

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

**Bochnia, April 2019.**

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

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## **Part I. Information on the main areas of operations of Stalprodukt S.A.**

### **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.

For several years, Stalprodukt has distinguished as part of its operations 2 basic operating segments:

- 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

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**

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

In 2018 the sale quantities for transformer sheets were almost equal to the ones in 2017. As regards the sale income, the achieved result was by 6.3% better as the prices had risen by approximately 7%.

The result gained on the domestic market was higher by 13.5% than the result in the equivalent period in 2017.

The domestic sale accounted for 6.8% of the general sale of transformer sheets in 2018 and it is estimated that this result translates into an approximately 26% market share of Stalprodukt in the open consumption of transformer sheets in the country.

The main target countries of export in 2018 were following: Mexico and Italy (17% each), India (16%), Austria (11%), Germany (9%) and Croatia (6%).

Transformer sheet import to Poland within the 12-month period of 2018 decreased significantly – almost by one-quarter in comparison with the equivalent period in 2017 and reached the level of approximately 14 thou tons. Both the value and prices of the material being imported fell.

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	4 939	0	33 179	37 658	13,5
Export	80 286	79 454	-1,0	485 975	514 443	5,9
<b>Total</b>	<b>85 218</b>	<b>84 393</b>	<b>-1,0</b>	<b>519 154</b>	<b>552 101</b>	<b>6,3</b>

### 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 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

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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**

**a) Cold formed sections**

In 2018, the Stalprodukt sold almost 190 thousand tonnes of sections and pipes. This result means a nearly 7-percent drop in volume and maintaining sales value at previous year's level. The average price increase in the analysed period was 8%.

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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	144 640	133 236	-7,9	375 371	374 108	0,3
Export	59 454	55 794	-6,2	169 938	171 333	0,8
<b>Total</b>	<b>204 094</b>	<b>189 030</b>	<b>-7,4</b>	<b>545 308</b>	<b>545 441</b>	<b>0,0</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



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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.

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

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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

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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%.

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.

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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	53 503	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>63 818</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 Other operations Segment

The Segment of the remaining activity saw an over threefold growth of income in relation to 2017. The cause of this huge growth was mainly higher product sale (from 30.4 million PLN up to 264.9 million PLN) to the related party – GO Steel Frydek Mistek a.s.

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**2.4 Revenues and results of individual operating segments of the Stalprodukt S.A.**

OPERATING SEGMENTS				
Steels Segment		2017	2018	Change (2018/2017)
Segment revenues	<i>thousand x PLN</i>	530 443	<b>565 898</b>	6,7%
Segment result	<i>thousand x PLN</i>	46 875	<b>74 769</b>	59,5%
Segment margin	%	8,8%	<b>13,2%</b>	
Profiles Segment				
Segment revenues	<i>thousand x PLN</i>	710 402	<b>719 968</b>	1,3%
Segment result	<i>thousand x PLN</i>	7 029	<b>1 171</b>	-83,3%
Segment margin	%	1,0%	<b>0,2%</b>	
Segment of other operations of Stalprodukt S.A.				
Segment revenues	<i>thousand x PLN</i>	70 382	<b>305 847</b>	334,6%
Segment result	<i>thousand x PLN</i>	4 116	<b>8 376</b>	103,5%
Segment margin	%	5,8%	<b>2,7%</b>	
Operating segments in total				
Segments' revenues	<i>thousand x PLN</i>	1 311 227	<b>1 591 713</b>	21,4%
Segments' result	<i>thousand x PLN</i>	58 020	<b>84 316</b>	45,3%
Segments' margin	%	4,4%	<b>5,3%</b>	

It is worth emphasizing that there was an increase in revenues (by 6.7%) and results (almost by 60%) of the Electric Steels Segment.

Regarding the Formed Profiles Segment, the Company managed to maintain revenues at the level of 2017,

The segment of other operations recorded an increase in revenues by 335% and double the result.

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**Assortment structure of sales of the Stalprodukt**

**Assortment structure of sales of products**

Assortment	2017		2018	
	value (thousand x PLN)	share (%)	value (thousand x PLN)	share (%)
Transformer steels and strips	519 154	41,5	552 101	42,6
Toroidal cores	11 290	0,9	13 797	1,1
Cold formed profiles	545 308	43,6	545 441	42,1
Road safety barriers	101 249	8,1	126 310	9,8
Steel service centre products*	63 818	5,1	48 198	3,7
Others	10 375	0,8	8 954	0,7
<b>Total</b>	<b>1 251 194</b>	<b>100</b>	<b>1 294 801</b>	<b>100,0</b>

\* hot and cold rolled sheets and strips

**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.

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.

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

SELECTED FINANCIAL DATA	thousands of PLN		thousands of EUR	
	2018	2017	2018	2017
I. Net sales of products, goods and materials	1 591 713	1 311 227	373 037	308 909
II. Operating profit (loss)	33 097	20 257	7 757	4 772
III. Profit (loss) before taxation	133 475	109 188	31 281	25 723
IV. Net profit (loss)	125 048	100 054	29 307	23 572
V. Net cash flow from operating activities	-24 996	79 026	-5 858	18 618
VI. Net cash flow from investment activities	-58 943	72 170	-13 814	17 002
VII. Net cash flow from financial activities	4 780	-63 501	1 120	-14 960
VIII. Total net cash flow	-79 159	87 695	-18 552	20 660
IX. Total assets	2 218 872	1 979 350	516 017	474 562
X. Liabilities and provisions for liabilities	585 996	444 349	136 278	106 536
XI. Long-term liabilities	70 000		16 279	
XII. Short-term liabilities	404 095	379 820	93 976	91 064
XIII. Shareholders' equity	1 632 876	1 535 001	379 739	368 026
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 (PLN)	22,41	17,93	5,25	4,22
Diluted profit (loss) per ordinary share (PLN)				
XVII. Book value per share (PLN)	292,62	275,08	68,05	65,95
Diluted book value per share (PLN)				
XVIII. Declared or paid-out dividend for 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 amounted to PLN 1 704.5 million. This means an increase of 20% compared to 2017. The generated profit on the level of operating activity amounted to PLN 33.1 million, while the net profit amounted to PLN 125.0 million, while EBITDA reached PLN 81.1 million.

In terms of the value, the Company recorded increased sales by 22% for all the segments, with a simultaneous fall in quantity for all the segments, by 5.5%.

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

Specification	2018	2017
Return on sales	2,4	1,5
Operating return	2,1	1,5
Gross return	8,4	8,3
Net return	7,8	7,6

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

Specification	2018	2017
Return on assets	5,6	5,1
Return on equity	7,7	6,5

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

Specification	2018	2017
Acid test ratio	1,8	1,7
Increased liquidity ratio	0,8	1,0

Cashflow from the operational activity is negative and equals -25 million PLN, which was caused by higher provisions and receivables related to changes in the distribution method and asset acquisition of the trading Stalprodukt-Centrostal Kraków Ltd. Investment inflows were negative and equalled -58,9 million PLN. Investment expenditures were mainly due to stock acquisition of GO Steel Frydek Mistek a.s. In 2018 financial flows were positive and equalled 4.8 million PLN.

In 2018 the Company's assets grew from 1 979.3 million PLN (2017) to 2 218.9 million PLN (2018), i.e. by 12%. Both fixed and current assets increased in a similar proportion, that is by 12% in relation to the previous year.

The net working capital rose from 254.1 million PLN (2017) to 306.9 million PLN (2018).

The value of the equity capital increased from 535.0 million PLN in 2017 up to 1 632.9 million PLN at the end of 2018. Its value accounts for 74% of the balance sheet sum.

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

As regards the achieved results, 2018 was slightly better in comparison with 2017 for the Company. The Company saw a 20% sales income growth; at the same time there was a rise in both the sales profit (y/y growth 100%), operational activity profit (y/y growth of 63%) and net profit (y/y growth of 25%).

In the reporting period the Company's financial situation remained on a good level. Economic and financial indicators characterising its economic activity improved, its level should be considered to be satisfactory under the current market conditions.

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.

In 2018 there were no significant changes to the form of the assets and their financing sources. The balance sheet value of the fixed assets grew by 12% and the current assets saw an increase of 12%.

In the current asset group provisions account for 53% (in 2017 - 38%), receivables account for 40% (in 2017 - 38%). Short-term financial assets account for 7% of the current assets (in 2017 - 22%). In the asset structure, the share of fixed assets equalled 68% (and was similar to the previous year) and the current



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asset share accounts for 32%. The Company's assets grew by 239 million PLN, i.e. by 12%. The asset growth was accompanied by equity capital growth by 98 million PLN as well as liabilities and provisions for liabilities of 141 million PLN.

The structure of liabilities changed slightly. The equity capital accounts for 74% of the liabilities and the financial commitments 26% (in 2017 78% and 22% respectively). The accounting value of one ordinary stock grew - from 275.08 PLN up to 292.62 PLN.

Throughout the accounting period, the Company 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 Company is not overly indebted, the use of current loans. In the opinion of the financing banks, the Stalprodukt 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 Company renewed contracts with banks for multi-purpose lines of credit aimed at hedging the Company's financing sources.

The Management Board does not expect deterioration of the Company'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**

- The achieved financial income, particularly the dividends received from the dependent companies in the amount of 98 612 PLN had the biggest impact on the Company's result in 2018;
- positive impact on the financial results achieved in the previous year had better results of the Steels Segment by 60%.
- on the other hand, the result of Stalprodukt was adversely affected by the results of the Profiles Segment; their drop amounted to over 80 % (from PLN 7.0 million to PLN 1.2 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.

- **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.

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 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 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 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:

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- 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.

## **9. Information on borrowings, sureties and guarantees granted by the Company in 2018**

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.

#### **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**

The most important investment tasks carried out in 2018 in the 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);
- 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.

### **17.2 Research and development works**

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.

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.

## **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.

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

**External factors significant for development of the Company**

- **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



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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 Company'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 Cp'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) 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.

**g) 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:**

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- 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 Krakow 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>

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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>
Romuald Talarek	76 857		<b>76 857</b>
<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:**

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

**b) officers:**

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

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

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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 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*

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*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 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.*

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



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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.*
- 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.*

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- 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.

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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;
  - 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

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**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**

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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 Company's operations.

### **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.

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.

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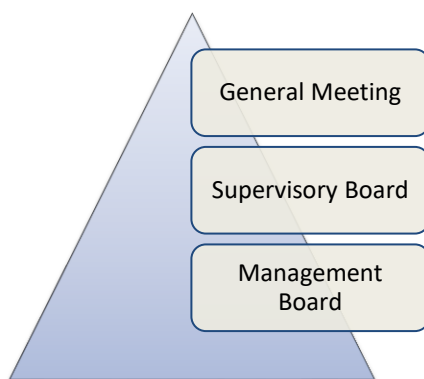
The company has been planning to strengthen its position on the transformer sheet market for many years. This operating segment is crucial from the point of view of the impact on Stalprodukt's unit results. This scenario of strategy implementation became possible in 2017, when a contract was signed for 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.

## **1.2 Managerial governance**

Stalprodukt S.A. operates pursuant to the provisions of the Commercial Companies Code 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".

The structure of the corporate governance in the Stalprodukt S.A. 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 Company

## **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.

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

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

Dzięki obniżeniu zatrudnienia w Spółce w roku 2018, udało się zwiększyć przychód na pracownika z 790,4 tys. zł w roku 2017 do poziomu 979,5 tys. zł w roku 2018, tj. o 23,9 %.

Korzystnie należy ocenić także spadek zużycia energii na jednostkę przychodu - z 1,21 GJ na 1,04 GJ, tj. o 14 %.

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

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.

#### **1.5. Ethics management**

The Stalprodukt base their activities on the principles of integrity, reliability and transparency of activities undertaken by its employees.

In 2018, the Stalprodukt S.A. 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



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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 Company, which include regulations resulting from the Labour Code.

## **2. The environmental area**

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, 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.

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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,
- 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 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,

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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,
- 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,
- 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,

## **2.1 Consumption of raw materials and other materials**

Below is a table summarising consumption of the most important materials used in production processes.

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

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.

## **2.2. Fuel and energy consumption**

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

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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

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.

### 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.

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

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

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## **2.4. Biodiversity protection**

Stalprodukt S.A. nie prowadzi działalności produkcyjnej w zasięgu bezpośredniego oddziaływania na obszary parków narodowych, terenów uzdrowiskowych oraz obszarów Natura 2000.

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.

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

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.

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.

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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.

## **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
	Waste recovered	Mg	1 426	1 553
	Waste sent to recovery organisations	Mg	33 989	34 359

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.

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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

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,
- 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.

## **2.7 Other environmental aspects**

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

## **2.8 Enhanced environmental responsibility**

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 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.

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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 ZSZJiŚ and reduces the probability of problems in the future. Strategic actions for continuous improvement are taken during the management review.

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

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

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



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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

In the employment structure in Stalprodukt S.A. the majority of employees are men.(93% of employees). 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.

#### *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 S.A.	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

The most popular form of employment in the Company is the contract for an indefinite period. Her share in Stalprodukt S.A. amounts to 86% of all contracts.

There is a significant increase in comparison to 2017 in Stalprodukt, 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*

	Division by age	2018				2017			
		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

In the employment structure according to the age, most of the employees, i.e. 875 people were in the 31-50 age group, both among women and men. Despite this, there was a clear rise the number of the employed in the 50+ age group in 2018, in comparison with 2017. This situation applied to both men and women, irrespective of their positions.

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*Newly employed employees by age and gender*

	Division by age	2018			2017		
		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

In 2018, a total of 72 new employees were employed in the Company, and in 2017 there were 129. 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
Stalprodukt S.A.	up to 30 years	2	37	39	0	34	34
	31-50 years	0	30	30	2	20	22
	>51 years	9	33	42	7	50	57

In 2017-2018, 113 and 111 people, respectively, were dismissed in the Company. 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

Due to the nature of the Company's operations and difficult working conditions, there were 5 people with disabilities employed in 2018, and in 2017 there were 4 people.

*Average remuneration*

The average remuneration in Stalprodukt Company, irrespective of the gender, amounted to 5 358 PLN in 2018 and 5 035 PLN in 2017. The average remuneration grew by 6.4% last year in comparison with 2017.

*The amount of contributions to the State Fund for Rehabilitation of Disabled Persons - PFRON*

In 2018 the PFRON membership fee in the Company equalled 1 803 PLN in comparison with 1 846 PLN in 2017.

The membership fee decreased by approximately 40 thou PLN, which was caused by a higher number of disabled employees on the one hand and, on the other, by generally a lower number of employees in the Company.

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

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:

- 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).

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

The ambition of the Stalprodukt is to provide employees with a safe, healthy and friendly work environment. The Company 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.

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,

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- 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 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

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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
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### 3.5 Development of education

In order to ensure satisfaction from work, the Company 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. 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.

	2018	2017
Number of persons trained	840	983

### **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. in 2018.

The Company 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. 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.

### **3.7 Human rights**

There has never been a case of human rights violations in the Stalprodukt Joint-Stock Company. Furthermore, ethical clauses have been compiled, used in contracts with the key clients.

The Company implemented the Anti-bullying Policy as well.

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

The Company no employs children or uses forced or compulsory labour.

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

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

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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").

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.

### **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).

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.

### **3.11 Product and consumer safety**

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,
- 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.

### **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

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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 Company.

No proceedings were conducted before the Office of Competition and Consumer Protection in this area.

### **3.13 Protection of privacy**

The Company has in place the legally required policies and procedures related to 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