techniques for quality improvement have been selected. Statistical methods are used to monitor the stability of specific machines, processes and the quality of manufactured products. Statistical methods are also used to analyse data, complaints, corrective actions and audit results.

The processes necessary for continuous improvement of ZSZJiŚ are planned and managed. Continuous improvement is achieved through the application of quality and environmental policies.

During internal audits and data analysis, opportunities for system improvement are identified. Implementation of corrective and preventive actions allows to restore the effectiveness of ZSZiZŚ and reduces the probability of problems in the future. Strategic actions for continuous improvement are taken during the management review.

- ZGH „Bolesław” Group

ZGH Bolesław S.A., as one of the largest companies in the zinc processing industry in Poland, cannot and does not deviate from responsibility for the state of the surrounding environment. The extraction of Zn-Pb ore and its subsequent processing at all stages of production is inextricably linked with its environmental impact. The Company implements a programme of systematic reduction of process emissions to the environment in all its components. The result of these activities is the achievement of emission parameters in accordance with the European Union legislation and national law. Industrial installations meet stringent emission standards, and the condition of atmosphere protection equipment and the impact of activities on the environment is systematically controlled by state environmental protection services. The high level of environmental protection is confirmed by obtaining and maintaining sector decisions and integrated permits.

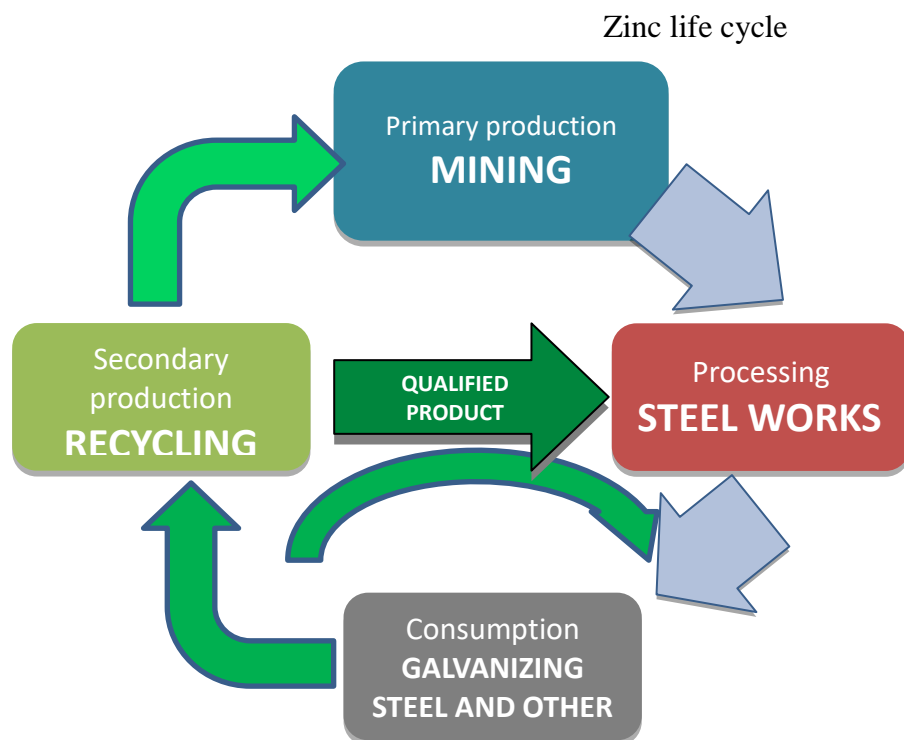
The Company intends to continue and pursue in the following years of its operation in accordance with the adopted strategy focused on the implementation of the concept of sustainable development at each stage of the production process. ZGH Bolesław S.A. carries out the processing process on its own, starting from the stage of extraction, production, marketing and sales of final products (zinc and zinc alloys, concentrates, sulphuric acid) and ending with responsible waste management in order to obtain maximum zinc recovery in its own installations (or installations operating within the ZGH "Bolesław" Group), thus limiting its negative impact on the environment.

A very important feature of zinc is its high recyclability. Without loss of any chemical or physical properties, zinc may be repeatedly recovered from secondary sources and re-marketed as a product with exactly the same parameters as the primary material. According to current data, approximately 20% of the zinc produced is recycled from various types of zinc-bearing materials.

It is worth noting that this cycle, with a properly conducted industrial economy, can be a closed cycle by returning recycled zinc to the steel works industry or directly to the consumers of zinc.

ZGH is an example of building the so-called closed circuit in the zinc industry, which fits perfectly into the European Union's policy of preferring an economy where resources are used in a more sustainable way, i.e. by using land resources and increasing the share of recyclable materials.

Protection of the natural environment and minimization of nuisances connected with functioning is the priority of the Company. Thanks to the applied environmental policy, ZGH Bolesław S.A. meets the applicable ecological standards.



- Other companies of Stalprodukt Capital Group

*Stalprodukt Zamość sp. z o.o.*

Environmental activities are planned and implemented, which mainly concern:

- the use of materials and technologies which, to the best of the available knowledge, are considered to be the least harmful,
- proper waste management,
- raising employees' awareness of the impact of their work on the natural environment and the potential consequences of non-compliance with the applicable rules of conduct.

*STP Elbud sp. z o.o.*

The development of the company with simultaneous reduction of the impact on the natural environment is one of the elements of the strategy of STP Elbud sp. z o.o. The environmental management system

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applied in accordance with the international standard ISO 14001 enables us to identify the most important elements of the interaction between the company and the environment and to take constructive actions in the areas of design, production, product delivery and waste disposal. The environmental management system is integrated into the overall management system of the company.

Environmental activities are planned and implemented, which mainly concern:

- the use of materials and technologies which, to the best of the available knowledge, are considered to be the least harmful,
- reduction of the emission of pollutants into the atmosphere,
- proper waste management,
- prevention of major industrial accidents,
- comply with legal and other requirements that relate to the identified aspects,
- raising employees' awareness of the impact of their work on the natural environment and the potential consequences of non-compliance with the applicable rules of conduct.

The effects of the actions are evaluated. The environmental policy is implemented taking into account local conditions, aims at continuous improvement of environmental protection and is accepted by the highest management of the Company. When setting environmental objectives and targets, legal and other requirements, technological and financial options, operational requirements arising from the conduct of the business, as well as from the point of view of the interested parties, shall be taken into account. The objectives and targets are consistent with the established environmental policy. The Management of STP Elbud sp. z o.o. regularly reviews the Integrated Management System. The aim of the review is to assess the usefulness, adequacy and effectiveness of the functioning the integrated system. In the documents the methods of monitoring and measurement as well as conducting analyses have been specified, and appropriate techniques for quality improvement have been selected. The processes necessary for continuous improvement are planned and managed. Continuous improvement is achieved through the application of quality and environmental policies.

*Cynk-Mal S.A.*

The impact of the plant, including both installations, on the environment is within the limits set by law. This applies to all components of the environment (air, noise, water, waste, etc.). Applied technical and technological solutions guarantee a high level of protection of the environment as a whole:

- application of production technology in accordance with the principles of the Best Available Technique (BAT),
- adherence to the technological regime, the use of automatic regulation and control of the technological process parameters,
- minimization of water consumption through:
- protection of soil and water environment through:
- limiting the amount of substances discharged into the atmosphere
- minimization of the amount of waste generated:

*GO Steel Frydek Mistek*

GO Steel Frýdek Místek is active in the field of environmental protection and it is one of the company's key priorities. Apart from legal and legislative obligations, the company conducts additional activities aimed at caring for the immediate surroundings.

The company sorts paper, plastics and municipal waste, thus increasing the recovery of such waste. The construction of a new oil and grease warehouse (apart from legal obligations) means more environmental protection in the handling of chemicals and mixtures.

As part of the protection of surface and underground water, new containment systems have been installed, which minimize the possibility of accidents and leaks of harmful substances to a waste water system and soil.

### **3. Social and employee area**

Despite the lack of uniform solutions regarding the entire Capital Group formally (not counting the Diversity Policy and the Anti-Corruption Policy), the effects of individual regulations fully cover all issues related to the social area of subsidiaries' operations.

#### **3.1. Using public aid and public sector contracts**

- Stalprodukt S.A.

Stalprodukt S.A. did not use any public aid in 2018 and did not carry out any public sector contracts.

- ZGH „Bolesław” Group

In 2018, public aid at the nominal value was granted to ZGH "Bolesław" S.A. in the amount of PLN 12 million. These were grants for research and development projects. Whereas public sector contracts were carried out by the Przedsiębiorstwo Robót Drogowych S.A. in Olkusz for PLN 11,540 thousand, which constitutes a 63% share in the company's revenue, and in the entire Group's revenue that is 0.6%.

- Other companies of Stalprodukt Capital Group

Public aid granted to the remaining companies of the Capital Group in 2018 amounted to PLN 255 845 (according to the nominal value of the aid). It was mainly a refund, i.e. aid in the form of subsidizing remuneration for the recruitment of disabled employees. For comparison, in 2017 it amounted to PLN 226 533. In addition, one of the companies received de minimis aid at a nominal value of PLN 247 724.

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### 3.2. Level of employment and level of remuneration

#### *The employment structure by positions*

	Type of position	year 2018						year 2017					
		women	men	Contract for a trial period	Contract for a definite period	Contract for an indefinite period	Civil-law contracts	women	men	Contract for a trial period	Contract for a definite period	Contract for an indefinite period	Civil law contracts
Stalprodukt S.A.	Management staff	3	49	0	0	52	0	3	45	0	0	48	0
	White-collar	72	189	1	27	233	2	75	182	4	43	210	1
	Blue-collar	39	1273	1	198	1113	4	39	1312	32	383	936	2
	total	114	1511	2	225	1398	6	117	1539	36	426	1194	3
Grupa ZGH Bolesław	Management staff	16	104	0	2	118	4	17	106	0	2	121	4
	White-collar	148	377	3	36	486	20	145	372	6	70	441	25
	Blue-collar	149	2601	39	386	2325	91	146	2596	56	750	1936	67
	total	313	3082	42	424	2929	115	308	3074	62	822	2498	96
Other companies of STP Capital Group	Management staff	20	38	0	3	55	0	19	33	0	1	51	0
	White-collar	105	158	1	22	240	31	85	118	5	29	141	26
	Blue-collar	24	1097	29	186	906	104	16	756	24	255	508	66
	total	149	1293	30	211	1201	135	120	907	29	285	700	92

In 2018, the number of employees in other companies of the Capital Group increased significantly. This is related to the contract for acquisition of 100% shares GO Steel Frydek Mistek in December 2017.

In the employment structure in Stalprodukt Capital Group, the majority of employees are men and in Stalprodukt S.A. they constitute 93% of employees, in ZGH "Bolesław" Group - 91%, and in other companies - 90%. They are mainly employed in blue-collar positions. Such specificity of the employment structure is related to the object and specificity of the operations of Stalprodukt S.A. Capital Group.

#### *Employment structure by gender*

	Employees by gender	2018				2017			
		Contract for a trial period	Contract for a definite period	Contract for an indefinite period	Civil-law contracts	Contract for a trial period	Contract for a definite period	Contract for an indefinite period	Civil-law contracts
Stalprodukt SA.	women	1	22	91	1	3	34	80	1
	men	1	203	1307	5	33	392	1114	2
	total	2	225	1398	6	36	426	1194	3
ZGH „Bolesław” Group	women	4	36	273	15	10	44	254	13
	men	38	388	2656	113	52	778	2244	83
	total	42	424	2929	128	62	822	2498	96
Other companies of STP Capital Group	women	1	31	121	17	3	26	85	10
	men	29	180	1080	118	20	276	604	83
	total	30	211	1201	135	23	302	689	93

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The most popular form of employment in the whole Capital Group is the contract for an indefinite period. Their share both for Stalprodukt S.A. and for the ZGH "Bolesław" Group amounts to 86% of all contracts, and for the remaining companies the share of this form of employment is 85%.

There is a significant increase in comparison to 2017 both in Stalprodukt and in the ZGH "Bolesław" Group by 14%. This is caused by, among others, entry into force of the amendment of the Labour Code and some other acts, i.e. limiting the conclusion of the number of contracts for a definite period and the time limit for concluding such contracts (Journal of Laws 2015, item 1220).

*Employment structure by age*

		2018				2017			
	Division by age	women	men	Blue-collar positions	White-collar positions	women	men	Blue-collar positions	White-collar positions
Stal produkt S.A.	up to 30 years	9	255	244	20	14	415	399	30
	31-50 years	55	820	687	188	95	1011	871	235
	>51 years	50	436	381	105	8	113	81	40
ZGH „Bolesław” Group	up to 30 years	33	466	456	43	30	494	476	48
	31-50 years	148	1690	1492	346	155	1680	1499	336
	>51 years	133	925	806	252	123	900	780	243
Other companies of STP Capital Group	up to 30 years	14	168	153	22	14	143	78	37
	31-50 years	84	562	484	171	77	425	305	96
	>51 years	51	563	483	129	25	331	257	62

In the employment structure by age, the highest number of employees is in the 31-50 age group, although in 2018 there is an increase in the number of employees in the 50+ group (mainly in the group of the other companies). This fact is caused by the purchase of GO Steel Frydek Mistek a.s. This phenomenon occurs both in the group of women and men, regardless of the type of position they occupy.

*Newly employed employees by age and gender*

		2018			2017		
	Division by age	women	men	total	women	men	total
Stalprodukt S.A.	up to 30 years	3	12	15	6	74	80
	31-50 years	4	31	35	6	37	43
	>51 years	1	21	22	0	6	6
ZGH „Bolesław” Group	up to 30 years	12	96	108	7	80	87
	31-50 years	6	104	110	17	85	102
	>51 years	3	58	61	6	28	34
Other companies of STP Capital Group	up to 30 years	5	56	61	5	75	80
	31-50 years	11	59	70	4	83	87
	>51 years	6	30	36	3	28	31



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In 2018, a total of 518 new employees were employed in the entire Capital Group, and in 2017 there were 550. In the structure of newly hired employees by age, the highest number of employees was 31-50 years old and they are men.

*Dismissed employees by age and gender*

	Division by age	2018			2017		
		women	men	total	women	men	total
<b>Stalprodukt S.A.</b>	<b>up to 30 years</b>	2	37	39	0	34	34
	<b>31-50 years</b>	0	30	30	2	20	22
	<b>&gt;51 years</b>	9	33	42	7	50	57
<b>ZGH „Bolesław” Group</b>	<b>up to 30 years</b>	4	46	50	1	30	31
	<b>31-50 years</b>	1	101	102	4	120	124
	<b>&gt;51 lat</b>	9	110	119	28	96	124
<b>Other companies of STP Capital Group</b>	<b>up to 30 years</b>	3	39	42	3	46	49
	<b>31-50 years</b>	11	73	84	2	49	51
	<b>&gt;51 lat</b>	13	50	63	3	35	38

In 2017-2018, 530 and 571 people, respectively, were dismissed in the entire Capital Group. The percentage share of those dismissed to the total number of employees in the presented period is at the same level.

*Employment of people with disabilities*

	2018		2017	
	Number of people with disabilities	Employment share [%]	Number of people with disabilities	Employment share [%]
Stalprodukt S.A.	5	0.31	4	0.24
ZGH „Bolesław” Group	32	0.94	33	0.98
Other companies of STP Capital Group	51	3.51	45	4.38

Due to the nature of the Capital Group's operations and difficult working conditions, there were 88 people with disabilities employed in 2018, and in 2017 there were 82 people. The increase in employment of people with disabilities in 2018 is also associated with the purchase of Go Steel.

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*Average remuneration (PLN)*

	2018		2017	
<b>Stalprodukt S.A.</b>	Average remuneration regardless of gender	5 358	Average remuneration regardless of gender	5 035
<b>ZGH „Bolesław” Group</b>	Average remuneration regardless of gender	6 341	Average remuneration regardless of gender	6 046
<b>Other companies of STP Capital Group</b>	Average remuneration regardless of gender	4 779	Average remuneration regardless of gender	4 424

In Stalprodukt S.A., the average annual remuneration in comparison to 2017 increased by about 6%, in the ZGH "Bolesław" Group by 5%, while in the other companies by 8%. The increase of the average remuneration in other companies of the Capital Group was affected by the purchase of Go Steel Frydek Mistek.

*The amount of contributions to the State Fund for Rehabilitation of Disabled Persons - PFRON (in PLN '000)*

	2018	2017
Stalprodukt S.A.	1 803	1 846
ZGH „Bolesław” Group	3 492	3 233
Other companies of STP Capital Group	1 227	596

The total amount of contributions to PFRON throughout the Group in 2018 amounted to PLN 6 522 thousand compared to PLN 5 675 thousand in 2017. A significant increase in contributions in 2018 is visible in the group of other companies of the Capital Group, which is caused by the high value of the contribution sent from the newly purchased company, i.e. Go Steel Frydek Mistek s.a.

### **3.3. Relations with the employees and freedom of association**

- Stalprodukt S.A.

There are two trade unions in Stalprodukt S.A.: ZZ NSZZ Pracowników AMP S.A. in Stalprodukt S.A. associating 130 employees and MOZ NSZZ "Solidarność" with 177 employees. In 2017, the ratio of employees belonging to trade unions was about 25%, and in 2018 it was about 19%.

In the Company, no collective dispute was initiated in 2018.

*Social activities*

Social activity in Stalprodukt S.A. is carried out in accordance with the Act on Employee Benefit Fund (ZFŚS) and with the "ZFŚS Management Regulations" in force in Stalprodukt S.A., which provides various forms of aid for employees and their families, namely:

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- non-returnable financial and material or material aid in the form of hardship benefits (aid to persons who have been affected by individual random events, long-term (chronic) illness or death of the closest family members);
- aid in the form of repayable loans for home, flat renovation, house construction; change (from a smaller to a larger one) of a cooperative or temporary type of flat,
- co-financing for leisure organized in the form of colonies, camps, winter camps, holidays,
- co-financing for individual leisure, the so-called "wczasy pod gruszą",
- co-financing for cultural and educational activities (e.g. admission tickets for cultural and educational events, to the cinema, stage performances, concerts),
- co-financing for sports and recreation activities (rallies, trips, sports events for children).

- ZGH „Bolesław” Group

Depending on the company, the ZGH "Bolesław" Group has from 1 to 7 trade union organizations. The unionisation rate in 2017 was around 55%, and in 2018 it was around 56%.

In 2018 there were no strike actions.

Social activities:

- non-returnable material and financial aid in the form of benefits,
- borrowing for housing purposes,
- co-financing for leisure of an employee and his/her children,
- co-financing for sports and recreation activities in the form of co-financing tickets for the swimming pool, sports cards,
- additional payment for family trips organized by the employer in winter (holidays),
- additional payment for tourist services as well as cultural and sports events organized by the employer,
- Christmas benefits (vouchers, cards, gifts) as well as events for children of employees.

- Other companies of Stalprodukt Capital Group

In the other companies of Stalprodukt Capital Group, there are five trade unions: ZZ NSZZ Pracowników AMP S.A. in Stalprodukt S.A., MOZ NSZZ "Solidarność", Komisja Zakładowa NSZZ Solidarność 80, NSZZ Solidarność and OS Kovo. The share of employees belonging to unions in 2017 was about 17%, and in 2018 about 36%. Such a large increase in unionisation in the other companies of the Capital Group in 2018 results from a very large number of employees belonging to OS Kovo in Go Steel Frydek Mistek.

Last year, there were no collective disputes in any of the companies.

*Social activities*

Social activities in the other companies of the Capital Group are conducted in accordance with the Act on ZFŚS and provides various forms of aid (in individual companies they are varied) for employees and their families, including:

- additional medical care,
- non-returnable material and financial or material aid in the form of hardship benefits,
- aid in the form of returnable loans for home, flat renovation or house construction,
- co-financing for leisure organized in the form of colonies, camps, winter camps, holidays,
- co-financing for individual leisure, the so-called "wczasy pod gruszą",

- co-financing for cultural and educational activities,
- co-financing for sport and recreational activities,
- gifts for children on St. Nicholas' Day and for women employees on Women's Day,
- supplementary retirement insurance.

### **3.4 Occupational health and safety (OHS)**

Due to a diverse nature of the operations of the main entities forming the Capital Group, and hence various threats and regulations resulting from them, the approach to the area related to the OHS and applied solutions are tailored to the needs and requirements of the individual companies.

The ambition of the Capital Group is to provide employees with a safe, healthy and friendly work environment. The companies of the Capital Group apply the best available practices to minimize threats to the health and safety of the team and to build awareness and motivation for safe behaviour.

- Stalprodukt S.A.

There is an Occupational Health and Safety Policy in Stalprodukt S.A. According to its provisions, the priority of the Company's management is to ensure occupational health and safety for employees, contractors, subcontractors and representatives of other institutions present on the premises. This policy is implemented through:

- pursuit of constant improvement in occupational health and safety,
- maintaining a high standard of working conditions and respecting the applicable law,
- continuous improvement of employees' qualifications,
- familiarizing employees with all aspects of work, with particular emphasis on the necessity of its safe performance,
- promoting attitudes and actions that increase employee engagement to improve working conditions,
- supervising employees' compliance with health and safety principles,
- continuous improvement of occupational health and safety.

The company declares taking all actions aimed at:

- eliminating harmful and onerous factors that may occur at work stations,
- prevention of accidents, occupational diseases and near misses.

Knowledge and skills in the field of occupational health and safety are acquired by the employees in the course of the Company's training system. During job instructions they are informed about occupational risk occurring at individual positions, including onerous, harmful and dangerous factors and the results of their measurements.

Stalprodukt S.A. performs cyclic measurements for the presence of dust and chemical agents at the work stations. The analyses show that the measured multiplicity of limit values is below 0.5 NDS, and often even below 0.1 NDS.

On the premises of Stalprodukt S.A. there is a Social Labour Inspectorate, whose representatives, in addition to the implementation of other tasks, participate in meetings of the Occupational Health and Safety Commission organised at least quarterly and in the review of working conditions. The OHS Service

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conducts on-going inspections of working conditions and prepares, at least once a year, regular OHS analyses.

In Stalprodukt S.A., accidents at work occur most often during handling of objects and during contact with sharp edges of steel sheets. A relatively small number of accidents occur when machines are operated.

Human causes are the most frequent causes of accidents at work in 2017-2018. Examples include above all incorrect employee behaviour (in particular due to surprise reaction when facing an unexpected event, insufficient focus on the performed activity, neglecting a hazard) and improper arbitrary employee behaviour, that is performing activities without removing the hazard.

Specification	2018	2017
Total number of accidents at work	18	16
Accident frequency indicator (number of accidents/number of people employed x 1000)	11.06	9.64
Number of heavy accidents	0	0
Number of fatalities	0	0
Total number of days of inability to work among employees due to accidents	1 220	1 039
Accident severity indicator (number of days of inability/1 accident)	67.78	64.94
Number of cases of occupational diseases reported.	0	0
Number of employees working under conditions exceeding the maximum permissible concentrations (NDS) and permissible values of intensity (NDN)	174	201
Number of work stations at which the level of assessed occupational risk is unacceptably high (i.e. actions are necessary to reduce the risk level)	0	0

- ZGH „Bolesław” Group

The activities in the field of the OHS of the ZGH "Bolesław" Group include, among others:

- additional OHS and fire training (weekly, monthly),
- technical inspection of equipment, compliance with technical tests and approvals,
- OHS competitions;
- reporting near misses,
- use during training of a number of didactic aids (alco-goggles, dummies, training AED),
- agreeing with the team on introducing new protection measures through their earlier testing;
- monitoring the state of exposure of employees to lead content,
- equipping critical parts of the plant with Automatic External Defibrillators (AED),
- aiding people who participated in dangerous accidents,
- preventive care (proper maintenance of sanitary and hygienic rooms, washing work clothing, personal care products, extended preventive care, health monitoring of exposed people also by facultative examinations, vitamin C, prophylactic meals and drinks, vitamin programme, reimbursement of dietary supplements and medicines, and organizational improvements in the use of medical care as part of the preventive care)

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In the Companies, in accordance with the regulations, Social Labour Inspectors are appointed at the level of the main organizational entities who closely cooperate with OHS services, caring for the protection of employee rights specified in the OHS regulations.

Low accident rate constitutes a confirmation of a well-implemented policy in this area.

The most common cause of accidents are the activities performed by the injured at the time of the accident: gas cutting, working with an oxygen lance, work with a non-mechanised hand tool, descending from a truck, climbing the ladder, transportation by a manually operated crane, falling from a height, injury, bruises, burns, fractures . In the mine, the most frequent cause of accidents is the collapse of rocks from the working edge.

Specification	2018	2017
Total number of accidents at work	24	26
Accident frequency indicator (number of accidents/number of employees x 1000)	7.1	7.7
Number of heavy accidents	2	0
Number of fatalities	0	1
The total number of days of inability to work due to accidents	1545	1433
Accident severity rate (number of days of incapacity/1 accident)	64	55
Number of diagnosed cases of occupational diseases.	0	1
Number of employees working under conditions exceeding the maximum permissible concentrations (NDS) and permissible values of intensity (NDN)	609	180
Number of jobs where the level of risk assessed is unacceptably high (i.e. measures to reduce the level of risk are necessary)	0	0

- Other companies of Stalprodukt Capital Group

Specification	2018	2017
Total number of accidents at work	22	23
Accident frequency rate (number of accidents/number of employees x 1000)	20.0	20.0
Number of severe accidents	0	1*
Number of fatal accidents	0	0
Total number of days of incapacity for work for employees caused by accidents	678	1383**
Accident severity rate (number of days of incapacity/1 accident)	30.82	60.13
Number of diagnosed cases of occupational diseases.	0	0
Number of employees working under conditions exceeding the maximum permissible concentrations (NDS) and permissible values of intensity (NDN)	301	15

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Number of jobs where the level of risk assessed is unacceptably high (i.e. measures to reduce the level of risk are necessary)	0	0
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\*have been adjusted against the data presented in the 2017 report,

\*\*The corrected difference is due to the actual number of days of incapacity for work,

### **3.5 Development of education**

In order to ensure satisfaction from work, the Capital Group invests in professional development of its employees and good atmosphere in the workplace. The Group companies create friendly conditions for their employees to gain knowledge, improve their qualifications and benefit from various forms of education. Continuous updating of knowledge and skills and upgrading of qualifications is in line with the company's strategy. The acquired qualifications are used by the employees on the occupied position or will be used in the future. Facilitating the improvement of qualifications in the Company creates a positive assessment for the learning employees. Continuous improvement of professional qualifications becomes a necessity. The need for continuous learning is linked to technological and organisational change and to a sufficiently high level of safety, and knowledge needs to be continuously updated and updated.

- Stalprodukt S.A.

Stalprodukt S.A. helps in the professional development of its employees in various ways. Eg. employees who, on their own initiative, undertake post-graduate studies or training in specialist courses, in accordance with the scope of their official activities, the company concludes agreements to improve their qualifications, giving a maximum subsidy of 50% of the price of studies. The Company undertakes at the same time to grant training leave and to reimburse travel expenses if the training or studies take place in another location.

Training in Stalprodukt is conducted on the basis of an annual training plan. The training plan covers all organisational units of the Company. In 2018, 131 training courses were conducted with the participation of employees of various professional levels. The scope of training includes the following thematic blocks: management, personnel management, quality and environmental management, sales and marketing, finance, professional, technical, etc.

Some of the employees participated in courses and exams aimed at improving their professional qualifications, which guaranteed obtaining state qualifications (UDT, SEP).

The training courses are attended by the Company's Management Board, directors, managers, specialists, masters, engineering, technical, administrative and office employees and employees employed in production positions. Certificates are issued from participation in training courses. Each employee fills in a questionnaire evaluating the way the training is conducted, the quality of training materials, the level of social conditions during the training and the selection of topics to meet current needs. After three months of participation in the training, the superior submits to the Employment Office an Assessment of the effectiveness of employee training.

The table below presents the number of trainings conducted in the Company.

	<b>2018</b>	<b>2017</b>
Number of persons trained	840	983

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• ZGH „Bolesław” Group

Continuous updating of knowledge and skills and upgrading of qualifications is in line with the company's strategy. The acquired qualifications are used by the employees on the occupied position or will be used in the future. Continuous improvement of professional qualifications becomes a necessity. The need for continuous learning is linked to technological and organisational change and to a sufficiently high level of safety, and knowledge needs to be continuously updated and updated. The most important item in the training budget is expenditure on training and obligatory exams in the field of health and safety, mine rescue, power engineering and vocational training and courses related to the specificity of work in the metallurgy, such as the course of metallurgical technician and miner.

The following are organised:

- thematic trainings dedicated to particular professional groups, aimed at further development, specialisation and improvement in the work performed,
- skills improvement courses (metallurgist technician, automation technician);
- language courses (English, German) at the workplace;
- vocational courses (overhead cranes, forklift trucks, operation of goods and passenger lifts, welding, SEP qualifications);
- co-financing of individual employees' skills improvement (higher education, postgraduate studies at state universities, language courses).

	<b>2018</b>	<b>2017</b>
Number of persons trained	3 767	4 457

The companies of the ZGH "Bolesław" Group constantly encourage their employees to broaden and deepen their knowledge, facilitating their adaptation to technical, technological and organizational changes. Identifying talents and building their individual development paths, tailored to the capabilities and needs of the organization, is the key to the further development of ZGH.

In the Capital Group in 2018, 60 employees improved their professional qualifications by participating in various forms of further education, and in 2017, 241 employees.

Innovation is one of the most important elements of the ZGH strategy, as the success of the Capital Group also depends on the involvement and cooperation of employees with diverse knowledge and experience. Work on innovative solutions is conducted at various levels of the enterprise, using both cooperation with independent entities (universities, research institutes Central Mining Institutes), as well as appreciating the potential and ingenuity of their own staff. Employees know their specific needs best and are able to identify areas and solutions that will translate into better results and greater security. Therefore, in 2018 the original Employee Suggestion Programme was implemented. As a result, the commitment to change and innovation has become a daily practice for every employee.

<b>Employee Suggestion Programme</b>	<b>ZGH “Bolesław”</b>
	<b>2018</b>



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Number of suggestions made	62
Suggestions made by 1 employee	0,03

- Other companies of Stalprodukt Capital Group

Similarly as in the case of the Capital Group's parent company, all subsidiaries provide training for employees. Apart from obligatory training, the companies enable their employees to continuously improve their qualifications.

	<b>2018</b>	<b>2017</b>
Number of persons trained	2 027	227

### **3.6 Managing diversity**

To ensure the highest standards in creating a working environment in which every employee feels respected and appreciated and in which they can fully realize their potential, the Diversity Policy was adopted in the Stalprodukt S.A. Group in 2018.

The Capital Group companies implement the policy of diversity in the recruitment process, the principle of equal access to remuneration, development and training and promotion regardless of skin colour, religion, sex, age, nationality, sexual orientation, citizenship, marital status, having children, political views, disability or any other legally protected status.

Decisions concerning the employment of employees and the election of members of the Management Board and Supervisory Board are made on the basis of objective criteria. Stalprodukt S.A. and other companies of the Capital Group strive to ensure the versatility and diversity of company bodies, especially in the area of gender, education, age and professional experience, while the main selection criteria are high qualifications, professionalism and competencies of the candidate to perform a specific function.

In 2018, there were no cases of discrimination, mobbing or sexual harassment in the companies.

### **3.7 Human rights**

There has never been a case of human rights violations in the Stalprodukt S.A. Group.

The Capital Group companies did not include a clause in their agreements with main contractors obliging the subcontractor to respect human rights and does not reserve the right to audit and terminate the agreement in the event of its breach.

The Anti-Mobbing Policy has been adopted in the Capital Group and is implemented in all the Group companies.

### **3.8 Child and forced labour**

No company of the Capital Group employs children or uses forced or compulsory labour.

### **3.9 Local communities and social engagement**

- Stalprodukt S.A.

The Management Board of Stalprodukt S.A. is fully aware of the fact that the outlays allocated for supporting local development are a long-term investment which benefits both parties. The satisfaction of customers, employees and the respect of the local community are equal objectives, no less important than high profits.

Responsible business is also a management strategy that minimizes risk and maximizes the chance of success in the long run. It is also the ability to run a business in such a way as to increase its positive contribution to the development of society and, at the same time, minimise the negative effects of economic activity. Responsible business also means the way in which the company treats market participants on a daily basis: customers and business partners, employees and the entire local community.

The high position of Stalprodukt, appreciated in rankings, is the result of such an understanding of corporate social responsibility.

Stalprodukt S.A. is one of the largest companies operating in Małopolska region and a large employer, employing at the end of 2018 1625 employees. Therefore, the Management Board of the Company, being aware of its responsibility, treats CSR issues, and above all good relations with the local community (in addition to increasing the value of the company), as a priority.

The company has been active in this area for many years, sponsoring many social initiatives and undertakings, mainly from the town and commune of Bochnia. Stalprodukt regularly provides financial support to local schools, parishes and orphanages. It also finances the activities of various foundations and associations, organizing sports, cultural and entertainment events and charity concerts. It also finances the activities of various foundations and associations, the organization of sports, cultural and entertainment events and charity concerts. The Company also financially supported the publication of various types of book publications (e.g. "Bochnia and Bochnia Oblast in the years 1863-1864. On the 150th anniversary of the January Uprising" - by Janina Kęsek, published by the Association of Bochnia Residents and Lovers of the Bochnia Land).

The most important projects in the area of corporate social responsibility supported financially by the Company in 2018 include:

- a donation to Caritas at the parish of St. Nicholas in Bochnia for hot meals for people in need of help, including the homeless;
- donations to the Kromka Chleba Foundation (construction of a hospice via spei in Tarnów);
- sponsorship of the annual "Bochnia Days";
- financial support for the Fischer Museum in Bochnia for the purchase of the painting;
- support for charity events organised by the Auxilium Foundation in Bohemia, which provides assistance to the disabled;
- support for the Occupational Therapy Workshop in Proszówki (charity action "Christmas Card").

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The total amount of expenses related to the area of corporate social responsibility in 2018 amounted to PLN 158 thousand.

The Management Board of Stalprodukt also understands corporate social responsibility as caring for one's own employees, their families, timely payment of all contributions, including social and health insurance, as well as timely payment of all due taxes in the place where most of the employees work and live.

The efforts of the Stalprodukt management to satisfy the needs and expectations of the local community have already been appreciated by the city authorities several times. In 2008 Stalprodukt was the first to receive the title of **"Bochniae Bene Meritus". (Well-accomplished for Bochnia)**. According to the intention of the city authorities, this award is to be granted to institutions and companies whose activities positively influence the local labour market and the economic condition of the city.

And in 2016 (on the occasion of the 763 anniversary of the location of Bochnia), President of the Management Board of Stalprodukt S.A. Mr. Piotr Janeczek received the statuette Boleslaus Dux Founder - Bolesław Prince Founder. It is awarded by the Mayor of Bochnia to people who in their activities and life attitude show constant care for the good name and existence of Bochnia (a distinction awarded for the second time since its establishment).

To sum up, it should be emphasized that the activities of Stalprodukt S.A. in the CSR area are aimed at achieving the following objectives: maintaining a positive image of the Company, gaining social acceptance and support for the activities undertaken by the Company and its management, strengthening the Company's image as a significant and reliable employer on the local labour market, a company important for local authorities, environmentally friendly, meeting the quality standards, environmental protection, taking care of the safety of employees and observing the principles of corporate governance.

- ZGH „Bolesław” Group

For years, the ZGH "Bolesław" Group has been implementing the Strategy of Sustainable Development and Social Responsibility through rational management of natural resources of zinc-lead ores, constant increase in the use of recycled materials, modernization of technologies to ensure environmental protection. Good communication with our stakeholders, in particular with the local community, strengthens the modern image of the company and strengthens the leading position of the zinc producer in Central Europe.

The ZGH "Bolesław" carries out the Strategy of Sustainable Development and Social Responsibility of ZGH "Bolesław". This strategy distinguishes the following leading directions of action:

- Responsible business
- Social partnership
- Caring for traditions

The Company as a socially conscious entity, whose main task is not only to ensure current operations in accordance with the applicable law, also has a positive impact on the raw material economy by implementing the idea of a closed-loop economy.

In addition, the Company conducts activities aimed at supporting the local community, protecting and improving the natural environment, supporting the development of local self-government and building civil society.

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The motto of the strategy is: "Business only with the inhabitants and tradition"

In order to promote and preserve the knowledge about the history and traditions of lead and zinc mining in the region of Bukowno for future generations, ZGH "Bolesław" S.A. created an interactive exhibition "Zinc Knowledge Mine" at its plants. In the Company's opinion, this history and knowledge of traditions should be saved from oblivion, especially as the mining industry in the Bukowno region may soon disappear due to the extraction of deposits.

In 2018, the Company established Zakłady Górniczo-Hutnicze "Bolesław" Foundation. The aim of the Foundation is to work for the benefit of the local community, living in the area covered by the activity conducted by the ZGH "Bolesław" S.A, including:

- Supporting the development of local self-government and building civil society,
- Charitable activities,
- Maintaining and disseminating national tradition, cultivating Polish identity and developing national, civic and cultural awareness,
- Social help, including families and persons in difficult life situation and equal opportunities for these families and persons
- Protection and promotion of health,
- Rescue and civil protection,
- Activities supporting economic development, including the development of entrepreneurship,
- Science, higher education, education and upbringing,
- Activities for children and youth, including recreation of children and youth,
- Supporting and promoting physical culture and sport,
- Ecology, environmental and animal protection and protection of natural heritage,
- Tourism and sightseeing,
- Culture, art, protection of cultural heritage and national heritage,
- Promoting the history of Polish mining and non-ferrous metallurgy.

Huta Cynku "Miasteczko Śląskie" has developed a "Social Responsibility Strategy" for the years 2017-2020, whose primary objective is to support the company's business strategy by using the company's resources and competencies to generate economic and social values for the benefit of the environment. Therefore, one of the most important areas of activity is care for the safety and health of the residents of Miasteczko Śląskie.

In 2017, an agreement was signed between Huta Cynku "Miasteczko Śląskie" SA and the Foundation for Children "Miasteczko Śląskie" and the Medical Center Eko-Prof-Med. The subject of the agreement is the implementation in 2017-2020 of the Scientific Project entitled "Evaluation of the equalization of mineral economy in children exposed to environmental lead" carried out within the project "Mechanisms of toxic influence of lead on human organism". The aim of the project is to determine the basic parameters of blood and macroelements such as iron, calcium, magnesium and vitamin D in children and to supplement the deficiency of these elements in case of their occurrence. This will allow us to answer the question of to what extent supplementing the deficiency of macro- and microelements and vitamin D in children will allow to lower the concentration of lead in blood and reduce the effects of its toxicity.

The cost of execution of the planned project will amount to approximately PLN 152 thousand. The entire task is financed from Huta Cynku "Miasteczko Śląskie" S.A.

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In addition, in Huta Cynku "Miasteczko Śląskie" SA in 2018, the following activities were undertaken in the field of cooperation with the local community:

- management of land owned by the Company:
  - replacement free of charge transfer of approx. 30 ha of forests owned by the Company to the Świerklaniec Forest Inspectorate. As a result, Huta will take over an equivalent area of forests on the eastern side, for which a management plan will be developed in the future in terms of nature and economy,
  - development of a concept for the development of about 12 ha of wastelands located on the eastern side of Huta (including sand acquisition, reclamation and others),
  - development of land development for 3 ha of land under the Forest Equipment Plan for the forest areas of Huta,
  - land development on the western side of the Company by:
- separation of about 30 ha of forests to be handed over to the Świerklaniec Forest Inspectorate,
- separation of about 15-20 ha of land for new business activity within the planned economic activity zones - the zone is intended to bring together contractors operating in the area of Miasteczko Śląskie, which will enable the creation of new jobs for the local population and the development of the Commune,
  - separation of a new east-west road of approx. 1,000 linear metres, serving as the future industrial ring road for Miasteczko Śląskie, in order to enable lorries to move around it, which will relieve the traffic of the above mentioned cars through the centre of Miasteczko Śląskie and guarantee better access to the economic activity zone.
- cooperation with local companies conducting business activity in the areas adjacent to the Company (Feniks Tartak, Euromebel, PPHU Koral),
- cooperation with Stalprodukt S.A. in the scope of construction of a new generation wind power plant on the Company's premises together with construction of an access road to the above-mentioned power plant,
- establishing a dialogue with the local community in the scope of reported problems concerning the impact of the Company on the life of the residents of Miasteczko Śląskie,
- supporting initiatives of the local community and society living in Tarnogóra district by making financial or in-kind grants and donations for the activity.

Donations and sponsorship are measurable contributions to the local community. In 2018, the Capital Group companies supported various forms of social involvement (health care, education, promotion of sports, local initiatives) with the amount of over PLN 994 thousand.

- Other companies of Stalprodukt Capital Group

Social involvement and assistance to local communities is carried out by the main and dominant entities of the Capital Group, i.e. Stalprodukt S.A. and ZGH "Bolesław" S.A. Other companies of the Capital Group conduct activities in this area on a much smaller scale. Assistance to local communities includes primarily donations and sponsorship to local associations and societies, community centres, museums, etc.

### **3.10 Counteracting corruption**

To ensure the highest standards of transparency and economic openness, the Anti-Corruption and Signal Protection Policy was adopted in 2018. This document contains the objective and assumptions of the introduced anti-corruption policy and detailed rules concerning, inter alia:

- prohibit the creation of mechanisms to finance property and personal benefits, including the use of company assets,
- anti-corruption clauses used in contracts,
- giving and receiving gifts,
- sponsorship and donation,
- the activities of Corporate Signals (including reporting rules, ensuring the protection of submitters).

The Anti-Corruption and Signal Protection Policy was adopted at the level of the parent company, and the remaining companies of the Capital Group were obliged to implement it.

- Stalprodukt S.A.

Apart from the document Anti-Corruption Policy and Protection of Signals, Stalprodukt has solutions in the form of internal procedures, which significantly limit the possibility of occurrence of corruption-related activities. This includes, in particular, instructions on how to make and settle purchases.

The principles contained in it include, inter alia:

- approval of orders by persons authorized to incur liabilities, in accordance with the Company's Articles of Association,
- detailed control of the compliance of materials with demand,
- appointing teams to negotiate the terms of agreements and setting goals to be achieved (when purchasing materials exceeding the amount of PLN 60 000),
- obtaining several price offers for ordered materials,
- multi-stage acceptance of purchase invoices in the IT system (including by two members of the Management Board or a member of the Management Board and a proxy).

It is also worth noting that the purchasing department is subordinated directly to the President of the Management Board - the CEO, who participates in negotiations of key agreements - in the organizational structure of the Company.

- ZGH „Bolesław” Group

Apart from the document Anti-Corruption Policy and Protection of Signals, the companies of the ZGH "Bolesław" Group include solutions in the form of internal procedures, which significantly limit the possibility of corrupt-related activities. In the ZGH "Bolesław" Group, all commercial contracts are subject to confidentiality, so that information on both the commercial terms and conditions and the contractor's data is only communicated to the interested parties.

The companies conduct their trade policy on the basis of purchase/sale contracts, causing that the cooperation with customers takes place on clearly defined terms, hindering the possibility of unfair trade practices. Commercial terms are negotiated on the basis of current market determinants (the so-called Benchmarks) and coefficients calculated on the basis of production balances. During the negotiations, the quantities of goods, their quality and delivery conditions, which influence the price and value of the

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contract, are also taken into account. When selecting contractors, companies are guided by openness and transparency of activities, preventing any attempts at illegal or unethical activities.

As part of a long-term strategy assuming, among other things, strengthening the market position and counteracting corruption, ZGH "Bolesław" introduced in previous years the Purchase Policy of ZGH Bolesław Capital Group covering purchases of materials, goods and services. The purpose of this policy is as follows:

- standardization of procedures and purchase contracts in the Capital Group,
- ensuring transparency of the process of making purchase decisions,
- improvement of the effectiveness of investment and renovation expenditures,
- reduction of expenditure on services and materials,
- rationalisation of the use of human resources,
- full monitoring of purchasing expenses thanks to the use of electronic purchasing tool,
- continuous expansion of the market of Suppliers of goods and services and their diversification,
- building partnership relations with Suppliers based on market principles,
- building proper relations with Internal Customers (organisational units).

In Huta Cynka "Miasteczko Śląskie" suppliers of technical materials and services are to a large extent obtained by organising written contests of offers with information placed on the website of the Works and the purchasing platform. Some topics, where advanced technical knowledge is required, are addressed to the Selection Board.

Moreover, pursuant to the Act of 1 March 2018 on counteracting money laundering and terrorist financing (Journal of Laws of 2018. Item ZGH "Bolesław" introduced a procedure and an internal instruction on counteracting money laundering and terrorist financing.

- Other companies of Stalprodukt Capital Group

All the companies of the Capital Group have been obliged to implement the Anti-Corruption Policy and Protection of Signals adopted by the parent company.

### **3.11 Product and consumer safety**

- Stalprodukt S.A.

As part of its commitment to customer safety, the Company complies with all recommendations and requirements under applicable laws.

A document adopted by the parent company "Stalprodukt's task" contains the most important values that the Company's employees are guided by in their activities. These include: quality of products and processes, meeting customer expectations, increasing shareholder value, timely fulfilment of commitments, excellent cooperation with suppliers, environmental protection, ethics and culture.

Construction products manufactured by Stalprodukt S.A. are manufactured on the basis of harmonised technical specifications included in the standards:

- PN-EN 1317-5+A2:2012 Road restraint systems -- Part 5: Product requirements and evaluation of conformity for vehicle restraint systems,
- PN-EN 10219-1:2007 Seamless hollow sections made of non-alloy and fine structural steel - Part 1: Technical delivery conditions,

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- Steel sections made of cold, open, structural steel in grades S235, S275, S355, JR, J0, J2 according to PN-EN 10025-2:2007 and S420M according to PN-EN 10025-4:2007, made according to PN-EN 10162:2005,
- PN-EN 10025-1:2007 Hot-rolled products of structural steel - Part 1: General technical delivery conditions.

The rules of marketing or making construction products available on the domestic market, the rules of controlling construction products marketed or made available on the market and the jurisdiction of the authorities to perform administrative tasks and obligations resulting from Regulation (EU) No. 305/2011 of the European Parliament and of the Council of 9 March 2011 are specified in the Act of 16 April 2004 on construction products (consolidated text Journal of Laws of 2016, item 1570).

Other products manufactured by Stalprodukt S.A., in particular metal sheets, are manufactured on the basis of standards:

- PN-EN 10107:2014 Electrotechnical steel sheets and strips with grain oriented delivery. in the fully processed state,
- CEI IEC 60404-8-7 Ed 4.0 2017 Magnetic materials - Part 8-7,
- A 876-17:2017 Standard Specification for Flat-Rolled, Grain-Oriented, Silicon-Iron, Electrical Steel, Fully Processed Types.

- ZGH „Bolesław” Group

Zinc and lead are important bulk commodities whose trade has a long tradition and is quite well organised. There are internationally recognized trade rules for both zinc and metal concentrates. There are global exchanges of these metals, a network of warehouses, ports and other infrastructure components to trade zinc and lead in both processed and crude forms.

In 2018, no procedures related to product and service safety were violated in any of the Capital Group companies.

There were no administrative proceedings against the company by the Office of Competition and Consumer Protection.

The sales offer of the ZGH "Bolesław" Group includes the following products:

- Zinc grade Z1 (SHG) with a minimum zinc content of 99.995%. Zinc produced in ZGH Bolesław in the form of tiles weighing 27 and 34 kg packed in packages with a weight of 900-1000 kg and blocks weighing about 700 kg, 900 kg Eurojumbo blocks of 1,000 kg. Zinc produced by HC "Miasteczko Śląskie" is cast in plates weighing about 25 kg and dimensions 480 x 240 x 40 mm, then formed into packages of 44 pieces weighing about 1,000 kg and in jumbo blocks 2,000 kg and blocks 1440 mm with a weight of about 620 kg. SHG's zinc from ZGH and HCM zinc is registered at the London Metal Exchange.
- Zinc in grade Z5 (Good Ordinary Brand) with a zinc content of 98.5%. Zinc produced by HC "Miasteczko Śląskie" is cast in plates weighing about 25 kg and dimensions 480 x 240 x 40 mm, and then formed into packages of 44 pieces weighing approximately 1,000 kg.
- Galvanizing alloys



- for continuous galvanizing with aluminum content: from 0.2% to 1% (so-called CGG continuous galvanizing grade), cast in blocks.
- Alloys are produced in ZGH "Bolesław" and HC "Miasteczko Śląskie"
  - for continuous galvanizing with ZnAlSb antimony, produced in blocks weighing approx. 700 kg. Manufactured in ZGH "Bolesław".
  - with nickel "Wegal Mod" for single galvanizing, in the form of blocks weighing about 900 kg and 25 kg tiles. The chemical composition is adapted to the client's needs, with the supervision and participation of the Institute of Non-Ferrous Metals in Gliwice. They are manufactured in ZGH "Bolesław".
- Zinc-aluminum alloys ZnAl (ZAMAK) - ZL5, ZL3, ZL2, ZL 2A
  - Alloys are produced in BOLTECH Sp. z o.o. Cast alloys in the form of pig sows with a weight of approx. 8-10 kg. Pig sows arranged in bundles of 64 pieces.
- Zinc anodes - acc. to PN-EN1179 - rolled, balls with diameter of hemispheres 30x12 mm, ribbed bars with elliptical cross-section 52/77 mm.
- Refined lead is produced in HC "Miasteczko Śląskie" S.A. The amount of production depends on the content of lead in the purchased primary charges (mined). Refined lead is mainly used for the production of batteries and traction batteries, as well as for the production of lead oxides, used to produce, among others, paints and varnishes, and to a minimum degree of lead alloys. Refined lead is also a raw material for the production of steels, wires, ammunition and cables.

Lead Pb 970R (H20POLSKAMS) is certified by the London Metal Exchange. It is cast in pig sows with a weight of about 40 kg and dimensions of 600 mm x 120 mm x 140 mm, placed in packages of 25 pieces each with a weight of about 1,000 kg.

Lead Pb 985R is cast in pig sows with a weight of about 40 kg and dimensions of 600 mm x 120 mm x 140 mm, put into packages of 25 pieces each with a weight of about 1,000 kg.

Lead STP06002 is the answer to the needs of leading battery manufacturers. Reduced Ag content to max. 0.0010% and Bi up to the max. 0.0120% compared to lead PB985R according to PN-EN12659 guarantees longer battery life.

Lead STP06002 is cast in pig sows with a weight of about 40 kg and dimensions of 600 mm x 120 mm x 140 mm, put into packages of 25 pieces each with a weight of about 1,000 kg.

- Dore metal produced by HC "Miasteczko Śląskie" is a high-value usable waste generated during lead refining, suitable only for further processing (jewellery, electronics). It is a high silver alloy with admixtures of copper, lead and gold. It is cast in the form of anodes (plates) weighing about 16 kg.
- Flotation galena (lead concentrate about 62% Pb) - obtained in the process of flotation enrichment of lead zinc ores. It is produced in ZGH "Bolesław" and in Gradir Montenegro.
- Blenda bulk (collective concentrate of zinc and lead about 45% Zn and 9% Pb) - obtained in the process of flotation enrichment of zinc-lead ores. It is produced in ZGH "Bolesław" and in Gradir Montenegro.
  - The bulk blenda is consumed entirely by Huta Cynku MIASTECZKO ŚLĄSKIE, which produces zinc and lead in the ISP process.

- Reflot (a collective concentrate of zinc and lead about 45% Zn and 9% Pb) - obtained in the process of flotation enrichment of post-flotation waste in ZGH "Bolesław". The reflat is used entirely by Huta Cynku MIASTECZKO ŚLĄSKIE,
- Lead zinc concentrate with increased silver content - obtained from flotation of metallurgical sludge, used in HC MIASTECZKO ŚLĄSKIE to produce, among others, Dore's metal (silver) as well as zinc and lead.
- Lead-zinc concentrate - obtained from sludge processing in the Waelza process, used in HC MIASTECZKO ŚLĄSKIE.
- Lead sulphate - a by-product obtained in the process of purification of zinc oxide from chlorine and fluorine at the Bolesław Chemical Plant. It is used in HC MIASTECZKO ŚLĄSKIE for the production of so-called Dore metal (silver) and lead.
- The sulphuric acid is produced in ZGH "Bolesław" and in Huta Cynku "Miasteczko Śląskie" as a by-product of the process of roasting sulphate concentrates.
  - The sale of acid takes place in rail tankers.
- Dolomite aggregates are produced in the subsidiary Boltech Sp. z o.o., based on dolomite produced as a by-product in the process of initial enrichment of ore from the "Olkusz-Pomorzany" mine.

The main recipients of aggregates are road building executive companies, plants producing mineral-bituminous compounds and manufacturers of road accessories.
- Refined cadmium is a product obtained in the process of zinc rectification in HC "Miasteczko Śląskie". It is cast in blocks with dimensions of 1400 x 300 x 246 mm and weight approx. 670 kg.
- Utilisation services for zinciferous materials

Utilisation of zinciferous materials is carried out by ZGH "Bolesław" and Huta Cynku "Miasteczko Śląskie". At ZGH "Bolesław", the utilization includes two waste streams. The first group consists of wastes from zinc hydrometallurgy, while the second basic waste stream is steelmaking dust from the steel production process in electric arc furnaces.

### **3.12 Marketing communications**

Communication is a key element in achieving socially responsible objectives. However, one of the basic strategic objectives of Corporate Social Responsibility is to build transparent, long-term and lasting relations with all interested parties in the process of Stalprodukt activity.

Building lasting relationships is the result of satisfaction on the one hand, and the effect of understanding needs and responding to identified needs on the other.

For many years, the Company has been conducting an annual survey of "Satisfaction, Loyalty and Trust of Stalprodukt Group's customers". It is carried out by means of a survey sent to customers. The survey consisted of two parts. The aim of the first part is to determine satisfaction, loyalty and trust levels and, consequently, to calculate a synthetic index that should reach a certain threshold level, set in the quality objectives for each year. If the synthetic indicator is lower than assumed, corrective and corrective actions are required.

In 2018, the synthetic index amounted to 88.4 points and was slightly lower than in the previous year. This is still a high level.

The second element of the survey is a list of attributes that are assessed in terms of their importance and fulfilment by Stalprodukt and its competitors. These are attributes related to price, quality of products and services, timeliness, speed of response to inquiries and complaints, technical support, wide range of products, etc. According to the respondents, the most important attributes are: price and reliable delivery time. These are the areas that require continuous improvement and development by the Company.

Among the strengths of Stalprodukt are professional service and relations with traders, which are always highly rated.

In 2018, there were no cases of non-compliance with marketing communication regulations and codes, including advertising, promotion and sponsoring, in the entire Capital Group.

No proceedings were conducted before the Office of Competition and Consumer Protection in this area.

### **3.13 Protection of privacy**

The companies of Stalprodukt Capital Group have in place the legally required policies and procedures related to the protection of personal data resulting from the Regulation on the protection of personal data.

In 2018, there were no events related to the leakage of personal data or unauthorised use of employee or customer data.

### **3.14 Product labelling**

Proper labelling of products is one of the most important issues in customer relations. All products manufactured by Stalprodukt S.A. are appropriately marked (label or tag with appropriate scope of information depending on the product and agreed requirements with the customer). In addition, each product is labelled in accordance with applicable internal instructions and procedures.

Bochnia, 30 April 2019

Józef Ryszka  
Member of the Board  
Marketing Director

Łukasz Mentel  
Member of the Board  
Financial Director

Piotr Janeczek  
Chairman of the Board  
Chief Executive Officer