

**Statement of the Management Board
on the operations of the Stalprodukt S. A.
for the period
from 1 January 2019 to 31 December 2019**

Bochnia, April 2020

Financial statement of the Stalprodukt S.A. for the financial year 2019
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 2019, almost as many transformer sheets as in 2018 were sold, both in terms of volume and sales revenues.

The result obtained on the domestic market was 18% higher than in the corresponding period of 2018. In 2019, domestic sales accounted for 8% of total transformer sheet sales. The Company estimates that this result translates into approximately 36% of Stalprodukt's share in the apparent consumption of transformer sheets in Poland.

The implementation of the sales strategy to large corporate clients has brought the expected results.

The main target countries for export in 2019 were Mexico (18%), Austria (14%), Italy (12%) and Germany (11%).

The import of transformer sheets to Poland in the period of 12 months of 2019 significantly decreased by as much as 35% in comparison to the same period in 2018, and reached a level of just above 9,000 tonnes. The prices of imported material increased slightly by about 3%.

The main sources of importing transformer steels to Poland (by country of origin) in 2019 are:

- for strips: Italy (61%), Netherlands (11%) and Japan (10%),
- for wide coils: Japan (74%) and Slovakia (20%).

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

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2018	2019	2019/2018 %	2018	2019	2019/2018 %
Country	4 939	5 427	9,9	37 658	44 576	18,4
Export	79 454	77 678	-2,2	514 443	506 039	-1,6
Total	84 393	83 105	-1,5	552 101	550 615	-0,3

Market situation

According to analysts, the global market for grain oriented electrical steels will continue to grow over the next five years.

Between 2012 and 2016, due to the debt crisis in Europe and the complex economic situation on global markets, the grain oriented electrical sheet industry developed slowly and at a low growth rate. The highest growth was recorded in Asia, especially China and India. The market is forecast to grow at a rate of around 2% between 2020 and 2025, but still mainly in the Asian part of the world. The leading players in the industry will include Baowu Group (China), NSSMC and JFE Steel (Japan), POSCO (Korea) and the rapidly growing NLMK Group (Russia).

The first half of 2019 went smoothly. The failure of the joint venture between Thyssenkrupp and Tata Steel Europe was an important event for the industry. The European Commission blocked the planned merger and as a result both Thyssenkrupp and Tata were forced to reorganise their plans.

Cogent Power, a member of Tata Steel group, experienced serious problems due to the continuous generation of losses. The Canadian Cogent service centre was sold to the Japanese JFE Shoji Trade Corporation, while the Welsh branch of Orb Electrical Steels in Newport and the English Wolverhampton Engineering Steels service centre were closed.

For years, one of the Group's closest competitors in the conventional sheet metal market has been the Russian NLMK, which, despite tariffs are still in place (21.6%), has been reaching many customers in Europe. The EU market continues to be the key market for this company, as evidenced by the recent agreement made with the European transformer and power generation components manufacturer, LTC Group from Italy. Novolipetsk will be supplying its both grain oriented and non-oriented electrical sheets to the Italian customer for the next two years.

a) toroidal cores

The sales of transformer cores recorded a decrease of 18% in volume and a decrease of 19% in sales value.

This result is the consequence of a much poorer domestic sales.

The sales structure has changed compared to the previous year. 45% (51% in previous year) are domestic sales and 55% (49% in 2018) are export sales.

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The decrease in volume and thus in sales value was mainly due to a dramatic reduction and ultimately lack of contracts from a local customer (an Italian company's branch) for rectangular cores/Unicores. This happened due to the Italian government's complete suspension of the contract for Italian railways.

Table 2. Comparative summary of sales of transformer cores

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2018	2019	2019/2018 %	2018	2019	2019/2018 %
Country	571	420	-26,4	7 082	5 021	-29,1
Export	617	551	-10,7	6 715	6 157	-8,3
Total	1 188	971	-18,3	13 797	11 178	-19,0

Market situation

The trends of the previous year have continued with an additional competitive disadvantage, i.e. the possibility for customers to purchase steel sheets from Brazil, which is not affected by the anti-dumping proceeding on transformer sheets. The supply of material from that direction had been limited until GO Steel Frydek Mistek a.s. was sold by ArcelorMittal, which also owns the company in Brazil.

Competition in the transformer core market is increasing and intensifying. Being able to buy non-graded sheet metal or coil ends (from Brazil) at an attractive price, the increasingly easy access to accessories, and the general trend to reduce prime cost mean that as far as long, predictable series are concerned, customers are looking for cheaper cores abroad.

The second continuing trend is classic examples of vertical backward diversification, i.e. customers launching the production of cores (mainly toroidal, but more and more often Unicores).

2.2. Formed Profiles Segment

a) Cold formed sections

In 2019, nearly 184,000 tonnes of sections and pipes were sold. This result means a decrease of 3% in volume and a decrease of 7% in sales value.

In the analysed period, prices fell by about 5% in relation to the prices obtained in 2018.

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 30%. On the other hand, Stalprodukt's share in export of cold formed sections was 44% 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 2019):

- **Production of cold-formed sections in Poland decreased by 0.5% to 309,000 tonnes;**
- **Decrease in apparent tube consumption by almost 14% to 1,076,000 tonnes, including an 11.5% decrease in the apparent consumption of cold-formed closed sections to 448,000 tonnes;**

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- **Decrease in the import of cold-formed closed sections by 18% (nearly 245,000 tonnes);** for sections with a wall thickness below 2 mm the current main import directions are Ukraine (42%), Belarus (22%) and the Czech Republic (11%); for sections with a wall thickness above 2 mm – Italy (27%) and Ukraine (23%).
- **Increase in export of cold-formed closed sections by nearly 4% (105,000 tonnes).**

Table 3. Comparative summary of sales of cold formed sections

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2018	2019	2019/2018 (%)	2018	2019	2019/2018 (%)
Country	133 236	135 625	1,8	374 108	365 125	-2,4
Export	55 794	48 144	-13,7	171 333	140 781	-17,8
Total	189 030	183 769	-2,8	545 441	505 906	-7,2

Market situation (EU steel pipe production)

Production activities in the EU steel pipe industry in the third quarter of 2019 stabilised at the level of the third quarter of the previous year, just as the situation in the first half of the year was quite comparable to that in the first half of 2018. The argument put forward previously is therefore confirmed that the lower share of large pipes in the production product-mix of European manufacturers was replaced by an increase in the share of medium and small pipes, and that the main target markets of pipe producers are predominantly construction, automotive, metal products and mechanical and plant construction. Market conditions remained generally the same in the last quarter of 2019.

Trends in pipe production diverged at the level of individual countries, e.g. Germany, France and the UK saw a decrease in production, while pipe production in Spain and Italy increased compared to the same period in 2018.

As from the beginning of 2019, the pipe market in the EU has been based more on the production of medium and small diameter pipes, the continued growth of the EU construction sector has had a positive impact on the demand for steel pipes and profiles for construction applications. These circumstances have also been favourable for compensating weaker demand conditions in other key sectors, i.e. the automotive, mechanical engineering or metal product industries. At the same time, demand for large welded pipes for pipeline projects has remained weak. Producers in this market segment are currently focusing more on other market segments such as onshore and offshore wind energy. This in turn has led to increased internal competition in the EU in an already very competitive market.

The Eurofer forecast for pipes shows that once production stabilises at the previous year's level in 2019, the steel pipe industry in the EU is expected to record only a slight increase in both 2020 and 2021.

The forecasts of demand for the market of medium and smaller diameter pipes show only a slight improvement. Demand growth in the construction industry presumably peaked in 2019 and is expected to decrease in 2020 and 2021, while the business environment in the automotive and engineering sectors may register a slight improvement. Import pressure on EU steel pipe markets will remain high.

Total production of steel pipes in the EU is expected to increase by 0.5% in 2020 and by 0.8% in 2021.

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b) Protective road barriers

The result obtained on the sale of road barriers in 2019 was by 9% lower than in 2018 in terms of value and 20% lower in terms of volume as compared to 2018.

2018 was a record year for Stalprodukt in terms of volumes after the barrier parameters, and not only compliance with the national standard, the so-called SP, have become a basic requirement. In 2019, a new phase of road projects in Poland under the new EU budget began. Their implementation will be spread over the next 3 years. In addition, several contracts were terminated by GDDKiA on the Polish market, which resulted in a significant reduction in volumes on the entire market. In the case of exports, the Company recorded a record year in Norway, where barriers for 3 large road and bridge projects were supplied. The decrease in volumes is also related to the continuous “slimming down” the systems by all barrier manufacturers, so in the following years, despite maintaining the volume of kilometres of barriers sold, a decrease in volume in tonnes is to be expected.

Table 4. Comparative summary of sales of road barriers

Specification	Quantity (Mg)			Net Value (thousand x PLN)		
	2018	2019	2019/2018 (%)	2018	2019	2019/2018 (%)
Country	19 741	15 198	-23,0	98 012	83 526	-14,8
Export	6 542	5 940	-9,2	28 298	30 874	9,1
Total	26 283	21 138	-19,6	126 310	114 400	-9,4

Market situation

2019 was an exceptional year, as since the spring, GDDKiA broke several large contracts with contractors, which resulted in a decrease in demand for materials. Eighty percent of the Company's sales of road barriers are sold on the domestic market. The situation on this market has become very complicated in recent months. The termination of several large contracts implemented for GDDKiA, whose execution and completion date was 2019 and, in some cases, 2020, caused an avalanche of events. The new deadlines for the road construction completion, as regards the broken contracts, will depend on the dates of new tenders announced by GDDKiA. It is certainly possible to speak of at least one year's postponement from the original dates.

In terms of completed construction of roads in Poland, 2019 was much worse than it had been planned for. Initial plans to supply 520 km for the traffic as early as at the beginning of the year were limited to 475 km. Finally, GDDKiA reported that the construction of 460 km was completed in 2019.

In addition, a large part of the projects underway are delayed.

Rising project costs remain a problem, which can be seen in the bids that exceed Client's budgets. Since the implementation of the National Roads Construction Programme started, 19 tenders have been cancelled, eight of which were launched in 2018. GDDKiA withdrew from nine contracts, mainly with Italian companies. Meanwhile, due to the increase in prices of construction materials and problems with finding employees, construction companies resign from unprofitable contracts more and more often, even during their term. According to the Polish Association of Construction Industry Employers, there may be a shortage of PLN 10-12 billion to implement the full scope of the government's National Roads Construction programme

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c) Steel service centre products

In 2019, just over 13 thousand tonnes of metal sheets were sold for PLN 35 million, which translates both into a decrease in volume and value of sales of 27%, compared to the previous year. This is another year of such strong declines in this product group.

Compared to 2018, imports of both hot-rolled and cold-rolled sheets decreased by 14% and 17%, respectively in 2019. The prices of imported steel sheets remained almost unchanged.

The main directions of import of strips and sheets made of hot rolled steel are: the Czech Republic (20%), Germany (16%), Slovakia (12%) and Ukraine (10%). The average price per ton in 2019 is PLN 2,534. The main sources of import of strips and sheets made of cold rolled steel are: Germany (33%), Slovakia (12%), Austria (10%) and Ukraine (10%).

Table 5. Sales of steel service centre products

Specification	Quantity (Mg)			Net Value (PLN '000)		
	2018	2019	2019/2018 (%)	2018	2019	2019/2018 (%)
Country	16 273	12 448	-23,5%	42 887	32 581	-24,0%
Export	1 915	866	-54,8%	5 311	2 541	-52,2%
Total	18 188	13 314	-26,8%	48 198	35 122	-27,1%

Market situation

From January to December 2019, steel production in Poland amounted to 8,996,000 tonnes (the decrease in steel production was 11.5% compared to the previous year).

In the same period, the production of hot-rolled products amounted to 7,859,000 tonnes (a decrease by 11% compared to the same period of the previous year).

From January to December 2019, the production of flat products amounted to 2,796,000 tonnes (a fall by 21%), and long products – to 5,064,000 tonnes (a fall by 4% compared to the same period of 2018). The production of cold-rolled sheets and strips amounted to 984,000 tonnes after 12 months of 2019 (a fall by 9% compared to the same period of 2018). The production of galvanised sheets and strips amounted to 840,000 tonnes after 12 months of 2019 (a fall by 7% compared to the same period of 2018).

The service centres have continued to invest in their development despite the declines in production, imports and apparent consumption.

2.3 Other operations Segment

The segment of other operations recorded a 4.3 % decrease in revenues compared to 2018.

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

OPERATING SEGMENTS				
Electrical Sheets Segment		2018	2019	Change (2019/2018)
Segment revenues	<i>thousand x PLN</i>	565 898	561 793	-0,7%
Segment result	<i>thousand x PLN</i>	74 769	50 493	-32,5%
Segment margin	%	13,2	9,0	
Profiles Segment				
Segment revenues	<i>thousand x PLN</i>	719 968	655 435	-9,0%
Segment result	<i>thousand x PLN</i>	1 171	-12 699	
Segment margin	%	0,2	-1,9	
Segment of other operations of Stalprodukt S.A.				
Segment revenues	<i>thousand x PLN</i>	305 847	291 353	-4,7%
Segment result	<i>thousand x PLN</i>	8 376	4 381	-47,7%
Segment margin	%	2,70	1,5	
Operating segments in total				
Segments' revenues	<i>thousand x PLN</i>	1 591 713	1 508 581	-5,2%
Segments' result	<i>thousand x PLN</i>	84 316	42 175	-50,0%
Segments' margin	%	5,30	2,8	

The revenues of the Electrical Sheets Segment remained at a level similar to 2018 (a decrease of only 0.7%), while the results of the Segment decreased by 32.5%.

In the case of the Profiles Segment, the level of revenues decreased by 9%. In terms of the results, this segment recorded a loss of PLN 12.7 million (in 2018 a profit of PLN 1.2 million was achieved).

The segment of other operations recorded a 4.7% decrease in revenues and a 47.7% decrease in result.

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Sales structure of Stalprodukt

Stalprodukt's sales of products breakdown

Assortment	2018		2019	
	value (thousand x PLN)	share (%)	value (thousand x PLN)	share (%)
Transformer steels and strips	552 101	42,6	550 615	45,0
Toroidal cores	13 797	1,1	11 178	0,9
Cold formed profiles	545 441	42,1	505 907	41,3
Road safety barriers	126 310	9,8	114 400	9,3
Steel service centre products*	48 198	3,7	35 122	2,9
Others	8 954	0,7	6 952	0,6
Total	1 294 801	100	1 224 174	100,0%

* 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 2019, 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 44.8% for unit revenues.

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3. Assessment of the economic and financial situation

SELECTED FINANCIAL DATA	thousands of PLN		thousands of EUR	
	2019	2018	2018	2018
I. Net sales of products, goods and materials	1 508 581	1 591 713	350 686	373 037
II. Operating profit (loss)	-4 439	33 097	-1 032	7 757
III. Profit (loss) before taxation	96 053	133 475	22 329	31 281
IV. Net profit (loss)	92 808	125 048	21 574	29 307
V. Net cash flow from operating activities	115 108	-24 996	26 758	-5 858
VI. Net cash flow from investment activities	79 386	-58 943	18 454	-13 814
VII. Net cash flow from financial activities	-170 486	4 780	-39 631	1 120
VIII. Total net cash flow	24 008	-79 159	5 581	-18 552
IX. Total assets	2 148 481	2 218 872	504 516	516 017
X. Liabilities and provisions for liabilities	469 336	585 996	110 212	136 278
XI. Long-term liabilities	107 126	70 000	25 156	16 279
XII. Short-term liabilities	251 909	404 095	59 154	93 976
XIII. Shareholders' equity	1 679 145	1 632 876	394 304	379 739
XIV. Share capital	11 161	11 161	2 621	2 596
XV. Number of shares	5 580 267	5 580 267	5 580 267	5 580 267
XVI. Profit (loss) per ordinary share (PLN)	16,63	22,41	3,87	5,25
Diluted profit (loss) per ordinary share (PLN)	16,63	22,41	3,87	5,25
XVII. Book value per share (PLN)	300,91	292,62	70,66	68,05
Diluted book value per share (PLN)	300,91	292,62	70,66	68,05
XVIII. Declared or paid-out dividend for one share in (PLN/EUR)	5,00	3,00	1,16	0,71

Basic economic data and financial ratios

In 2019, revenues from operations (revenues from sales, operating and financial revenues) reached PLN 1,704.5 million, which means a decrease by 4.3% compared to 2018.

The Company generated an operating loss of PLN -4.4 million. Net profit in 2019 was PLN 92.8 million, while EBITDA reached PLN 47.1 million.

In terms of value, the Company recorded a 5.2% decrease in sales in all segments with a simultaneous decrease in quantity in all segments by 5.3%.

In 2019, the sales profitability at individual levels was as follows (in %)

Specification	2019	2018
Return on sales	-0,1	2,4
Operating return	-3,0	2,1
Gross return	6,4	8,4
Net return	6,2	7,8

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

Specification	2019	2018
Return on assets	4,3	5,1
Return on equity	5,5	6,5

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

Specification	2019	2018
Acid test ratio	2,5	1,7
Increased liquidity ratio	1,3	1,0

Operating cash flows are positive and amounted to PLN 115 million. Cash flows from investment activities were positive and amounted to PLN 79.4 million. Investment inflows were mainly related to dividends received. In 2019, cash flows from financial activities were negative and amounted to PLN -170.5 million and were related to loan repayment and dividend payment. The Company's assets decreased from PLN 2,218.9 million (2018) to PLN 2,148.5 million (2018), i.e. by 3.2%.

Net working capital increased from PLN 306.9 million (2018) to PLN 375.0 million (2019).

The value of equity increased from PLN 1 632.9 million in 2018 to PLN 1 679.1 million at the end of 2019. Its value represents 78% of the balance sheet total.

Evaluation of obtained results and financial situation

In terms of results, 2019 was a much worse year for Stalprodukt compared to 2018. The Company recorded a decrease in both volume and value sales. At the same time, both the profit on sales and profit at the level of operating activities the Company recorded a loss. Net profit amounted to PLN 92.8 million and was the result of dividends received from subsidiaries.

In addition, in the reporting period, the Company's financial position remained at a good level. In current market conditions, the improvement of liquidity ratios should be positively assessed.

The company has not experienced payment gridlocks, consistently implementing its policy in risk management. It is also not threatened by changing exchange rates due to the mostly natural hedging of this risk.

In 2019, there were no significant changes in the development of assets and sources of financing. The balance sheet value of non-current assets increased by 1%, while the value of current assets decreased by 12%.

In the current assets group, inventories account for 48% (in 2018 - 53%), while receivables account for 40% (in 2018 - 40%). Short-term financial assets account for 8.2% of current assets (in 2017 - 7%). In the structure of assets, the share of non-current assets was 70% (similarly to the previous year), while the share of current assets is 30%. The Company's assets decreased by PLN 70 million, i.e. 3.2%. The decrease in assets was accompanied by an increase in equity of PLN 46.3 million and a decrease in liabilities and provisions for liabilities by PLN 116 million.

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The structure of liabilities has changed slightly. Equity accounts for 78% of liabilities and liabilities for 22% (in 2018 74% and 26%, respectively). The book value per ordinary share increased - from PLN 292.62 to PLN 300.91.

Throughout the entire reporting period, the Company maintained very good financial liquidity, as evidenced by the benchmark liquidity ratios and timely payment of all liabilities, both to employees and suppliers, as well as the budget and financial institutions.

The Company is not excessively indebted, as at the balance sheet date it did not use any current loans. In the opinion of the financing banks, Stalprodukt has uninterrupted creditworthiness, and the results obtained as well as the transparent property and ownership situation allow financing of the Company's operations in various forms.

In the reporting period, the Company renewed contracts with banks for multi-purpose credit lines aimed at securing the Company's financing sources.

The management of financial resources should be considered correct, as evidenced by the achievement of good economic indicators used to assess financial liquidity and creditworthiness, as well as timely fulfillment of commitments.

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 greatest positive impact on the net result achieved by the Company in 2019 in the amount of PLN 92 808 thousand had financial revenues obtained, including primarily dividends received from subsidiaries in the amount of PLN 102,311 thousand;
- the result was affected negatively by lower sales revenues by 5.2%, resulting from lower volumes and lower sales value of Profile Segment products, i.e. cold-formed sections, road barriers and service center products. The total decrease in sales value of this operating segment amounted to PLN 64.5 million, i.e. 9% compared to 2018;
- weaker results of Electrical Sheets Segment also had a negative impact on the Company's results. The decrease in the margin in this segment compared to 2018 (especially in the second half of 2019) was caused by a price adjustment and increase in costs, which included an increase in direct and indirect manufacturing costs, primarily electricity and personnel costs;
- in 2019, sales costs were higher by 15.5%, which had a negative impact on the level of profit on sales. This was due to the fact that after the reorganization of the rules of operation of the distribution network in July 2018 and the inclusion of commercial warehouses in the structures of Stalprodukt S.A., the Company incurred higher costs in 2019 for the delivery of products to its domestic sales network and to customers.

- **Steel market situation**

According to data published by the World Steel Association, global crude steel production reached 1,869.9 million tonnes in 2019, an increase of 3.4% compared to 2018. Crude steel production decreased in all regions in 2019, except Asia and the Middle East. Asia produced 1,341.6 tonnes of crude steel in 2019, an increase of 5.7% compared to 2018.

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Crude steel production in China in 2019 was 996.3 tonnes: 8.3% more than in 2018. China's share of world crude steel production increased from 50.9% in 2018 to 53.3% in 2019.

The European Union produced 159.4 tonnes of crude steel in 2019, a decrease of 4.9% compared to 2018. Germany produced 39.7 tonnes of crude steel in 2019, a decrease of 6.5%.

Steel production also decreased in Poland. Last year's production of 9.1 million tonnes of steel means a decrease of almost 11% compared to 2018. One of the main reasons was the shutdown of the blast furnace in Kraków by ArcelorMittal Poland S.A.

Production operation in 2019 was weakened by the continuing slowdown in international automotive trade, the collapse and weakening of business investment as a result of a significant loss of confidence, due to concerns about trade wars and the uncertainty surrounding Brexit.

In comparison to the above results, the total production operation in the sectors which use steel performed slightly better only in the construction sector, which in contrast to international trade is not exposed to fluctuations and negative dynamics.

Eurofer lowered its 2020 steel consumption forecast to a 1.2% (159 million tonnes) growth compared to the forecast of 1.4% in the fourth quarter of 2019.

- **General economic situation**

Economic conditions on the domestic market had a positive impact on the Company's operations in 2019. Although Poland's GDP fell to 4.0% (from 5.1% in 2018), its level can still be considered relatively high, especially in relation to other Western European economies.

By comparison, the EU economy grew by 1.5% in 2019 (2% in 2018).

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. This contract continues to have an impact on the Issuer's operations, as the obligations under the trade agreement also cover 2020, the third year of its term.

Another component of the purchase price is "Earn-out", which means the right of the seller to a 50% share in the result assumed above in the valuation prepared for the purposes of EBITDA transactions over 4 consecutive years (i.e. 2018-2021), subject to the condition that total EBITDA payments may not exceed EUR 3.5 million. This amount is a contingent liability.

6. Organisational and capital links with other entities

Stalprodukt S.A., together with 9 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 94.93 % of shares.

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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, installation, repairs and maintenance of machinery – Stalprodukt-Wamech 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-Wamech Sp. z o.o.,
 - designing of equipment related to the use of renewable energy sources – Anew Institute Sp. z o.o.

6.1 Changes in the size of shares held in affiliated companies

- In December 2019, amendments were made to the Register of Entrepreneurs of the National Court Register of F & R Finanse sp. z o.o., with its registered office in Jawornik, by deleting ZGH "Bolesław" S.A. as its partner from the register. The company was deleted from the register in connection with the redemption of all 12,300 shares held by ZGH "Bolesław" S.A. in F & R Finanse sp. z o.o., with a nominal value of PLN 6,150,000.00, comprising 19.68% of the company's share capital. The redemption took place at the request of ZGH "Bolesław" S.A. (voluntary redemption) out of the net profit, without reducing the share capital, for a total fee of PLN 9,254,766.00, i.e. for a fee of PLN 752.42 per share.

ZGH "Bolesław" S.A. considered it was not advisable to continue the capital involvement in F & R Finanse sp. z o.o. and, as a consequence, considered the capitalisation of the shares in question and the allocation of the funds thus obtained for the purposes related to the company's development to be justified.

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

Transactions with affiliated entities in 2019 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 2019

In 2019, the Company signed annexes to prolong the validity of the following credit agreements:

- 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 2020.
- Credit limit in Bank Handlowy w Warszawie S.A. for a revolving credit for granting bank guarantees and opening letters of credit with a revolving credit limit up to PLN 65,000,000. The credit concerns the amount of PLN 50,000,000 for an overdraft facility and issuance of guarantees and letters of credit with a deadline of up to 18 months (in this part the agreement is valid until 29 January 2021), and PLN 15,000,000 for long-term guarantees up to 6 years (in this part the agreement is valid until 03 July 2020).
- A multi-purpose credit limit of PLN 150,000,000 with Bank PKO BP S.A., with a registered office in Warsaw, intended for the use of an overdraft (up to PLN 90,000,000) and for opening letters of credit and granting guarantees (up to PLN 40,000,000). Within the credit limit, companies from the STP Elbud Sp. z o.o. capital group and GO Steel Frydek Mistek a.s. may use sublimits of 10,000,000 each. Term of the Agreement: 13 January 2021.
- A credit limit up to a total amount of PLN 100,000,000 with Bank Pekao S.A., with a registered office in Warsaw, intended for the use of an overdraft (up to PLN 72,000,000) and for granting guarantees and opening letters of credit (up to PLN 10,000,000). Within the credit limit, companies from the STP Elbud Sp. z o.o. capital group and Cynk-Mal S.A. may use sublimits of 13,000,000 and 15,000,00, respectively. Term of the Agreement: 30 September 2021
- A multi-purpose credit limit of PLN 15,000,000 with Bank Societe Generale S.A., with a registered office in Warsaw, intended for the use of an overdraft and for opening letters of credit and granting guarantees (up to PLN 5,000,000). Term of the Agreement: 30 April 2020.

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On the date of the balance sheet, the following agreements were also in force:

- An investment credit in the amount of PLN 100,000,000 with Bank PKO BP S.A., with a registered office in Warsaw, intended for refinancing expenses related to the purchase of shares in Go Steel Frydek Mistek a.s. The credit is valid until 30 June 2023.

9. Information on borrowings, sureties and guarantees granted by the Company in 2019

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 2010 to Stalprodukt-Profil S.A. Remaining amount to be paid is PLN 8 000 thousand, according to the annex to the loan contract of 23 December 2019, 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 2010 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 23 December 2019, repayment is due on 31 December 2020;
- interest-bearing borrowing (WIBOR 1M + margin) in the amount of PLN 500 thousand granted on 6 December 2018 to the subsidiary Anew Institute Sp. z o. o., according to the annex to the loan contract of 27 December 2019, repayment is due on 31 December 2020.

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 2,600 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 2019, the total amount of unexpired guarantees in this respect is PLN 15,888 thousand.

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 2019, 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

- Investments in expanding the product range:
 - A welding continuity tester was purchased and installed in the P2 Cold Formed Profiles Plant;
 - The control of another Ipsen furnace in the Transformer Sheets Plant was modernised,
 - A contract was signed for the supply of a machine for the P2 Cold Formed Profiles Plant,
 - A contract was signed for the supply of C-cores production equipment.
- Construction work investments.
 - The construction of a five-star hotel at Kopernika Street in Kraków continued. At present, finishing works and furniture assembly are performed. The scheduled completion of works and obtaining the occupancy permit is expected in mid-2020.
- Projects with an impact on the environment and Health and Safety.
 - A use permit was obtained for a new I-52 solution for lines C1, C2 and C3;
 - The design of three new sludge lagoons together with their infrastructure is being carried out;
 - Works were under way to build an installation to recover softened water from the Transformer Sheets Plant;
 - The works on monitoring the utilities and the Start-Stop system continued.
- Other investment tasks
 - the investment task related to process data monitoring was continued. Work is currently underway at the Transformer Steel Plant and the P2 Profile Production Plant;
 - axle scales were built up at Stalprodukt S.A.,
 - the modernization of the SSP installation of Stalprodukt S.A. facilities was continued;
 - the compliance assessment of production lines security systems is successively carried out at all production plants. Currently, the adjustment is carried out on the WS-1 rolling mill, NT and B2 lines.
 - another hydrogen transport trailer was purchased;
 - modernization of subsequent fields of the 6 kV switchgear was carried out.

17.2 Research and development works

On 21 November 2019, Stalprodukt, as the leader of the Consortium (which also includes the AGH University of Science and Technology in Kraków as a scientific unit), signed an agreement with the National Centre for Research and Development, the subject of which is to co-finance the research and development project implemented by the Company, entitled “Development of nondestructive online investigation system with software controlling high frequency induction welding machine on the basis of an analysis of linear weld mechanical properties”. The project is implemented as part of the Smart Growth Operational Programme. The amount of co-financing of expenses incurred by the Company is PLN 809,000, while the total value of the project is PLN 4,071,000.

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The aim of the project is to develop and implement a comprehensive non-destructive testing system in the production technology, which allows to control the parameters of the process of welding sections with high frequency currents in order to ensure high quality and durability of the welding of sections without the need to conduct random destructive tests.

As part of research and development works, the M-1 vertical axis wind turbine with a rated power of 200 kW is also being modernized, and the repair works of the B-1 vertical axis wind turbine with a rated power of 1.5 MW were continued.

This project is co-financed by the National Center for Research and Development and the European Union, and implemented jointly with a subsidiary (Anew Institute Spółka z o.o.) and the AGH University of Science and Technology in Krakow.

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 2019 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**

The European Commission expects a gradual deceleration in the Polish economy in 2020, followed by stabilisation in 2021. Private consumption will remain the main driver of growth, supported by favourable labour market trends and fiscal stimuli. Investment is expected to grow moderately, with weaker private sector demand expectations and increasing public sector investment, mainly through EU funds, but at a slower pace than in previous periods.

According to the Commission's forecast, there are signs of a deceleration in 2020. For 2020, GDP is projected to slow down to 3.3%, similarly to 2021. Private consumption growth will remain the main driver, but the exceptionally high levels recorded in 2018 are not to be expected. Further wage growth forms the basis for the forecast of these trends. In addition, the level of taxes and social benefits should increase the resources available to households in late 2019 and early 2020.

- **Inflation**

Food price inflation increased rapidly in the third quarter of 2019. At the same time, service price inflation continued to rise. Inflation is projected to continue to increase gradually in early 2020, reaching a peak of more than 3% in the first quarter, then to decline to around 2.5% and remain at this level until the end of 2021 (the level was actually even higher, at 4.7% in February 2020, being the highest increase since November 2011)

The main factor influencing the increase in inflation is seen as the increase in the prices of services as a consequence of wage increases. Energy prices are also forecast to rise in 2020. Strong competition in the consumer goods and services market, the growing importance of e-commerce and the assumed path of global oil prices should limit inflation growth on the other hand.

- **Level of demand for steel products**

The adverse trend in steel demand is expected to continue in the coming quarters. Due to a further decline in demand for steel in the last quarter of 2019, the apparent consumption of steel in the EU is expected to fall by 3.3% in 2019. A further fall in demand for steel is also expected in the first quarter of 2020 (by about 2%), despite the reduction in stocks. Minor replenishment of stock is expected to continue in the second quarter of 2020 and there should be an increase in apparent year-on-year consumption, although it should be realised that this will be largely due to a low base year. However, the actual steel consumption is not expected to increase before the second half of 2020. Therefore, the relative improvement in apparent steel consumption will, as a rule, be a 'technical reversal', not derived from a real improvement in final steel consumption.

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

- the need to achieve a significant increase in the share of production of high grades of transformer

steels (HiB). Taking into account the trends on the market, it is a necessary condition for improving the Company's competitive position;

- optimisation and better use of the potential (including in particular production capacities) of the Profiles Segment;
- improving the functioning of the national distribution network after the organisational changes that took place in mid-2018 (taking over off-site warehouses from Stalprodukt Centrostal Kraków and including them in the structure of the Stalprodukt marketing director division);
- better use of the new version of IFS Applications (including in particular the production management module);

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

a) macroeconomic environment

The results of the Capital Group's operations are strongly dependent on the general economic situation on the local market and in the European Union countries, in particular the development of such industries as construction industry and manufacturing.

It should be noted that all forecasts presented by economists so far, concerning the expected rate of development of the economy and the level of consumption of steel products are now, due to the coronavirus epidemic, very erroneous. The actual scale of the economic and social problems caused by the epidemic will depend, on the one hand, on the duration of the epidemic and, on the other hand, on the scale and effectiveness of the aid provided by individual governments. Nevertheless, most analysts agree that the consequences for the global economy, including Europe, are highly adverse. A few percent recession is expected in Germany, our main economic partner, among other things. Thus, it will also affect the Polish economy to a large extent. According to the latest forecasts, Poland's GDP will fall by about 5% in 2020.

For more information on the impact of the COVID-19 corona epidemic on the Issuer's business, see section 22.

• Demand for steel products in Europe

According to forecasts published by the EUROFER Association on 30 January 2020, apparent consumption was to reach an increase of 1.2% in 2020 and 2.3% in 2021, supported by an improvement in real demand and the standardisation of goods storage cycles. The combination of the weak foundations of the steel market and the high and increasingly volatile monthly steel imports reaching the EU market is likely to further weaken the business environment for EU steel producers. Therefore, the key issue will be that any improvement in demand for steel in the EU at the beginning of 2020 will mainly benefit imports rather than European steel suppliers (due to the mechanism to carry over unused quarterly quota).

Due to the coronavirus epidemic, it should be assumed with a high degree of probability that due to the reduction of economic activity by many domains, including mainly industry and the automotive industry, the actual level of demand for steel products will be drastically reduced.

b) 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.

c) The end of the period of protection of the EU market for transformer sheets is coming to an end

Measures to protect the EU market against excessive imports of transformer sheets introduced by the European Commission in 2015 for a period of 5 years will have applied until October 2020. Although their effectiveness has been quite limited, it is expected that their expiry will result in an even greater influx of material, especially from directions such as Russia or China, which is the world's largest producer of metal sheets. Competition in this market will therefore intensify. Consequently, the Company will make attempts to extend the previously applicable protective measures.

d) further increase in production costs, especially electricity.

Due to the nature of technological processes, Stalprodukt is an energy-intensive company. The high prices for CO₂ emissions, which persisted in 2019, have influenced the increase in the price of electricity supplied by energy companies. Further continuation of this trend may adversely affect the Company's profitability and future performance. In 2019, the company obtained compensation in the amount of PLN 11 million for the increase in energy prices, however, as of today, its activity is not classified as an energy-intensive industry and therefore cannot count on permanent compensation for this.

e) 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.

f) 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. Impact of COVID-19 coronavirus on the operating and financial situation of the Issuer

In connection with the announcement of the Office of the Polish Financial Supervision Authority of 12 March, 2020 regarding the recommendations of the European Securities and Markets Authority on the impact of the spread of the COVID-19 Coronavirus on the situation of stock exchange issuers, below is information on the impact of this event on the Company's operations and financial results (this information was also provided in the form of stock exchange announcement No. 4/2020 on April 24, 2020).

To date, the impact of the COVID-19 Coronavirus pandemic on the Issuer's operations has been limited. The Company did not have any problems with supplying batch products (mainly hot rolled coils, supplied mainly by a local producer) and other raw materials necessary for conducting production activities.

The production in both basic Steel Product Segments (i.e. Electrical Sheets and Profiles) is ongoing and continuous. The problem is, however, the increased absenteeism associated with childcare and employees sick leave. The Management Board monitors the situation in this respect on an ongoing basis and strives to provide the necessary staff on production lines.

The above circumstances did not adversely affect the Company's financial liquidity and its ability to pay its liabilities. They did not significantly affect the Q1 financial results of 2020.

The Management Board of the Company emphasizes, however, that the negative impact of the Coronavirus pandemic will become apparent in April and at least in the next two months of the second quarter of this year. This assessment results from a noticeable decrease or withdrawal of orders by the Company's clients, especially in the Profile Segment; this applies to both domestic and foreign sales. This factor will certainly have a negative impact on the level of sales revenues possible to achieve in the near future, which in turn will contribute to a decrease in the Company's financial results. Based on the available information, the Management Board estimates the anticipated decrease in unit sales revenue at 20%, calculated as the ratio of total turnover over the next two months, i.e. March and April this year, compared to the total analogous turnover of 2 calendar months of the previous year. However, the Board is not able to accurately assess the impact of this situation on the forecast results for the second quarter of 2020.

The Management Board of the Issuer also informs that to the best of our knowledge, the Coronavirus pandemic should not have a negative impact on the sales revenues and financial results of the Zinc Segment in the near future.

Due to the desire to limit the negative effects of the pandemic on the future activities of the parent company, and also to ensure the protection of jobs, today, i.e. on 24 April, 2020, the Stalprodukt Board signed an agreement with the trade unions operating in the Company. Pursuant to this agreement, from

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1 May 2020, the working time and the remuneration of all employees of the Company will be reduced by 20 %. This agreement was concluded for a period of 3 months.

In connection with the above, and also taking into account the available financial resources resulting from the solutions provided for in the so-called Anti-crisis shield (the Act of 2 March, 2020 on special solutions related to the counteracting, preventing and eradicating of COVID-19, other infectious diseases and crisis situations caused by them and the Act of 31 March, 2020 amending the above Act), the Company will put forward a request to the Provincial Labour Office to support entrepreneurs to protect jobs from the Guaranteed Employee Benefits Fund.

The Management Board of Stalprodukt S.A. also informs that appropriate procedures have already been implemented in the Company in March this year to reduce the risk of Coronavirus infection. They include, among others: compulsory quarantine of employees returning from abroad and those who may have had contact with infected persons, temperature measurement of persons entering the premises of the plant or restrictions on business contacts, personal protective equipment has also been provided. Some employees also took up remote work.

The Company's Management Board, as at the date of publication of this report (i.e. 30.04.2020), is not able to more accurately assess the impact of the spread of the Coronavirus pandemic on the Company's future operations and financial results. In the event of a change in the current situation, the Issuer will update the information contained in this report.

In summary, it should be stated that, in the opinion of the Issuer's Management Board, the above events do not require adjustments to be made to the financial statements for 2019, but are treated as an event after the balance sheet date requiring additional disclosures. As of the date of this report, they do not pose a threat to the Company's continued operations. Although this situation is still changing at the time of preparing this Management Board's report on operations and the financial statements, the Company's Management Board has not noticed any noticeable impact on the Company's sales or supply chain to date. However, this situation will change in Q2 of 2020, The Management Board of Stalprodukt will continue to monitor the potential impact of the coronavirus pandemic and will take all possible steps to mitigate any adverse effects on the Company's operations.

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

On 30th May 2019 the boards of the Issuer's three dependent companies, i.e. Stalprodukt-Wamech Ltd., Stalprodukt-Serwis Ltd. and Stalprodukt-MB Ltd. accepted their merger plan and subsequently informed about their intention to merge, providing all the legally-required documentation on their websites on 31st May 2019. The merger of the companies will take place according to art. 492 § 1 point 1) of the Commercial Companies Code, i.e. by transferring all the assets of the companies 'Stalprodukt-Serwis' Ltd. and Stalprodukt-MB Ltd. (the acquired companies) to 'Stalprodukt-Wamech' Ltd. (the acquiring company) for the shares that the acquiring company will hand over to the previous (the only) partner of the acquired companies, increasing simultaneously the share capital of the acquiring company.

Within the framework of the merger the share capital of the acquiring company Stalprodukt-Wamech Ltd. will be raised from the amount of 1,200,000 PLN (read: one million two hundred thousand zlotys) up to the amount of 4,270,000 PLN (read: four million two hundred and seventy thousand zlotys) by issuing 3,070 (read: three thou and seventy) new shares with the face value equal 1,000 PLN (read: one thousand zlotys) each and with the total face value equal 3,070,000 PLN (read: three million seventy thousand

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złotys). These new shares shall be covered by the only company's partner, i.e. Stalprodukt Joint-Stock Company in Bochnia, in return for all its shares in the acquired companies.

The Issuer would also like to inform that the National Court Register recorded the merger of 'Stalprodukt-Serwis' Ltd. (on 18th July, 2019) and 'Stalprodukt-MB' (on 31st July, 2019) in the companies' registers. The merger of the abovementioned companies was registered by the National Court Register in the register of the acquiring company (Stalprodukt-Wamech Sp. z o.o.) on 3 September 2019.

The objectives of the planned merger are as follows: streamlining the management of the Stalprodukt Capital Group through consolidation of the auxiliary companies in relation to the Issuer (mainly provision of the so-called after-sales services), optimising the companies' operations resulting from combining their technical, financial and human resource potential, decreasing their operational costs as well as gaining the effects of synergy.

24. 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.

25. 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	1 306 288	1 334 299	161 000	2 801 587
Józef Ryszka	478 644	522 457	57 341	1 058 442
Łukasz Mentel	478 545	522 457	118 062	1 119 064
Total	2 263 477	2 379 213*	336 403	4 979 093

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* The total value of quarterly bonuses for the Management Board for the results of 2019 amounted to PLN 917,336. The rest of the amount shown in the table relates to the performance bonus for 2018, paid in 2019.

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

	Allowance	Remuneration due to performing functions in the authorities of subordinated entities	Total
Janusz Bodek	94 505	40 521	135 026
Sanjay Samaddar	0		0
Magdalena Janeczek	97 207		97 207
Agata Sierpiska-Sawicz	90 071		90 071
Romuald Talarek	89 105		89 105
Total	370 888	40 521	411 409

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

26. 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.

27. 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

27.1. 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)
Janusz Bodek	61,974	123,948

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

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

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

No.	Name of the entity	Quantity of owned stocks/shares	Nominal Value (PLN)
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.

28. 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.

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

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

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

- a. in the case brought by Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o in Olkusz against ZGH "Bolesław" S.A. for payment of compensation for mining damages in the amount of PLN 64,015,224.00 (reference number IX GC 99/14) issued a judgement, acknowledging the complaint of PWiK sp. z o.o. in Olkusz as justified as to the principle. The possible amount of compensation will be the subject of further proceeding and can amount to a maximum of PLN 64 million. In connection with the process, ZGH "Bolesław" S.A. created a reserve of PLN 15 million in 2015. The judgement is not final. The company appealed against the judgment;
- 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),

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issued a judgement in which it dismissed the complaint. The judgement is not final. The company appealed against the judgment.

On 13.03.2020 the Court of Appeal in Kraków issued the judgement in the case with ref.no AGa 527/18, between ZGH "Bolesław" S.A. and Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o. o. in Olkusz, in which it dismissed the appeal of ZGH "Bolesław" S.A. against the judgement of the Regional Court in Krakow of 25.04.2018 to the case with reference number IX GC 543/13, as well as ordered that the ZGH "Bolesław" S.A. shall pay the costs of proceedings at law in the amount of PLN 8,100 for the benefit of Przedsiębiorstwo Wodociągów i Kanalizacji sp. z o.o. Consequently, the ruling of the Regional Court is final and binding.

The above status means that at the moment it has been ruled by a legally-binding decision that ZGH "Boleslaw" S.A. is liable for damages to the Przedsiębiorstwo Wodociągów i Kanalizacji for the consequences in terms of water relations, connected to the future exclusion of the Mine Olkusz Pomorzany drainage and due to this, the discontinuation of water supply to their channels and for possible groundwater pollution.

As indicated above, the interlocutory judgement is final, determining the fact of liability. The amount of compensation has not been determined, which shall be the subject of further proceedings. Currently, the Przedsiębiorstwo Wodociągów i Kanalizacji is claiming the sum of PLN 64,604,143.05 and this is the highest amount of the principal liability amount that may be charged to the Company. The amount of compensation, if any, is influenced by the value of expenditures for alternative sources of water supply, which amount to approx. PLN 30 million. Another problem is the issue of Community co-funding, which, in the Company's opinion, shall reduce the amount claimed. At this stage the amount of any damages awarded cannot be currently determined in detail.

ZGH "Boleslaw" S.A. shall consider bringing cassation appeal against the judgement described above, about which it shall inform in a separate notice, having received a written justification from the Court of Appeal.

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.".

30. Information on the control system of employee shares schemes

The Company does not operate the employee shares schemes.

31. 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.

a) 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 2019 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), 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.

✓ **Principle III.Z.4.**

The person responsible for internal audit (if the function is separated in the company) and the management board should report to the supervisory board at least once per year with their assessment of the efficiency of the systems and functions referred to in principle III.Z.1 and table a relevant report.

At this point, there is no separate internal audit unit within the Company.

✓ **Principle IV.Z.2.**

If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

According to the Management Board, the structure of shareholders does not justify implementing such a solution.

✓ **Principle VI.Z.4.**

In this activity report, the company should report on the remuneration policy.

So far, the Company has not applied this rule. However, in accordance with the new provisions of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies, the Management Board will prepare and present the remuneration policy of the Management Board and the Supervisory Board to the General Meeting of Shareholders for approval. Since the aforementioned statutory provisions also provide for the requirement to prepare a remuneration report, once the policy document has been approved by the General Meeting of Shareholders, this principle will be fully applied by the Company.

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.

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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.

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

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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.

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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

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. In the case of submitting the request in electronic form, the Management Board of the Company is authorised to take the necessary actions to verify the credibility of the submitted application. If the Management Board of the Company is unsure about the origin of the request, the Shareholder or Shareholders are obliged to provide the Company with declarations or documents confirming the right to submit the request.*
4. *The Supervisory Board may convene an ordinary general meeting if the Management Board of the Company fails to convene it within the time specified in the provisions of the commercial companies code or the articles of association, and an extraordinary general meeting if it considers it necessary to convene it.*
5. *Shareholders may convene an extraordinary general meeting based on authorisation by the Registry Court, if within 2 weeks from the date of submitting the request to the Management Board, the meeting has not been convened. The court calls the Management Board to make a statement and appoints the chairman and date of the meeting.*
6. *Shareholders representing at least half of the share capital or at least half of all votes in the company can convene an extraordinary general meeting. Shareholders appoint the chairman of such meeting.*

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

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

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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.*
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

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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

In 2019, there were no changes to the Management Board, but on 28 April 2020, Mr Józef Ryszka resigned from his function as a Member of the Management Board of the Company, effective as of 29 April 2020. He also stated that the reason for his resignation was his reaching the retirement age and becoming entitled to retirement.

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 2019, 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.*

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- 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.*
- 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

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

-people who meet the statutory independence criteria

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

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

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

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

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

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

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

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

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

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

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

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

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

- in accordance with the regulations applicable to the Company, the entity authorised to conduct the audit is selected by the Supervisory Board, acting on the recommendation of the Audit Committee;
- it is forbidden to introduce any contractual clauses that would require the Supervisory Board to choose an entity authorised to carry out analysis from among a specified category or list of entities authorised to carry out analysis;
- The Supervisory Board when making the final selection, and the Audit Committee at the stage of preparing recommendations, is guided by the following guidelines regarding the entity authorised to carry out the analysis:
 - price proposed by the entity authorised to carry out the analysis;
 - ability to provide a full range of services specified by Stalprodukt S.A. (analysis of unit statements, analysis of consolidated statements, inspections, etc.);

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- 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

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 2019, the Audit Committee held five meetings.

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

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

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

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

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

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

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

Part III. Declaration on non-financial information

While preparing this Declaration, Stalprodukt mainly used the Non-Financial Information Standard developed by the Reporting Standards Foundation, however the final form of the report and the scope of information disclosed therein was adjusted to the specific nature of the 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. As part of the optimization activities, last year there was a merger of Stalprodukt-Serwis with Stalprodukt-Wamech.

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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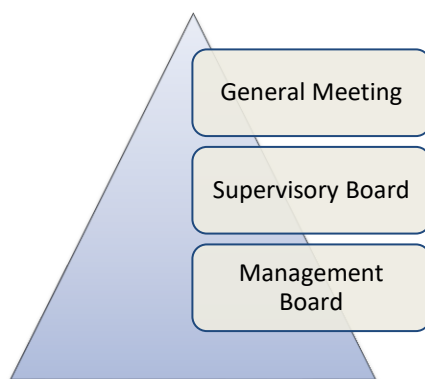
The company has been planning to strengthen its position on the transformer sheet market for many years. This operating segment is crucial from the point of view of the impact on Stalprodukt's unit results. This scenario of strategy implementation became possible in 2017, when a contract was signed for 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 General Meeting of Shareholders, the Supervisory Board and the Management Board of the Company operate on the basis of relevant Regulations.

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

1.3 Key non-financial effectiveness indicators

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

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

In 2018-2019, the above-mentioned indicators for the parent company and for the entire Capital Group were as follows:

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Indicator	Stalprodukt S.A.	
	2019	2018
Revenue per employee (thousand x PLN)	977.7	790.4
Energy consumption per unit of revenue (GJ/PLN 1 thousand)	1.04	1.21

In 2019, the revenue per one employee increased from PLN 790.4 thousand up to 977.7 thousand. On the other hand, energy consumption per unit of revenue decreased by 14 %, from 1.21 GJ /PLN thous. to 1.04 GJ/PLN thous. of revenue unit.

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 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.

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 CO₂ emissions trading scheme.

Administrative decisions held by Stalprodukt S.A. in 2019:

- Integrated permit for a landfill in Borek,

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- 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 2019, the following administrative decisions regarding the use of the environment were obtained:

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

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

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	
			2019	2018
Stalprodukt S.A.	Hot rolled steel	thousand x Mg	294,9	336,7
	Cold rolled steel	thousand x Mg	19,3	19,9
	Galvanized steel	thousand x Mg	4,8	3,7
	<i>The cost of used materials in relation to net revenue from the sale of products</i>	%	68,5	75,8

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.

Organisational unit	Type of fuels and energy	Unit	Consumption	
			2019	2018
Stalprodukt S.A.	Electricity	GJ	657 575	659 011
	Natural gas, propane and butane	GJ	640 271	647 712
	Bituminous coal	GJ	361 914	336 152
	Fuels	GJ	4 400	4 583
	Heating oil	GJ	1 849	2 325

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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	
			2019	2018
Stalprodukt S.A.	Water supply network	m ³	33 116	33 377
	Surface water intake	m ³	737 120	679 511
	Water consumption for social and living purposes	%	4,3	4,7
	Processing water consumption	%	95,7	95,3

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	2019	2018
Water collected from the Raba river	m ³	737 120	679 511
Reused water	m ³	267 124	269 713
% of water reuse	%	36	39

The Electrical Sheet Segment has the greatest demand for water.

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.

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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	
			2019	2018
Stalprodukt S.A.	CO ₂	Mg	67 864	70 438
	CO	Mg	127	101
	Dusts	Mg	3,2	2,1
	SO ₂	Mg	104	97
	NO _x	Mg	57	48
	Aromatic hydrocarbons and aliphatic hydrocarbons	Mg	0,88	0,90
	Hydrofluorocarbons	Mg	0,055	0,097
	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.

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.

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2.6 Waste management

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

Organisational unit	Waste type	Unit	Amount	
			2019	2018
Stalprodukt S.A.	Hazardous waste	Mg	1 876	2 214
	Waste other than hazardous	Mg	34 293	34 059
	<i>Total waste</i>	<i>Mg</i>	<i>36 169</i>	<i>36 273</i>
	Stored waste	Mg	708	858
	Waste recovered	Mg	1 214	1 426
	Waste sent to recovery organisations	Mg	34 247	33 989

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.

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

Organisational unit	Waste water	Unit	Amount	
			2019	2018
Stalprodukt S.A.	Total amount of water and waste water	thousand of m ³	1 502	1 303
	Discharged	thousand of m ³	453	459
	Treated	thousand of m ³	1 049	844

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

To ensure proper management of emergency situations and to prevent or limit their negative effects on the environment, materials, processes and activities that may cause such situations, rules of conduct in the event of their occurrence, forces and resources at disposal and rules of organization for liquidation of effects have been specified. The actions that should be used to protect against failures are also specified.

Apart from the described areas of impact on the environment, the operating activities of the Company's units do not generate other specific factors affecting the surrounding environment.

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.

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

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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. in 2019, at the time of preparing this statement, used co-financing from public aid in the amount of PLN 1,174,971 (at nominal value), while in 2018, due to the obtained relief from renewable energy certificates of origin (which was actually recognized in September 2019 for 2018), the Company received funding in the amount of PLN 1,373,079 (at nominal value).

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3.2. Level of employment and level of remuneration

The employment structure by positions

	Rodzaj stanowiska	rok 2019						rok 2018					
		kobiety	mężczyźni	Umowa na okres próbny	Umowa na czas określony	Umowa na czas nieokreślony	Umowy cywilno prawne	kobiety	mężczyźni	Umowa na okres próbny	Umowa na czas określony	Umowa na czas nieokreślony	Umowy cywilno prawne
Stalprodukt S.A.	Kadra kierownicza	3	51	0	1	53		3	49	0	0	52	0
	Nierobotnicze	67	180	0	15	232		72	189	1	27	233	2
	Robotnicze	34	1185	0	92	1127		39	1273	1	198	1113	4
	razem	104	1416	0	108	1412	5	114	1511	2	225	1398	6

Employment structure by gender

	Pracownicy w podziale na płeć	2019				2018			
		Umowa na okres próbny	Umowa na czas określony	Umowa na czas nieokreślony	Umowa cywilno - prawne	Umowa na okres próbny	Umowa na czas określony	Umowa na czas nieokreślony	Umowa cywilno - prawne
Stalprodukt S.A.	kobiety	0	13	91	2	1	22	91	1
	mężczyźni	0	95	1321	3	1	203	1307	5
	razem	0	108	1412	5	2	225	1398	6

In the employment structure of Stalprodukt S.A. the majority of employees are men, i.e. over 90% of all employees. They are mainly employed at worker positions. This specificity of the employment structure is related to and results from the nature of the business.

The most popular form of employment in the Company is the employment contract for an indefinite period. Its share in Stalprodukt S.A. amounts to 93% of all contracts.

Employment structure by age

	Podział wiekowy	2019				2018			
		kobiety	mężczyźni	Stanowiska robotnicze	Stanowiska nierobotnicze	kobiety	mężczyźni	Stanowiska robotnicze	Stanowiska nierobotnicze
Stalprodukt S.A.	do 30 lat	9	170	164	15	9	255	244	20
	31- 50 lat	52	810	684	178	55	820	687	188
	>51 lat	43	436	371	108	50	436	381	105

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.

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Newly employed employees by age and gender

	2019		2018	
	Liczba niepełnosprawnych	Udział w zatrudnieniu [%]	Liczba niepełnosprawnych	Udział w zatrudnieniu [%]
Stalprodukt S.A.	4	0,26	5	0,31

Average remuneration (PLN)

	2019		2018	
	Average remuneration regardless of gender	5 575	Average remuneration regardless of gender	5 358
Stalprodukt S.A.				

In Stalprodukt S.A., the average annual remuneration in comparison to 2018 increased by about 4%,

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

	2019	2018
Stalprodukt S.A.	1 881	1 803

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. and MOZ NSZZ "Solidarność". In 2019, the ratio of employees belonging to trade unions was about 18%, and in 2018 it was about 19%.

In the Company, no collective dispute was initiated in 2019.

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,
- 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.

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 2018-2019. 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.

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Specification	2019	2018
Total number of accidents at work	16	18
Accident frequency indicator (number of accidents/number of people employed x 1000)	10,54	11,06
Number of heavy accidents	0	0
Number of fatalities	0	0
Total number of days of inability to work among employees due to accidents	908	1220
Accident severity indicator (number of days of inability/1 accident)	56,75	67,78
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)	256	278*
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

*have been adjusted against the data presented in the 2018 report,

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 or 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

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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.

	2019	2018
Number of persons trained	802	840

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.

The Company has an Anti-mobbing Policy. In 2019 at Stalprodukt S.A. two notifications regarding the possibility of mobbing were accepted. After being considered by the commission, it was found that they did not bear signs of mobbing.

3.7 Human rights

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

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

3.8 Child and forced labour

The Company does not employ 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 2019 1520 employees. Therefore, the Management Board of the Company, being aware of its responsibility, treats CSR issues, and above all good relations with the local community (in addition to increasing the value of the company), as a priority.

The company has been active in this area for many years, sponsoring many social initiatives and undertakings, mainly from the town and commune of Bochnia. Stalprodukt regularly provides financial support to local schools, parishes and orphanages. It also finances the activities of various foundations and associations, organizing sports, cultural and entertainment events and charity concerts. It also finances the activities of various foundations and associations, the organization of sports, cultural and entertainment events and charity concerts. The Company also financially supported the publication of various types of book publications (e.g. "Bochnia and Bochnia Oblast in the years 1863-1864. On the 150th anniversary of the January Uprising" - by Janina Kęsek, published by the Association of Bochnia Residents and Lovers of the Bochnia Land).

The most important projects in the area of corporate social responsibility supported financially by the Company in 2019 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 2019 amounted to PLN 148 thousand.

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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 2019, the synthetic index amounted to 89.8 points and was slightly lower than in the previous year. This is still a high level.

The second element of the survey is a list of attributes that are assessed in terms of their importance and fulfilment by Stalprodukt and its competitors. These are attributes related to price, quality of products and services, timeliness, speed of response to inquiries and complaints, technical support, wide range of products, etc. According to the respondents, the most important attributes are: price and reliable delivery time. These are the areas that require continuous improvement and development by the Company.

Among the strengths of Stalprodukt are professional service and relations with traders, which are always highly rated.

In 2019, 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 2019, 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

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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 2020

Łukasz Mentel
Member of the Board
Financial Director

Piotr Janeczek
Chairman of the Board
Chief Executive Officer