

**Statement of the Management Board
on the operations of the Stalprodukt S. A.
for the period
from 1 January 2020 to 31 December 2020**

Bochnia, April 2021

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.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

- 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 2020, more than 19.7% less transformer sheets were sold in terms of volume compared to 2019, in terms of sales revenues, a decrease of 24.1% was recorded, and prices were lower by 3%.

The result achieved on the domestic market was structurally similar to the total result - both the volume and the value of revenues decreased by one fifth compared to the previous year.

In 2020, domestic sales accounted for 8% of the total sales of transformer sheets and the Company estimates that such a result translates into approximately 36% share of Stalprodukt in the apparent consumption of transformer sheets in the country.

In 2020, sales were concentrated on the European market, and the main target countries are: Italy Austria and Germany.

Import of transformer sheets to Poland in the period of 12 months of 2020 decreased significantly, by as much as 18% compared to the same period in 2019, and reached a level of just over 7,000. tone. The prices of the imported material did not change compared to the previous period.

The main directions of import of transformer sheets to Poland (by country of origin) in 2020 are:

- in the field of strips: Italy (46%), Germany (29%) and the Czech Republic (19%),
- for wide coils: Japan and Germany.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

Table 1. Sales of transformer steels and strips

| Specification | Quantity (Mg) | | | Net Value (thousand x PLN) | | |
|---------------|---------------|---------------|---------------|----------------------------|----------------|---------------|
| | 2019 | 2020 | 2020/2019 (%) | 2019 | 2020 | 2020/2019 (%) |
| Country | 5 427 | 4 409 | -18,8 | 44 576 | 29 897 | -32,9 |
| Export | 77 678 | 62 329 | -19,8 | 506 039 | 388 322 | -23,3 |
| Total | 83 105 | 66 738 | -19,7 | 550 615 | 418 218 | -24,1 |

Market environment

The Coronavirus pandemic and its tragic consequences have not missed any region of the world. The economic downturn has hit all major markets. According to analysts' forecasts, the return of world economies to the pre-crisis level may not take place until the end of 2021. The imbalance in the demand-supply balance also affected the electrical sheet industry, which, like other segments of the economy, was also struggling with significant declines.

After several quarters of price adjustments, it seemed that the market had stabilized to some extent and the supply / demand gap had been closed. There was a decline in warehouse levels, which allowed for a change in the trend and some price rebound in the grain oriented sheet market. It was then that the COVID-19 pandemic emerged, triggering investment aversion, drastically correcting resource prices (an example is the price of oil), and fundamentally changed the approach to perceiving the near future.

In the case of Stalprodukt S.A., more and more customers ask questions about the future offer related to meeting the requirements of the Eco Design Tier2 standard. These regulations, which are to apply from July 2021, will force the use of sheets with the lowest losses (0.75 or 0.70 W / Kg) in the production processes.

The earlier unsuccessful attempt to merge Thyssenkrupp with Tata Steel worsened the financial condition of both companies. Both companies started looking for new ways for their further activities. Liberty Steel also failed to take over ThyssenKrupp.

The US Department of Commerce has decided to protect the interests of AK Steel - its only producer of grain oriented electrical sheets (GOES). For this purpose, the Department has activated section 232, and new duties will therefore be imposed on imported components necessary for the production of cores.

The coronavirus pandemic significantly delayed the launch by the Russian company NLMK of a transformer sheet production plant in India, with a production capacity of 65 thousand tonnes of sheets / year. The Indian steelworks NLMK will become the second (after ThyssenKrupp Electrical Steel India) producer of GOES sheets in India.

a) Toroidal cores

The product group of transformer cores was the only product group in the Company's portfolio in 2020, which achieved higher results than in the previous period, both in terms of volume, value of sales revenues and prices.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

The over 9% increase in sales revenues was achieved mainly due to a significant increase in exports (by 1/3 compared to 2019). Domestic sales followed the same trends as transformer sheets (where a 21% decrease was recorded).

The sales structure changed significantly compared to the previous year. Currently, 33% (previously 45%) are domestic sales and 67% (in the previous year 55%) are export sales.

The pandemic situation had a much smaller impact on the production activities of the main customers abroad, who kept core purchases at a similar level.

Table 2. Sales of transformer cores

| Specification | Quantity (Mg) | | | Net Value (thousand x PLN) | | |
|---------------|---------------|--------------|---------------|----------------------------|---------------|---------------|
| | 2019 | 2020 | 2020/2019 (%) | 2019 | 2020 | 2020/2019 (%) |
| Country | 420 | 343 | -18,3 | 5 021 | 3 972 | -20,9 |
| Export | 551 | 680 | 23,4 | 6 157 | 8 238 | 33,8 |
| Total | 971 | 1 023 | 5,4 | 11 178 | 12 210 | 9,2 |

Market environment

The pandemic situation in 2020 caused the demand for toroidal cores to decline, mainly among domestic recipients. The existing competition (Czech, Slovak) managed to take the Stalprodukt's share in the market for this type of cores only to a small extent.

The situation was different for the recipients of rectangular cores and Unicores, who carried out their production without major obstacles based on long-term contracts and contracts secured by government guarantees. In this assortment (more specialized product) it is also possible to achieve higher margins. The situation with recipients based on state contracts has changed from the fourth quarter of 2020, i.e. these clients do not execute orders due to the complete (until further notice) suspension of financing the investment.

2.2 Segment of Bent Sections

a) Cold-formed sections

In 2020, over 164,000 of tonnes of sections and pipes were sold. This result means: almost 11% decrease in volume and over 14% decrease in sales value. The prices dropped in the analysed period by about 3% compared to the prices obtained in 2019.

The impact of the pandemic on customer behaviour varied widely. Some of the industries using protective programs (shields) did not make sudden cuts on the purchasing side, trying to keep jobs. The first noticeable purchase restrictions in the second quarter were signalled by the automotive industry, followed by mining and industries related to construction.

In the third quarter, the market began to experience material shortages, largely due to the systematic reduction in the supply of hot rolled coils. As a consequence, in the fourth quarter, a drastic increase in the

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

prices of hot-rolled coils started (unstoppable even by weak demand), which had to translate into significant increases in other steel products.

In the short term, this situation caused an increase in customer demand for fear of limited availability of the material. However, in the longer term, difficulties for end customers to translate the increases to the end customer market may cause significant drops in sales.

Based on the data of the Analytical Centre - the Tax Administration Chamber in Warsaw and HIPH, the Company estimates its current share in the apparent consumption of cold bent sections on the domestic market at approximately 26%. On the other hand, Stalprodukt's share in total domestic exports of cold-formed sections was nearly 37%, which means a decrease compared to the previous year (a 44% share was recorded in 2019).

The sales results presented above were obtained under the following market conditions (based on HIPH information in the period January - December 2020):

- **a decrease in the production of cold-formed sections in Poland by 2% - to the level of 303 thousand tonnes;**
- **decrease in apparent consumption of pipes by 11% to the level of 969 thousand tonnes** , including a decrease in apparent consumption of **closed** cold-formed sections by 7% (to the level of 417 thousand tonnes);
- **a decrease in imports of closed sections by 6% (232 thousand tonnes)**, and the current main directions of import are: for sections with a thickness of walls below 2 mm: Belarus (32%), Ukraine (30%) and the Czech Republic (13%); for sections with a thickness of walls greater than 2 mm Italy (25%), Ukraine (17%), Belarus and Bulgaria (9% each), Romania (8%);
- **an increase in exports of cold-formed closed sections by nearly 0.4% (118 thousand tonnes)**.

Table 3. Comparative summary of sales of cold formed sections

| Specification | Quantity (Mg) | | | Net Value (thousand x PLN) | | |
|---------------|----------------|----------------|---------------|----------------------------|----------------|---------------|
| | 2019 | 2020 | 2020/2019 (%) | 2019 | 2020 | 2020/2019 (%) |
| Country | 135 625 | 120 148 | -11,4 | 365 125 | 313 065 | -14,3 |
| Export | 48 144 | 44 160 | -8,3 | 140 781 | 124 374 | -11,7 |
| Total | 183 769 | 164 308 | -10,6 | 505 906 | 437 439 | -13,5 |

Domestic sales took place mainly through the distribution company Stalprodukt Centrostal on the basis of an agency agreement.

Production of steel pipes in the EU

The steel tube manufacturing activity in the EU is closely linked to sectors such as construction, automotive, metal products and mechanical engineering. The downward trend in these sectors was dramatically exacerbated by the outbreak of the COVID-19 pandemic in March 2020, resulting in an even more sharp decline in steel tube production in the first and second quarters of 2020. In 2020, production in the EU steel tube industry was very strong hit by industrial blockages.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

According to Eurofer's forecast (no full data for the entire 2020 year), the production of steel pipes fell for the third year in a row in 2020, at a much faster pace than in 2019 and this decrease amounted to 15.2%, compared to (-0.3%) in 2019. In contrast, for 2021, a rebound of 8.4% is projected, followed by an increase of 5.1% in 2022.

Domestic market

Analysing the import data, it is clear that in 2020 the strong market position of Italian suppliers has weakened, although in the longer term, taking advantage of significant financial support under the largest shielding programs and improving market conditions from the end of 2020, they will probably improve their competitiveness.

Neighbouring producers from Ukraine, Belarus, the Czech Republic, Romania and Bulgaria delivered much more sections to the Polish market in 2020.

b) Road barriers

The total result obtained in 2020 on the sale of road barriers was almost 13% lower in terms of sales revenues and 8.6% lower in terms of volume. Prices fell by 5%.

The above result was mainly influenced by the situation on the domestic market, where an almost 20% decrease was recorded, and the share of domestic sales in the total sales of barriers amounted to two thirds. The current structure is: 68% - domestic sales, 32% - export sales.

In the case of export sales, slight increases of several percent were achieved in terms of both the volume (3.6%) and the value of sales revenues (3.3%).

The decrease in the value and volume of sales in the first half of 2020 was caused by temporary restrictions in the construction of construction sites in the period March - April 2020, i.e. in the first phase of the outbreak of the pandemic. Then the pace of work returned to normal. In the second half of 2020, there were changes in the implementation schedules for some of the works originally planned for the third and fourth quarter of 2020. It should be emphasized that the decrease in sales value is directly related to the continuous "slimming" of the developed and used barrier systems. Better and better parameters of the systems are achieved by using steels with increased strength properties and new barrier elements. At the turn of 2019 and 2020, as well as in the first half of 2020, the Company developed several new and much lighter road barrier systems, which were delivered to construction sites practically throughout 2020.

As in Poland, in the COVID-19 era, road administrations in the countries to which Stalprodukt exports barriers, made efforts to continue the construction projects already started. As a result, the Company experienced a slight increase in demand for barriers from foreign markets. However, the behaviour of customers will be important in the light of the very dynamically growing steel prices at the end of the fourth quarter of 2020. A factor that may favour, especially in the Scandinavian markets, is the emergence of additional environmental requirements for barriers, i.e. the fact that manufacturers have an EPD (Environmental Product Declaration), which include, inter alia, information on the amount of CO₂ emissions throughout the product life cycle. This gives a chance to limit the import of barriers from China or Russia, at least temporarily.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

In the fourth quarter of 2020, the second wave of the COVID-19 pandemic turned out to be particularly severe for the Company, as a result of which many Stalprodukt employees and other subcontractors were ill or were quarantined. As a consequence, the Company was forced to postpone the deadlines for completion of works or to arrange substitute contracting to avoid contractual penalties.

The most important road projects completed in 2020 include:

- a) **S5 section Szubin - Jaroszewo (Trakcja)** - roads + bridges (over 70 km of road barriers and 2 km of bridge barriers),
- b) **S3 section Miękowo - Brzozowo and S3 Miękowo - Rzańnica, Budimex** (almost 100 km of road and bridge barriers in total),
- c) **S2, 2 sections of the Southern Ring Road of Warsaw, Warbud and GP Mosty** (58 km of road barriers in total and 15.5 km of bridge barriers),
- d) **S17, Lublin Junction - Ring Road Kolbieli - 2 sections, Strabag** (a total of 120 km of road and bridge barriers),
- e) **Dąbrowa Tarnowska Ring Road, Banimex** (11 km of bridge barriers, 1 km of road barriers).

Table 4. Comparative summary of sales of road barriers

| Specification | Quantity (Mg) | | | Net Value (thousand x PLN) | | |
|---------------|---------------|---------------|---------------|----------------------------|---------------|---------------|
| | 2019 | 2020 | 2020/2019 (%) | 2019 | 2020 | 2020/2019 (%) |
| Country | 15 198 | 13 169 | -13,4 | 83 526 | 67 837 | -18,8 |
| Export | 5 940 | 6 155 | 3,6 | 30 874 | 31 900 | 3,3 |
| Total | 21 138 | 19 324 | -8,6 | 114 400 | 99 737 | -12,8 |

Market environment

Eighty percent of road barrier sales go to the domestic market. In times of pandemic and complicated economic conditions around the world, it is extremely difficult to maintain a stable economy in a country. However, GDDKiA as the largest road investor in Poland, especially in these extreme circumstances, is expected to act consciously in order to fuel the national economy.

In the first seven months of 2020, GDDKiA announced tenders for 13 works with a total length of 160 km. These are i.a. tenders for five sections of S19 from Krynice to Plosk, S19 Lublin Rudnik - Lubartów Północ, A18 between the junctions of Iłowa and Golnice and three works with a total length of 25.4 km from the new 100 Ring Road Construction Program (Leipzig on DK79, Wąchock on DK42 and Strzelce Krajeńskie on DK22).

In accordance with the declarations at the beginning of the year and thanks to the increase by the government of the financial limit of the National Road Construction Program ("PBDK") by over PLN 21 billion (including for the construction of S6 express roads from Koszalin to the Tri-City Ring Road and S10 Toruń - Bydgoszcz), GDDKiA plans to announce tenders for 22 works with a total length of 325.6 km (only under the National Road Construction Program).

As part of the 100 Ring Road Construction Program, 11 more tenders for works with a total length of 85.9 km are planned to be announced by the end of the year.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

The implementation of the S6 expressway along the Baltic Sea has been accelerated, therefore tenders for the sections Lębork - Bożepole Wielkie and the Tricity Metropolitan Ring Road and for the extension of the Słupsk Ring Road and the Lębork-Słupsk section are to be announced soon.

With such extensive plans and a rich portfolio of orders, disputes arise, bidders use the legal tools they are entitled to. Many decisions in the field of tender procedures are submitted to the National Appeal Chamber or courts.

Currently, the expressway network is 4,188.1 km (1,693.7 km of motorways and 2,494.4 km of expressways), and in addition:

- 97 works from RBDS 2014-2023 are under implementation, with a total length of 1,221.2 km,
- the tender includes 17 works from PBDK 2014-2023 with a total length of 227.1 km and three ring roads from the Program for the construction of 100 ring roads with a total length of 25.4 km,
- 130 works are under preparation from the RDSF 2014-2023 with a total length of 2,580.7 km and 97 ring roads from the Program for the construction of 100 ring roads with a total length of 820.9 km.

c) Products of the Sheet Metal Service Centre

In 2020, about 11.5 thousand tonnes of sheets were sold for PLN 28 million, which means a decrease in volume by 13.6% compared to 2019, while the value of sales decreased by 20.1% compared to the previous year.

The result was mainly determined by weaker domestic sales (-23%), which account for almost 90% of total sales, and 88% of domestic sales were made in the agency sales formula.

The increase in export sales by about 600 tons practically did not improve the total result obtained in this product group.

Imports of both hot-rolled and cold-rolled sheets in 2020 increased compared to 2019 - the former by 5%, and the latter by 12%, respectively.

Imported sheet metal prices fell by a few percentage points.

The main directions of import of hot-rolled strips and sheets are: The Czech Republic (26%), Germany (18%) Slovakia (12%), and Ukraine (70%). The average price per tonne in 2020 is PLN 2366 / MT.

The main directions of import of cold-rolled strips and sheets are: Germany (42%) and Ukraine (10%). The average price per tonne in 2020 is PLN 2603 / MT.

Table 5. Sales of steel service centre products

| Specification | Quantity (Mg) | | | Net Value (PLN '000) | | |
|---------------|---------------|---------------|---------------|----------------------|---------------|---------------|
| | 2019 | 2020 | 2020/2019 (%) | 2019 | 2020 | 2020/2019 (%) |
| Country | 12 448 | 10 245 | -17,7 | 32 581 | 24 944 | -23,4 |
| Export | 866 | 1 238 | 42,9 | 2 541 | 3 121 | 22,8 |
| Total | 13 314 | 11 483 | -13,7 | 35 122 | 28 065 | -20,1 |

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

2.3. Segment of other activities

The segment of other activities, mainly covering the sale of goods, recorded a decrease in revenues in 2020 by 13.3% compared to 2019.

2.4. Assortment structure of sales of the Capital Group with division into operating segments

Table 6. Assortment structure of sales of the individual operating segments

| Assortment | 2019 | | 2020 | |
|--------------------------------|--------------------------|--------------|------------------|--------------|
| | value (PLN thousands) | share (%) | (PLN thousands) | share (%) |
| Transformer steels and strips | 550 615 | 45,0 | 418 218 | 41,3 |
| Toroidal cores | 11 178 | 0,9 | 12 210 | 1,2 |
| Cold formed profiles | 505 907 | 41,3 | 437 439 | 43,2 |
| Road safety barriers | 114 400 | 9,3 | 99 737 | 9,8 |
| Steel service centre products* | 35 122 | 2,9 | 28 065 | 2,8 |
| Others | 6 952 | 0,6 | 7 145 | 1,7 |
| Total | 1 224 174 | 100,0 | 1 012 438 | 100,0 |

In 2020, the share of sales of transformer sheets in the sales structure decreased from 45.0% to 41.3%. At the same time, it should be noted that the share of sales of toroidal cores increased (from 0.9% to 1.2%), as well as share of cold-formed profiles (from 41.3% to 43.2%) and road barriers (from 9.3% to 9.8%). In case of other products, there were no significant changes compared to the year 2019.

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

| OPERATING SEGMENTS | | | |
|----------------------------------------|----------------|----------------|-----------------------|
| Steels Segment | 2019 | 2020 | Change (2020/2019) |
| Segment revenues <i>thousand x PLN</i> | 561 793 | 440 046 | -21,7 |
| Segment result <i>thousand x PLN</i> | 50 493 | 34 275 | -32,1 |
| Segment margin % | 9,0 | 7,8 | |
| | | | |
| Profiles Segment | | | |
| Segment revenues <i>thousand x PLN</i> | 655 435 | 565 248 | -13,8 |
| Segment result <i>thousand x PLN</i> | -12 699 | 13 048 | |
| Segment margin % | -1,9 | 2,3 | |
| | | | |
| Segment of other operations | | | |

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

| | | | | |
|------------------------------------|---------------------------|------------------|------------------|-------|
| Segment revenues | <i>thousand x PLN</i> | 291 353 | 248 202 | -14,8 |
| Segment result | <i>thousand x PLN</i> | 4 381 | 464 | -89,4 |
| Segment margin | % | 1,5 | 0,2 | |
| Operating segments in total | | | | |
| Segments' revenues | <i>thousand x PLN</i> | 1 508 581 | 1 253 496 | -16,9 |
| Segments' result | <i>thousand x PLN</i> | 42 175 | 47 787 | 13,3 |
| Segments' margin | % | 2,8 | 3,8 | |

The revenues of the Electrical Sheets Segment decreased by 21.7% compared to 2019, and the Segment's result decreased by 32.1%. As a result of the above changes, the margin of this Segment decreased from 9.0% to 7.8%. In the case of the Profiles Segment, the level of revenues decreased to a lesser extent (i.e. by 13.8%), while the Segment's result recorded a significant increase to PLN 13.0 million in 2020 (compared to the loss in 2019 at the level of PLN 12.7 million), with an increase of the margin to 2.3%. The segment of other activities recorded a decrease in revenues by 14.8%, while its the result decreased by almost 90%.

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 ArcelorMittal Group with a share of 44,8% remained the main supplier of charge material for Stalprodukt, with the value of supplies exceeding 10% of the individual sales revenues.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

3. Assessment of the economic and financial situation

| SELECTED FINANCIAL DATA | thousands of PLN | | thousands of EUR | |
|-----------------------------------------------------------------|------------------|-----------|------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| I. Net sales of products, goods and materials | 1 253 496 | 1 508 581 | 280 161 | 350 686 |
| II. Operating profit (loss) | 22 917 | -4 439 | 5 122 | -1 032 |
| III. Profit (loss) before taxation | 56 285 | 96 053 | 12 580 | 22 329 |
| IV. Net profit (loss) | 54 843 | 92 808 | 12 258 | 21 574 |
| V. Net cash flow from operating activities | 141 301 | 115 108 | 31 581 | 26 758 |
| VI. Net cash flow from investment activities | 26 146 | 79 386 | 5 844 | 18 454 |
| VII. Net cash flow from financial activities | -25 523 | -170 486 | -5 704 | -39 631 |
| VIII. Total net cash flow | 141 924 | 24 008 | 31 721 | 5 581 |
| IX. Total assets | 2 162 912 | 2 148 481 | 466 450 | 504 516 |
| X. Liabilities and provisions for liabilities | 408 563 | 469 336 | 88 532 | 110 212 |
| XI. Long-term liabilities | 86 597 | 107 126 | 18 765 | 25 156 |
| XII. Short-term liabilities | 217 850 | 251 909 | 47 206 | 59 154 |
| XIII. Shareholders' equity | 1 754 349 | 1 679 146 | 378 569 | 394 304 |
| XIV. Share capital | 11 161 | 11 161 | 2 419 | 2 621 |
| XV. Number of shares | 5 580 267 | 5 580 267 | 5 580 267 | 5 580 267 |
| XVI. Profit (loss) per ordinary share (PLN) | 9,83 | 16,63 | 2,20 | 3,87 |
| Diluted profit (loss) per ordinary share (PLN) | | | | |
| XVII. Book value per share (PLN) | 314,38 | 300,91 | 68,12 | 70,66 |
| Diluted book value per share (PLN) | | | | |
| XVIII. Declared or paid-out dividend for one share in (PLN/EUR) | | 5,00 | | 1,16 |

Basic economic and financial figures

In 2020, operating revenues (sales revenues, operating and financial revenues) reached PLN 1,328.7 million, which means a decrease by 19% compared to 2019. The Company generated operating profit of PLN 22.9 million. The net profit in 2020 was PLN 54.8 million, while EBITDA was PLN 75.7 million. In terms of value for all segments the Company recorded a decrease in sales by 16.9% with a simultaneous decrease in quantity for all segments by 13.0%.

In 2020, the sales profitability at individual levels was as follows (in %):

| Specification | 2019 | 2020 |
|------------------|------|------|
| Return on sales | -0,1 | 0,9 |
| Operating return | -0,3 | 1,8 |
| Gross return | 6,4 | 4,5 |
| Net return | 6,2 | 4,4 |

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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

| Specification | 2019 | 2020 |
|------------------|------|------|
| Return on assets | 4,3 | 2,5 |
| Return on equity | 5,5 | 3,1 |

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

| Specification | 2019 | 2020 |
|---------------------------|------|------|
| Acid test ratio | 2,5 | 3,2 |
| Increased liquidity ratio | 1,3 | 2,1 |

In 2020, cash flows from operating activities were positive and amounted to PLN 141.3 million. Cash flows from investing activities were positive and amounted to PLN 26.1 million. On the other hand, cash flows at the financial level were negative and amounted to PLN -25.5 million and were related to the repayment of loans. There was a slight increase in the Company's assets from PLN 2,148.5 million (2019) to PLN 2,162.9 million (2020), i.e. by 0.7%.

The net working capital increased from PLN 375.0 million (2019) to PLN 458 million (2020). The value of equity increased from PLN 1,679.1 million in 2019 to PLN 1,754.3 million at the end of 2020. Its value accounts for 81% of the balance sheet total.

Assessment of the obtained results and financial situation

In terms of the results obtained, 2020 was weaker for Stalprodukt than in the previous year, mainly due to a decrease in sales in terms of quantity and value. Nevertheless, it was possible to improve the profit on sales (profit of PLN 11.0 million compared to a loss of PLN 815 thousand in 2019) and operating activities (PLN 22.9 million with a loss of PLN 4.4 million in the previous year).

On the other hand, decreases were recorded in terms of gross profit on sales (by 2.4%) and net profit, which fell by almost 41% and amounted to PLN 54.8 million.

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

The company did not experience any payment gridlocks, consistently implementing the adopted policy in risk management. It is also not threatened with fluctuating exchange rates due to the mostly natural hedging of this risk.

In 2020, there were no significant changes in the shaping of assets and their financing sources. The balance sheet value of fixed assets decreased by 3%, while the value of current assets increased by 7%. In the group of current assets, inventories account for 37% (in 2019 - 48%), while receivables account for 32% (in 2019 - 40%). Short-term financial assets constitute 32% of current assets (in 2019 - 12%). In the structure of assets, the share of non-current assets was 69% (71% in the previous year), while the share of current assets was 31%. The Company's assets increased by PLN 4 million, ie

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

0.2%. The increase in assets was accompanied by an increase in equity by PLN 67.9 million and a decrease in liabilities and provisions for liabilities by PLN 60.8 million.

The structure of liabilities has changed slightly. Equity accounts for 81% of liabilities, and liabilities - 19% (in 2019 - 78% and 22% respectively). The book value per ordinary share increased - from PLN 300.91 to PLN 314.38.

Throughout the reporting period, the Company maintained very good financial liquidity, as evidenced by exemplary 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 and as at the balance sheet date it did not use the available overdraft facilities. In the opinion of the financing banks, the Stalprodukt Company has uninterrupted creditworthiness, and the results obtained and the transparent property and ownership situation allow it to obtain financing of the Company's activities in various forms.

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

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

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

- the coronavirus COVID-19 pandemic largely contributed to the decrease in the level of revenues from the sale of products, goods and materials achieved by the Company in 2020, which amounted to 17.0%. The decrease in sales of the Electrical Sheets Segment, which was lower by 21.7%, was the greatest contributor to this decrease, and to a lesser extent it was related to the Profiles Segment (a decrease by 13.8%). The Company's results were also negatively affected by the results of individual operating segments, including in particular the Electrical Sheets Segment, for which the decrease in the result compared to 2019 was 32.1%;
- It is worth emphasizing, however, that the cost of manufacturing the products sold decreased even more (i.e. by 18.1%) than the sales revenues, thanks to which the gross profit on sales was PLN 87,914 thousand. PLN was only slightly lower than in 2019 (PLN 90 113 thousand);
- significant impact on the net result achieved by the Company in 2020 in the amount of PLN 54 843 thousand PLN had financial income in the amount of 47 269 thousand. PLN, including mainly received dividends from subsidiaries in the amount of 37 057 thousand. PLN;
- The net result was also positively influenced by a decrease in general and administrative expenses (by 14.4%) and received subsidies for salaries from the Voivodeship Labor Office in the amount of PLN 8,939 thousand for counteracting the effects of the pandemic.

• General economic situation in Poland and the EU

The COVID-19 coronavirus pandemic and its effects were the factor that had the greatest impact on the

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

global economy last year, as it affected all regions of the world, including, of course, practically the entire European Union. Nevertheless, the impact of the pandemic on the level of GDP decline varied from country to country, sometimes even significantly. According to the forecasts of the European Commission of February 11, 2021, the EU economy shrank by as much as 6.3% in 2020 (the Euro area even to a slightly greater extent, i.e. by 6.8%). The Polish economy coped relatively well in this dramatic situation caused by the pandemic, as the domestic GDP decreased by approx. 2.8% compared to 2019, which was one of the better results compared to other EU countries (for comparison: GDP decline in Germany, i.e. the largest EU economy, amounted to 5%, in France - 8.3%, and in Italy - 8.8%).

The first wave of the pandemic and the restrictions imposed to combat the virus caused a significant decline in economic activity in Poland in the first half of 2020. While the first quarter of 2020 brought positive GDP growth (1.9%), in the second quarter, when the effects of the restrictions were fully visible, GDP contracted by as much as 8.4% y / y.

In Q3 there was a marked improvement in economic activity in Poland, although in annual terms GDP was still lower than a year earlier (by 1.5% y / y). Recovery in Q3 This was supported by the loosening of epidemic restrictions at home and abroad, the improvement in the sentiment of economic entities and support from the fiscal and monetary policy.

In Q4 2020, with the intensification of the pandemic (wave 2) and the tightening of restrictions, economic activity decreased again, although less than in Q2, which resulted in a decline in GDP in Q4 by 2.8% y / y.

- **Investment decline**

A stronger decline in 2020 was recorded in the case of gross fixed capital formation. The decline in the dynamics of investment outlays turned out to be exceptionally large compared to other macroeconomic figures. Thus, the rate of investment outlays in the economy, which was not high before the outbreak of the pandemic, decreased. The return to the positive growth rate of investments, expected from the second quarter of 2021, will not restore either the level of outlays or their share in GDP to the pre-crisis level. Throughout 2020, a decline in gross fixed capital formation by 8.4% was recorded, and in 2021 it should be expected to increase by 4.2% and by 4.8 % the following year

- **steel production level**

The coronavirus pandemic had a negative impact on all industries, including, of course, the steel industry, which had a direct impact on the level of steel production in individual regions of the world. According to data published by the World Steel Association, the **global production of crude steel in 2020 decreased to 1.86 billion tonnes, i.e. by 0.9%**, thus, slightly, as rising production in Iran, Turkey and China almost fully cover losses in most of the other major steel-producing countries.

Total crude steel production in Asia increased by 1.5% year-on-year (to 1.37 billion tonnes) in 2020, supported by an increase in China's steel production of 5.2% (to 1.05 billion tonnes). China's share of world crude steel production has risen again. This time from 53.3% in 2019 to 56.5% in 2020.

It is estimated that Russia increased its steel production by 2.6% in 2020, reaching approximately 73.4 million tonnes. Overall, steel production in the CIS countries increased during this period by 1.5%, i.e. to 102 million tonnes.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

The production of crude steel in the EU decreased by 11.8% year on year (to 138.8 million tonnes), including production in Germany dropped by 10% to 35.7 million tonnes, and in Poland it decreased by 11.9% to 7,8 million tonnes.

In North America, steel production decreased by 15.5% to 101.1 million tonnes, and in South America by 8.4% to 38.2 million tonnes. The United States produced 72.7 million tonnes (down 17.2%) and Brazil 31 million tonnes (down 4.9%).

- **demand for steel products in Europe**

The COVID-19 pandemic has lowered steel consumption forecasts and overall economic forecasts across the EU. The lockdown measures implemented by governments, which started in earnest in March 2020, had a heavy impact on manufacturing activities and steel-using industries.

The COVID-19 epidemic hit EU industrial sectors even harder at a time when they were already undergoing a major crisis and faced major challenges. During 2019, business conditions in the manufacturing industry worsened. This downward trend gained momentum in the second half of 2019, particularly in the automotive industry, while the construction sector was doing better than other major steel-using sectors.

This led to a marked slowdown in production growth in steel-using sectors. Total production in steel-using sectors fell by 24.4% in the second quarter in 2020. In the third quarter of 2020, production in steel-using sectors rebounded from the previous quarter - thanks to the resumption of industrial activity across the EU - but a decline nonetheless year on year (-6.4%).

- **apparent steel consumption**

Apparent steel use is also simply referred to as steel demand. This is the sum of deliveries of all steel products of EU producers plus imports less "receipts" to the EU, minus exports to third countries. The outbreak of the Covid-19 pandemic led to an almost complete halt in industrial activity from mid-March 2020 and took the biggest harvest at that time, but steel demand weakened earlier as a result of uncertainty in short-term business conditions, weak demand from manufacturing sectors and a reduction in inventories to record lows.

As a result of these negative pre-pandemic factors, apparent use in the EU decreased by 5.3% in 2019, compared to 2018, when the use increased by 2.6% year on year.

Throughout 2020, imports continued the trend of significant volatility (similar to 2019), with unusual monthly peaks. In August 2019, imports jumped to a record 4.4 million tonnes, after which significantly lower tonnages were imported into Europe in the following months to historically low levels, followed by more stable data and lower volatility until April 2020 (as reflected exceptionally weak demand). For some products, there was an increase in imports in July 2020 and then again from September to November it fell into a volatile trend.

Domestic deliveries of European steel suppliers fell (-8%) year-on-year in the third quarter of 2020, less than in the second quarter of the year (-28.1%). During 2019, deliveries decreased (-4.2%) compared to 2018, when they increased on an annual basis (+1.2%).

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

Apparent use is expected to decrease by 13% in 2020 (previously forecast to decrease by 14.6%) in 2020, then to recover and increase by 13.3% in 2021.

- **import of steel products to EU markets**

In the first eleven months of 2020, imports of finished steel products decreased by 17% year on year, including flat products by 16% and long products by 20%.

According to data from November 2020, the main countries of origin for imports of finished steel products to the EU market are Turkey, the Russian Federation, South Korea, India and Ukraine. These five countries represented 65% of total EU finished steel imports. During the eleven months of 2020, despite a consistent decline in imports in 2020, Turkey remained the largest exporter of finished steel products to the EU with a 19% share of total EU finished steel imports, followed by the Russian Federation with 15% share and South Korea with 14 percent share.

In the first eleven months of 2020, imports of finished products from Turkey decreased by 31%, including flat products by 24% and long products by 51%.

In the same period, imports from China decreased by 29%. In turn, imports from the Russian Federation increased by 5% (flat products increased by 9% and imports of long products decreased by 3%).

In the first eleven months of 2020, imports of flat products decreased by 16% and long products by 42%.

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

On December 15, 2017, an agreement was signed for the purchase of shares of GO Steel Frydek Mistek a.s. based in the Czech Republic, from ArcelorMittal S.A., based in Luxembourg. The final remuneration consisting of cash payment, conditional payment and the value assigned to the signed trade agreement was up to EUR 40 million. This agreement still has consequences for the Issuer's operations, as the obligations under the commercial agreement also extended to 2020, as the third year of its validity.

Another element of the purchase price is the component defined as "Earn-out", which means the seller's right to a 50% share in the result above assumed in the valuation of the EBITDA level for the purposes of the transaction in the period of 4 consecutive years (i.e. in the period 2018-2021), subject to provisions that the total payments in this respect may not exceed EUR 3.5 million. This amount is a contingent liability.

6. Organizational and capital links with other entities

Stalprodukt S.A., together with 9 subsidiaries, forms the Capital Group. Stalprodukt holds 100% of shares in subsidiaries, except for Zakłady Górniczo-Hutnicze "Bolesław" S.A., in which it holds 94.93% of shares.

Stalprodukt S.A., as the parent company in the group, sets the directions for the activities and development of subsidiaries established as part of the restructuring and taken over in order to expand production, trade and service activities.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

The main activities of the companies from the Capital Group are:

- production of electrical transformer sheets - parent company Stalprodukt S.A., GO Steel Frydek Mistek a.s. (since 01.01.2021 the company operates under the name GO Steel a.s.),
- production of cold-formed sections, protective road barriers as well as cut, cold- and hot-rolled sheets and strips - the parent company Stalprodukt S.A.,
- mining of non-ferrous metal ores and production of zinc and lead - ZGH "Bolesław" S.A. together with its subsidiaries:
 - Zinc Smelter "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 extraction and concentrate production,
 - Agency for the Protection of People and Property "Karo" Sp. z o. o - protection of property and people,
- commercial activities:
 - Stalprodukt-Centrostal Kraków Sp. z o.o.,
 - Stalprodukt-Zamość Sp. z o.o.
- other production and service activities:
 - production of lightning conductors, galvanized wires and steel tapes - Cynk-Mal S.A.,
 - production of cold-rolled sheets - GO Steel Frydek Mistek a.s.,
 - production and regeneration of spare parts - Stalprodukt-Wamech Sp. z o. o.,
 - installation, repairs and maintenance of machines - 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 highways - Stalprodukt-Wamech Sp. z o. o.,
 - protection of property and people - Stalprodukt Ochrona Sp. z o. o.,
 - designing of devices related to the use of renewable energy sources - AnewInstitute Sp. z o. o

Conclusion of the agreement of the company Hotel Ferreus Sp. z o. o (event after the balance sheet date)

In connection with the completion by Stalprodukt of the construction of the 5-star Ferreus Hotel in Krakow, on March 9, 2021, the agreement of Hotel Ferreus Sp. z o. o. The share capital of this company is PLN 500 thousand and is divided into 500 shares with a nominal value of PLN 1 thousand each, which were fully acquired by Stalprodukt S.A. as its sole shareholder. In the coming days, it is planned to submit an application to the National Court Register for company registration.

The company Hotel Ferreus Sp. z o. o. was established to conduct hotel activities on the basis of a lease agreement for the facility referred to hereinabove. Due to the coronavirus pandemic, Stalprodukt withheld the launch of the hotel for several months. The exact date of commencement of operations will depend on the current and anticipated epidemiological situation related to the development of the COVID-19 coronavirus.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

The facility has a permit for use granted by the County Construction Supervision Inspector - Grodzki County and a positive decision in the field of fire protection of the Municipal Commander of the State Fire Service in Krakow. In addition, preparations are underway to carry out the facility categorization process.

The hotel has a total of 71 accommodation units. The total planned expenditure on its construction based on the investor's cost estimates was determined at the level of PLN 66 million. The expenditure actually incurred amounted to PLN 58.9 million.

6.1 Changes in the size of owned shares in related companies.

In 2020, there were no changes in the amount of shares held in related entities.

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

Transactions with related entities in 2020 concern:

- sale of products and goods to companies from the Stalprodukt Capital Group,
- provision of services for Stalprodukt S.A. by subsidiaries.

These are typical and routine transactions, performed on a continuous basis, concluded on an arm's length basis within the capital group and resulting from current operating activities. There were no other significant transactions with related entities.

8. Information on credit and loan agreements concluded and terminated in 2020

In 2020, the Company extended the validity of the following loan agreements with annexes:

- A multi-purpose credit line agreement for an overdraft facility, guarantees and letters of credit with BNP Paribas S.A. with its registered office in Warsaw, with a limit of PLN 50,000 thousand. As part of the credit limit, a company from the Stalprodukt-Wamech Sp. z o. o. may use a sub-limit of PLN 2,000 thousand. PLN. The agreement is valid until November 24, 2021.
- Credit limit at Bank Handlowy w Warszawie S.A. for a revolving line for granting bank guarantees and opening letters of credit with a revolving limit of up to PLN 65,000 thousand. The line is for the amount of PLN 50,000 thousand for an overdraft facility and issuing guarantees and letters of credit with a term of up to 18 months and PLN 15,000 thousand for long-term guarantees up to 5 years. The agreement is valid until September 30, 2021.
- with Bank PKO BP S.A. with its registered office in Warsaw for a multi-purpose credit limit in the amount of PLN 150,000 thousand, intended for the use of an overdraft (up to PLN 90,000 thousand) and the opening of letters of credit and granting guarantees (up to PLN 40,000 thousand). As part of the credit limit, companies from the STP Elbud Sp. z o. o. and GO Steel Frydek Mistek a.s. may use sublimits in the amount of PLN 10,000 thousand each. The duration of the Agreement: 13.01. 2023

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

- with Bank Pekao S.. with its seat in Warsaw for a credit line up to the total amount of PLN 100,000 thousand, for the overdraft limit (up to PLN 72,000 thousand) and for issuing guarantees and opening letters of credit (up to PLN 10,000 thousand). As part of the credit limit, companies from the STP Elbud Sp. z o. o. and Cynk-Mal S.A. may use sublimits in the amount of respectively: PLN 13,000 thousand and PLN 15,000 thousand. The duration of the Agreement: 30.09.2021
- with Bank Societe Generale S.A. with its seat in Warsaw for a multi-purpose credit limit in the amount of PLN 15,000 thousand, allotted to using an overdraft facility, opening letters of credit and granting guarantees (up to PLN 5,000 thousand). The duration of the Agreement: 29.04.2021

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

- with Bank PKO BP S.A. with its seat in Warsaw for an investment loan in the amount of PLN 100,000 thousand, allotted to the refinancing of expenses related to the purchase of shares in GO Steel Frydek Mistek a.s. The loan granted for the period until June 30, 2023.

9. Information on loans, sureties and guarantees granted by the Company in 2020

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

- interest-bearing loan (WIBOR 1M + margin) in the amount of PLN 20,000 thousand granted on May 24, 2010 to Stalprodukt-Profil S.A. The outstanding amount is PLN 8,000 thousand in accordance with the annex to the loan agreement of December 29, 2020, is due for repayment on December 31, 2021;
- interest-bearing loan (WIBOR 1M + margin) in the amount of PLN 20,000 thousand granted on May 24, 2010 to StalNet Sp. z o.o. The outstanding amount is PLN 9,000,000, in accordance with the annex to the loan agreement of 30.12.2020, it is due for repayment on December 31, 2021;
- interest-bearing loan (WIBOR 1M + margin) in the amount of PLN 1,400 thousand granted on December 6, 2018 to a subsidiary Anew Institute Sp. z o.o. In accordance with the Annex to the loan agreement of October 21, 2020, it is due for repayment on June 30, 2021.

As at the balance sheet date, the Company does not have any contingent liabilities other than due to performance guarantees relating to the production and installation of road barriers. As at December 31, 2020, the total amount of unexpired guarantees in this respect is PLN 16,606 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 activities and research and development works

17.1 Investment activities

- **Investments in relation to the extending a product range**
 - a fitting machine was installed and launched on the production line no. 8 in the Segment of Bent Sections in the P4 Branch in Tarnów,
 - a band saw for the production of C-cores was purchased and launched,

- a contract was signed for the supply, assembly and commissioning of a device for cutting Sections into exact dimensions in the Segment of Bent Sections at the P4 Branch in Tarnów. Planned delivery and commissioning at the turn of the 1st and 2nd quarter of 2021.

- **Investments in the field of construction works**

The construction of a five-star hotel at Kopernika Street in Krakow has been completed and an occupancy permit has been obtained.

The facility is planned to be furnished and categorized by the end of the second quarter of 2021. The commencement of the hotel's operations will depend on the epidemiological restrictions in force.

- **Projects affecting the environment and health and safety**

- a design of three new settlement plots with infrastructure was made and a building permit was obtained, the investment is scheduled to start in 2022,
- an installation for the recovery of softened water in the Transformer Sheets Department was completed and launched,
- works in the Segment of Bent Sections (Department P2 and Department P4) have been completed to monitor the media and the "Start - Stop" system.

- **Other investment works**

- the investment task related to the monitoring of process data was continued,
- the 1st and 2nd stage of works related to the installation of the SSP Fire Alarm System for the facilities of Stalprodukt S.A. were completed,
- line safety systems compliance assessment is carried out successively in all departments and branches,
- a technical design for the modernization of further 6 kV switchgear bays was completed,
- the works were launched related to the implementation of product identification using barcodes in the Segment of Bent Sections (Department P2 and Branches P3 and P4).

17.2 Research and development works

On 21 November 2019 Stalprodukt, as the leader of the consortium (which includes the Academy of Mining and Metallurgy in Krakow as a research unit), signed an agreement with the National Centre of Research and Development, which purpose is to aid implemented by the Company R & D project entitled "Development of a non-destructive testing system carried out in a continuous manner together with the development of software controlling the operation of a linear welding machine based on the analysis of mechanical parameters of a linear welding". The project is implemented under the Intelligent Development Operational Programme The amount of financial support for expenses incurred by the Company is PLN 809 thousand, while the total value of the project is: PLN 4,071 thousand.

The aim of the project is to develop and implement a comprehensive non-destructive testing system into production technology, enabling adjustment of the parameters of the process of welding sections with

high-frequency currents to ensure high quality and strength of section welding without the need for random destructive tests.

In 2020, the implementation of this project began in accordance with the scope specified in the signed contract. In March 2020, Stalprodukt received the first tranche of funding, and in October another one. The total value of funds provided in 2020 by the NCBiR for the implementation of the project was PLN 1,084 thousand, of which PLN 491 thousand went for AGH.

As part of research and development, the next stage of modernization of the M-1 wind farm with a vertical axis of rotation of 200 kW was carried out (installation of 6 high-speed generators + modification of the control software).

After the completion of repair works on the 1.5 MW B-1 wind farm, the following works were performed:

- the generator bearing automatic lubrication systems was replaced;
- the power plant mechanisms were inspected;
- for the safety of the power plant operation, an overlay was made for the power plant control software, which enables remote supervision of the power plant from the service container;
- a cable connection of the power plant controller and the emergency stop with the container on the site was made.

On January 12, 2021, the power plant was put into operation and tests of its operation began, unfortunately it was stopped in an emergency. After analysis, it turned out that it is necessary to strengthen the upper compensator. The device is scheduled to be restarted in April-May 2021.

This project is co-financed by the National Centre 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, payroll and training

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

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 report, along with a description of the issuer's development prospects at least in the next financial year

For many years, Stalprodukt has been planning to strengthen its position on the transformer sheet market. This operating segment is of key importance in terms of its impact on Stalprodukt's individual results. A few years ago, the Issuer signalled the possibility of taking over one of the foreign producers of transformer sheets. Such a potential step was assumed in the directions of development of the Stalprodukt Capital Group for 2011-2015 announced by the Management Board of the Company in May 2011. This scenario of the strategy implementation became possible in 2017, when a 100% purchase agreement was

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

signed. shares of GO Steel Frydek Mistek as based in the Czech Republic, belonging to the ArcelorMittal concern. The transaction was successfully closed on February 28, 2018, and from March 1, 2018, the results of this entity are consolidated within the Stalprodukt Group. The consequence of this takeover is the increase in the production capacity of transformer sheets from 100 thousand. t / year up to 150 thousand. tonnes / year, as well as extending the Group's production offer with previously unproduced cold-rolled sheets. Actions were taken to use the synergy effects between Stalprodukt S.A. and GO Steel Frydek Mistek a.s. Among other things, the marketing and pricing policy within the Group, and the purchases of input materials for both companies are made jointly from the same supplier (using the economies of scale). Moreover, thanks to the transaction, Stalprodukt gained access to cold-rolled sheets, which are used for the production of cold-formed sections.

For several years, the company has also been implementing a project to launch the production of high-quality transformer sheets (so-called HiB). Thanks to regular trials and continuous improvement of the process, the Company systematically gains an increase in the share of products with the highest quality parameters. Due to the ever faster changes in market trends and the shift in demand in favor of high grades (HiB), the Management Board plans to make the most of its production capacity in this product area from 2022.

This issue is particularly important from the point of view of the EcoDesign Directive, and especially the entry into force in July 2021 of its 2nd stage (the so-called Tier 2), which will force an even wider use of transformer sheets in the highest grades.

Overview of strategic options

On October 9, 2020, the Supervisory Board approved the motion of the Stalprodukt Management Board regarding the initiation of the strategic options review process by the Company (confidential information provided in the form of a current report No. 20/2020 on the same day). The purpose of this review will be to select the most advantageous way to achieve the long-term goal of the Company, which is the development of the Stalprodukt Group leading to the maximization of value for the current and future shareholders of the Company.

Among the considered action scenarios, the following should be mentioned:

- sale of assets or individual operating segments of the Issuer (after prior separation to a separate entity);
- sale of other areas of activity carried out by the Group (individual entities or assets themselves);
- concluding a strategic alliance with a supplier of batch products (especially one that can provide high-quality charge for the production of transformer sheets, including HiB grade),
- establishing a joint-venture with a selected partner,
- maintaining the current scope of activity while implementing the necessary restructuring measures.

The Issuer's Management Board will also consider other strategic options that may arise during this process. So far, no binding decisions have been taken related to the selection of any of the potential strategic options. The Management Board of the Company does not prejudge whether any decisions in this

regard will be made in the future. The Issuer will inform publicly about further decisions in accordance with applicable law.

It should also be emphasized that such a review is particularly important in the context of the decision taken by the Management Board of ArcelorMittal Poland SA on October 8, 2020 to permanently close the raw material part of the Krakow steel plant. Despite the fact that the blast furnace and steelworks were suspended for many months and it did not disturb the functioning of the Issuer's "steel" segments, in the long term, this fact may have a negative impact on the functioning of the supply chain of batch products for the Company's production needs. This negative impact may appear in particular in the supply of hot-rolled products for the production of transformer sheets. Therefore, the Company welcomes the declaration of ArcelorMittal Poland on the development of production of these types of steel in the steel plant in Dąbrowa Górnicza.

20. Characteristics of external and internal factors significant for the development of the Issuer's enterprise and its Group

External factors significant for the Group's development

- **GDP level and economic situation**

The assessment of the first months of 2021, as well as the occurrence of the next (already third) wave of the COVID-19 coronavirus indicate that the global economy (including, of course, Poland) will remain heavily influenced by the pandemic for the next several (or even several) months. Subsequent drastic restrictions in the functioning of economic entities introduced by the Polish government will undoubtedly have a negative impact on the pace of economic development in 2021 and perhaps also in the following years. High hopes are attached to a mass vaccination program that can effectively reduce the number of new coronavirus cases and thus the extent of the pandemic.

According to the forecast of the European Commission, Poland should quickly recover from the collapse caused by the coronavirus and already in 2021 its economy should grow at a rate of 3.1%, which is a slightly lower rate than the average for the entire Union, which should amount to approx. 3, 7%. Some economists (e.g. Bank Pekao S.A.) predict, however, that Poland will recover from the recession caused by the coronavirus at an even faster pace, thanks to which the GDP growth in 2021 will reach up to 4.0%.

- **Inflation and exchange rates**

Experts of the NBP macroeconomic survey expect that in the years 2021-2022 the average annual inflation will be lower than in 2020 and will be close to the NBP's inflation target (2.5%). The central scenarios for these years are quite well outlined and amount to 2.5% and 2.6%, respectively. Typical scenarios of macroeconomic development considered by experts situate inflation in the range of 2.0% - 3.0% in 2021 and 1.9% -3.4% in 2022.

However, according to some analysts, the NBP pursues a policy of zloty depreciation to improve the competitive position of exporters, and the record-low nominal and negative real interest rates are aimed at increasing current consumption and reducing the debt burden on private entities and the public sector (inflation tax imposed on depositors and bondholders). The negative effects of this policy will be postponed (financing ineffective investment projects, deterioration of the banking sector's condition,

gradual loss of confidence in the financial sector or escape into risky assets). As a result of this policy, the NBP and the MPC may strive to increase inflation even above the inflation target in the coming quarters and to a relatively weak PLN compared to EUR and USD. The marked depreciation of the zloty, observed at the end of March 2021 and the increase in exchange rates to levels not recorded for many months or even years (EUR / PLN exchange rate at 4.65 and USD / PLN 3.90 PLN) make such a scenario very likely.

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

For 2021, the Eurofer Association assumes that if the pandemic unfolds around the third quarter of 2021, the entire year should bring a moderate recovery.

Forecasts for the demand for large welded tubes from the oil and gas sector remain very poor. Major regional projects that could benefit large EU pipe producers have been halted, and little progress has been made in the past few months in addressing the political and commercial issues hampering the completion of some specific pipeline projects. The recent collapse in global oil demand and oil prices, which are struggling to return to profitable levels, exacerbates this difficulty.

Eurofer forecasts that demand in other segments of the smaller diameter steel tube market will remain quite weak, even after a return to normal business conditions. However, even a small increase in demand is expected to have a positive impact on production from Q2 2021, provided the economic scenario does not deteriorate as a result of another external shock. It is also assumed that the demand from the construction sector should increase, while the demand for pipes from the automotive and engineering sectors will remain rather weak, even if these sectors return production activity to historically high levels. and disruptions in supply chains will be finally resolved. Import pressure on the EU steel tube markets will remain high, especially in the commodity segment.

According to Eurofer's preliminary forecast, the production of steel pipes will decline for the third year in a row in 2020, at a much faster pace than in 2019 and will amount to (-15.2%) compared to (-0.3%) in 2019. On the other hand, a recovery of 8.4% is projected for 2021, followed by an increase of 5.1% in 2022.

Forecast for sectors using steel for 2021-2022

The pandemic and related blockages have had a huge impact on the production of steel-using sectors, including plant closures. Other consequences include reduced efficiency (permanent or temporary) and massive disruptions in supply chains.

Despite the removal of the blocking measures and the resumption of industrial activity, uncertainty about the future remains high as the pandemic is not over and continues to have a direct impact on lowered confidence and growth prospects.

This was especially true during the next wave of the pandemic that hit Europe in the beginning of the fourth quarter of 2020, and after another new blockade (albeit with no impact on industrial activity).

These factors mean that economic growth and world trade will remain constrained and vulnerable to volatility until at least Q2 2021. This will have a direct impact on export-oriented sectors (in particular the

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

automotive industry). It will also affect EU investments through a seriously weakened level of business confidence. It is also hoped that the likely smaller negative growth in construction compared to other sectors could cushion negative trends in other sectors that use steel.

Total production of steel-using sectors will decline by (-11%) in 2020, to regain growth of (+ 7.4%) in 2021 and grow more moderately in 2022 (+ 4.1%).

The most important internal factors in the development of the Stalprodukt include:

- the need to achieve a significant increase in the production share of high grades of transformer sheets (HiB). Considering the market trends (including the entry into force of the 2nd stage of the EcoDesign Directive), it is a necessary condition for the improvement of the Company's competitive position;
- cost optimization and better use of the potential (including in particular production capacity) of the Sections Segment;
- further optimization of the functioning of the domestic distribution network after the organizational changes that took place in mid-2018 (taking over the off-site warehouses from Stalprodukt Centrostal Kraków and including them in the structure of Stalprodukt's marketing director);
- obtaining a high proportion of raw materials (zinc concentrates) from recycling;
- the need to optimize energy consumption and reduce its costs.

21. Description of significant risk factors and threats, specifying the extent to which the Issuer and its Group are exposed to

a) macroeconomic environment

The results of the Company's operations are strongly dependent on the general economic situation on the local market and in European Union countries, especially the development of sectors such as construction and industry.

Due to the 3rd wave of the coronavirus pandemic in Q1 f 2021 and the dynamic increase in the number of cases, the economic situation and the macroeconomic environment will continue to be largely influenced by this factor in 2021. Economic figures such as gross domestic product, unemployment, the level of demand and the size of investments will be particularly vulnerable to the negative impact of the pandemic.

While 2021 is projected to see a significant rebound in economic growth following last year's pandemic slump, the actual level of economic growth is difficult to predict.

More information on the impact of the COVID-19 corona virus epidemic on the Issuer's operations is provided in section 22.

b) dynamic increase in prices of input products

Launched in Q4 of 2020, a dynamic upward trend in the prices of charge materials (especially hot-rolled sheets in coils), caused mainly by the reduction of supply in the first half of the 2020, as a result of the economic downturn caused by the COVID-19 pandemic, it brought the prices of these products to record levels (the prices of hot-rolled sheets in northern Europe exceeded at the end of Q1. of 2021 the level of 850 EUR / tonne). Such a high level of prices of input products will significantly increase the production costs of products in both segments of the Company. At the same time, this creates a risk that such a high cost increase will not be fully translated into the prices of finished products.

c) the situation on the market for the supply of source materials and measures to protect the EU market

The measures introduced to protect the EU market against excessive steel imports in the form of quantitative quotas and duties imposed after exceeding the permissible import volumes, limit the access of EU processors to competitively priced input materials (mainly hot-rolled sheets, which are the basic material used in the production of cold-rolled sheets or products such as pipes and Sections). As a consequence, it leads to unfavourable price relations between the purchase costs of input materials and the prices of finished products. This causes a decline in margins and a deterioration in the profitability of many processing companies.

For several years, the company has been aware of these problems, especially in relation to the Sections Segment. A particularly difficult situation concerns the products of service centres, i.e. those with a relatively low degree of processing. It is very difficult to compete effectively in this market, especially with the local sheet metal producer (ArcelorMittal).

At the same time, there are still no effective measures to protect the market of finished products (especially pipes and Sections manufactured by the Company). The high level of quotas imposed as a result of a safeguard procedure conducted by the European Commission means that the 25% duty may only be a potential obstacle for importers from third countries.

d) the end of the protection period for the EU transformer sheets market

Measures to protect the EU market against excessive import of transformer sheets introduced by the European Commission in 2015 for a period of 5 years. Although their effectiveness was quite limited, it should be expected that their expiration will result in an even greater influx of material, especially from such directions as Russia or China, which are the world's largest sheet metal producers. Consequently, competition in this market will intensify. Therefore, the Company made an attempt to extend the protective measures applicable so far by submitting - together with another EU producer - an application for an expiry review procedure, i.e. a review of the expiry of the applicable market protection measures.

(e) further increases in production costs, especially electricity prices

Due to the nature of technological processes, Stalprodukt is an energy-consuming company. Rising electricity prices due to the outdated energy infrastructure in Poland, based mainly on coal-based

energy, will have a negative impact on the Company's profitability in the coming years. Additionally, the prices of CO₂ emission allowances have been rising in recent months, reaching In 2021, a record level of EUR 43 / tonne, which means an almost threefold increase in the last 12 months. This is an additional factor that has an adverse effect on the Company's future financial results.

f) the ever increasing costs of the EU's climate policy

EU and domestic steel producers are burdened with the costs of the climate policy, mainly due to the need for significant investments aimed at reducing CO₂ emissions (decarbonisation) and the growing prices of CO₂ emission allowances. With high energy consumption of processes in metallurgy, it causes a significant increase in the costs of steel production and a decrease in the competitiveness of EU producers, which often leads to the phenomenon referred to as "carbon leakage", i.e. relocation of production by companies to other countries with less stringent emission reduction regulations. It was this factor among others that decided to close the raw material part of the Krakow steelworks owned by ArcelorMittal Poland S.A. This policy indirectly puts in a privileged position for producers from outside the European Union who are not subject to the above-mentioned EU regulations. At the same time, it gives them a significant cost advantage, which they take advantage of by offering increasing amounts of steel products on the EU market at significantly lower prices. The solution proposed by industry experts would be the introduction of the so-called Carbon footprint tax for such suppliers, but the Commission's action in this regard is too slow and ineffective.

g) the risk of an industrial accident

Due to the specific nature of the business and the related threats, 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 shown by the *Analysis of the plant's notification*. Despite this, the Plant declares to maintain a safety management system in which there are: Breakdown Prevention Program and elements of the management system required by the Environmental Protection Law.

In addition, the Company has a document regulating the procedure in the event of a breakdown- "Instructions for counteracting serious industrial failures at Stalprodukt S.A. in Bochnia". The purpose of the instructions is to ensure the identification and prevention of potential hazardous events that may affect people and the natural environment, and to define emergency procedures that limit the effects of these potential events.

h) risks related to financial instruments

Other risks resulting from financial instruments, i.e. credit and contract risk, liquidity risk and market risk, are described in detail in the Additional and explanatory information to the financial statements (Item 7: Financial instruments and risk management assessment) .

22. The impact of the COVID-19 coronavirus on the Issuer's operating activities and financial situation

Information on the impact of the coronavirus pandemic on the activities of the Company's individual operating segments is presented below.

a) Sheet Segment

In the first quarter and the beginning of the second, the grain-oriented electrical sheet (GOES) market in Europe and North America did not initially experience the effects of the epidemic as severely as other industries.

In the early weeks of the pandemic, the sudden increase in demand for oriented sheets could even be felt in Europe. The effects of a sudden increase in demand resulted from the expected disruptions in supply chains operated by suppliers from outside Europe. The change in demand caused by the pandemic, however, had short-term effects, while none of the major European customers experienced any disruptions in the supply chain by suppliers from the Far East.

It was only at the end of the second quarter that the market began to feel the effects of the Covid-19 pandemic. A large number of energy projects in all regions of the world have been suspended and interest in Grain-Oriented Electrical Sheets (GOES) has dropped dramatically. Chinese producers also returned to the game, continuing production during the culmination of the epidemic in their country, and began aggressively offering stored quantities in the second quarter of the year. Prices began to fall significantly, and the June negotiations for delivery in the second half of the year were already taking place in an atmosphere of inevitable reductions.

Summing up, it should be stated that the portfolio of the Sheet Metal Segment customers has been created over the years in such a way as to eliminate all possible emerging market risks. Nevertheless, the pandemic related to the development of the COVID-19 coronavirus has had a negative impact on sales. The client portfolio, which in recent quarters was based almost 100 percent. on end users of Stalprodukt sheets in the form of transformer producer groups, transformer or core producers - effectively eliminating intermediate companies or typical commercial companies - did not provide the Company with complete control over the situation related to the development of the pandemic.

b) Sections Segment

The Sections segment was most affected by the situation related to the closing of the Polish economy and the economies of foreign target markets. The increased demand, felt in the first quarter of 2020, collapsed at the turn of April and May and was caused by the closing of production and plants being the segment's customers. In particular, areas related to the automotive, furniture and steel construction industries should be mentioned.

Due to the difficult market situation and the effects of the coronavirus pandemic, which affected practically all sectors of the economy, and thus a wide range of recipients of the Sections Segment products manufactured by the Group, sales of all product groups recorded significant drops in both volumes and the value of revenues.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

After the collapse of sales in this segment in the second quarter of 2020, caused by the closure of the Polish economy and foreign target markets, the situation in the third quarter clearly improved in this respect. The Segment's operation was suspended for 2 weeks in August, but it was a typical summer break that has been in operation at Stalprodukt S.A. for several years.

The impact of COVID-19 on sales in the last quarter of 2020 was lower than in the previous periods of the previous year. In this segment, the coronavirus pandemic had the greatest impact on the works related to the installation of road barriers. It mainly concerned companies of Stalprodukt subcontractors, in which the absenteeism of employees resulted in delays in the implementation of road contracts. These delays, however, did not have a significant impact on the assessment of the material, financial and personal capacity of the Issuer to fulfil its contractual obligations.

Analysing the epidemiological situation in the last quarter of 2020 and observed in Q1 of 2021, the third wave of the coronavirus pandemic, the peak of which is expected at the turn of March and April 2021, the Issuer forecasts an increase in absenteeism in this period at the level recorded in 4Q. of 2020

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

In 2020, there were no significant changes in the management principles of the company and its capital group.

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):

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

| | Basic salary | Performance bonus | Remuneration due to performing functions in the authorities of subordinated entities | Total |
|----------------|------------------|-------------------|--------------------------------------------------------------------------------------|------------------|
| Piotr Janeczek | 852 251 | 367 598 | 131 000 | 1 350 849 |
| Józef Ryszka | 871 838* | 69 580 | 25 845 | 967 263 |
| Łukasz Mentel | 445 557 | 183 799 | 114 988 | 744 344 |
| Total | 2 169 646 | 620 977 | 271 833 | 3 062 456 |

* including retirement severance pay of PLN 343,400

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

| | Allowance | Remuneration due to performing functions in the authorities of subordinated entities | Total |
|------------------------|----------------|--------------------------------------------------------------------------------------|----------------|
| Janusz Bodek* | 47 982 | 14 000 | 61 982 |
| Stanisław Kurnik | 33 745 | | 33 745 |
| Sanjay Samaddar | 0 | | 0 |
| Magdalena Janeczek | 84 710 | | 84 710 |
| Agata Sierpiska-Sawicz | 78 096 | | 78 096 |
| Romuald Talarek | 78 096 | | 78 096 |
| Total | 322 629 | 14 000 | 336 629 |

* Mr. Janusz Bodek served as the Chairman of the Supervisory Board until 15 June 2020

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:

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

| Full name | Current number of Stalprodukt S.A. shares (as of 31 December 2020) |
|------------------|-----------------------------------------------------------------------------|
| Piotr Janeczek | 115 053 |
| Józef Ryszka* | 504 |
| Łukasz Mentel | 100 |

* As at the date of submitting the resignation from the position of a Member of the Stalprodukt Management Board,
i.e. 29 April 2020

b) officers:

| Full name | Current number of Stalprodukt S.A. shares (as of 31 December 2020) |
|------------------|-----------------------------------------------------------------------------|
| Stanisław Kurnk | 2 900 |

* Mr. Stanisław Kurnik has been a member of the Stalprodukt Supervisory Board since 15 June 2020. The other members of the Supervisory Board did not hold any shares of Stalprodukt S.A.

In the period from the date of submission of the previous periodic report, there were no changes in the ownership of the Issuer's shares by management and supervisory personnel.

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

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.:

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt 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), 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.

On July 28, 2020, ZGH "Bolesław" S.A. filed a cassation appeal against the above judgement. However, on January 27, 2021 in the case of court reference number III CSK 191/20 the Supreme Court in Warsaw refused to accept it.

The above state means that ZGH "Bolesław" S.A. is not entitled to any further legal remedies to question the above-mentioned judgements. Therefore, it was finally and legally settled that ZGH "Bolesław" S.A. is liable for damages to Przedsiębiorstwo Wodociągów i Kanalizacji for the effects of water relations related to the future shutdown of the Olkusz-Pomorzany Mine drainage and the resulting cessation of water supply to its channels and for possible contamination of groundwater.

In this state, the case will be referred to the District Court in Krakow, which will decide on the amount of compensation to be due from ZGH "Bolesław" S.A.

Pursuant to the lawsuit, the Przedsiębiorstwo Wodociągów i Kanalizacji is claiming PLN 64,604,143.05. The company points out, however, that the aforementioned company incurred expenses for the construction of a new drinking water supply system worth approx. PLN 30 million gross, and the above system is now effectively supplying the Olkusz region with water. In this state, in the opinion of the Company, the existing water supply system constitutes an alternative solution to the existing water supply with the Company's mine water.

In the opinion of the Company, the amount of possible compensation calculated as the value of the constructed water supply system should be reduced by:

- value of VAT, as the injured enterprise is a VAT taxpayer;
- community funding for this system in the amount of approximately PLN 18 million;
- the value of expenditure on investments strictly related to water supply activities (e.g. water treatment).

In this state of affairs, it is currently impossible to precisely define the possible amount of the awarded damages. In the opinion of the Company, the value of the possible compensation should amount to no

more than about PLN 4-8 million. However, as a precaution, the ZGH "Bolesław" S.A. made a write-down for the above claim in the amount of PLN 15 million.

Moreover, it should be mentioned that the above-mentioned judgement is 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 (point 11. Settlement of the purchase price of ZGH "Bolesław" S.A.). Contingent liabilities have been defined as resulting from the risks identified by the acquiring entity related to, with the costs of decommissioning the "Olkusz-Pomorzany" mine and liability for mining damage. The total amount resulting from the above-mentioned estimates amounted to PLN 296 115 thousand. This amount was presented in the balance sheet as at December 31, 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 3 July 2020 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,

The company used the services of a selected auditing company to audit and review financial statements for the financial years 2018 and 2019.

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 20,000;
- for the review of the semi-annual consolidated statement – PLN 18,000.

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

- separate financial statement – PLN 50,000;
- consolidated financial statement – PLN 25,000.

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 2020 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:**

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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.

Pursuant to rule VI.Z.4. contained in the document "Code of Best Practice for WSE Listed Companies 2016", after being adopted by the Annual General Meeting (Resolution No. XXXIX / 11/2020 of 15 June 2020), the rule is fully applied by the Company.

In accordance with the Act of 16 October 2019 amending the Act on public offering and the conditions for introducing financial instruments to organized trading and on public companies and certain other acts (Journal of Laws of 2019, item 2217, as amended). The company has adopted the "Remuneration Policy for Members of the Management Board and Supervisory Board of Stalprodukt SA" (Resolution of the OGM No. XXXIX / 11/2020 of 15 June 2020),

On 9 October 2020, the Supervisory Board adopted a resolution on the introduction of new rules and criteria for remunerating Members of the Management Board of the Company in accordance with

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

the adopted "Remuneration Policy" - "Regulations for Benefits and Remuneration of the Management Board of Stalprodukt S.A.".

In accordance with the above-mentioned Act, the Supervisory Board will prepare a Report on the remuneration of Members of the Management Board and Supervisory Board for 2019-2020, which will later be submitted for review by a certified auditor. Then, the General Meeting will adopt a resolution on the Report. This report will be made available on the Company's website.

At the same time, the company will correct the EBI report with the recently submitted corporate governance statement, taking into account the above change.

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

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

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

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

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

The Supervision, 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 1,529,319 shares, accounting for a 27.41 %-share in capital and 4,375,691 votes, accounting for 35.87 % of the total number of votes at the General Meeting of Shareholders and through F&R Finanse sp. z o.o. 43,807 shares, accounting for 0.79 %-share in

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

capital and 43,807 votes, accounting for 0.36 % of the total number of votes at the General Meeting of Shareholders,

i.e. the total 1,573,126 shares, accounting for a 28.19 %-share in capital and 4,419,498 votes, accounting for 36.23 % of the total number of votes at the General Meeting of Shareholders,

- FCASE Sp. z o.o. Sp. k. holding 300,010 shares, accounting for 5.38 %-share in capital and 1,500,050 votes, accounting for 12.30 % of the total number of votes at the General Meeting of Shareholders,
- Stalprodukt Profil S.A. holding 579,652 shares, accounting for 10.39 %-share in capital and 1,095,488 votes, accounting for 8.98 % of the total number of votes at the General Meeting of Shareholders.
- ArcelorMittal Sourcing a société en commandite par actions holding 1,066,100 shares, accounting for a 19.10 %-share in capital and 1,066,100 votes, accounting for a 8.74 % of the total number 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

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

Management Board consists of two to four persons appointed for a three-year period by the Supervisory Board as follows: The President of the Management Board is appointed by the Supervisory Board from among candidates proposed by Members of the Supervisory Board, other members of the Management Board are appointed by the President of the Management Board. The Supervisory Board dismisses members of the Management Board – with the exception of the President of the Management Board.

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

The Management Board represents the Company outside in relation to the authorities, third parties, in court and outside the court. The President of the Management Board alone or two Members of the Management Board jointly or one Member of the Management Board with one of the persons having joint commercial representation

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

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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.*

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

6. *Each shareholder may submit draft resolutions during the general meeting concerning matters introduced to the agenda of the general meeting.*
7. *The requests for convening an extraordinary general meeting and requests of regulations nature may be adopted even if they have not been included in the agenda.*

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

1. *The General Meeting may adopt resolutions only in matters included in the agenda.*
2. *The Management Board of the Company adopts the agenda.*
3. *A shareholder or shareholders who represent at least one twentieth of the Company's share capital may request that specific matters are placed in the agenda of the General Meeting. The request should be submitted to the Management Board no later than twenty one days before the set date of the meeting. The request should contain the justification or draft resolution concerning the suggested item in the agenda. The request may be submitted in electronic form.*
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. *Review and approval of the Company's annual financial report, Management Board's annual report on the Company's activities, and also the Capital Group's consolidated financial report.*
3. *Adoption of the "Remuneration Policy for Members of the Management Board and Supervisory Board".*
4. *Giving opinions on remuneration reports for Members of the Management Board and Supervisory Board*
5. *Deciding on how to distribute profits or how to cover losses.*
6. *Granting a vote of approval to the Company's governing bodies.*
7. *Amendments to the Company's Articles of Association.*
8. *Increase or decrease of the Company's share capital.*
9. *Change in the Company's object of operations.*
10. *Company's merger or transformation.*
11. *Company's liquidation, selection of liquidators and division of Company's property after the liquidation.*
12. *Issuance of bonds.*
13. *Decisions regarding claims for compensation of the damage suffered at the time of Company's formation and in course of managerial and supervisory activities.*
14. *Deciding on the use of supplementary capital and raising and purpose of capital reserves.*
15. *Other competences described as exclusive powers of the General Meeting of Shareholders by virtue of the Code of Commercial Companies, except for the expression of consent to the purchase and disposal of immovable property, perpetual usufruct, or share in the immovable property, which were delegated to the competency of the Supervisory Board.*

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

- 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. I**

Management Board

The Management Board of the Company operates based on the provisions of the Commercial Companies Code, the Articles of Association and the Regulations of the Management Board approved by the Resolution of the Supervisory Board No. 12/XII/2020 of 9 October 2020. 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 2020, the Management Board of Stalprodukt S.A. worked in the following composition:

- from 1 January to 28 April 2020:

- 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.

- therefore, in the period from 29 April to 31 December 2020, the Management Board worked in the following composition:

- Mr Piotr Janeczek - President of the Management Board-Chief Executive Officer
- Mr Łukasz Mentel - Member of the Board - Chief Financial Officer

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 2020 included:

- from 1 January to 15 April 2020:

- 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

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

- from 15 April to 31 December 2020:

- Stanisław Kurnik - 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

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 (**§ 28 of the Articles of Association**):

1. *Election of the President and Members of the Management Board. Dismissal of the Members of the Management Board, except for the President of the Management Board.*
2. *Assessment of the financial report, Management Board's report on the Company's activities and Management Board's conclusions on profit distribution or covering of loss for the previous reporting year.*
3. *Reviews of periodic quarterly reports with the right of making remarks and requesting explanations from the Management Board, checking the books of accounts and Company's cash assets, at all times at their own discretion.*
4. *Reporting to the General Meeting of Shareholders on the fulfillment of duties in the fiscal year concerned.*
5. *Suspending the President and/or Members of the Management Board from duties for important reasons.*
6. *Delegating its Members to temporary performance of the activities of the Management Board Members who cannot perform their activities.*
7. *Approving of the Management Board Rules and Company's enterprise organizational rules.*
8. *Expressing consent to the acquisition by the Company of stocks or shares in another company and to transfer the same.*
9. *Expressing consent to the Company's making in-kind contribution to another company.*
10. *Expressing the consent to the conclusion by the Company of a long-term agreement obligating the Company to a payment exceeding the value of 10% of the equity.*
11. *Expressing the consent to the disposal of the Company's fixed assets, whose value exceeds 1% of the equity and donation exceeding the amount of PLN 50,000.*
12. *Adopting by resolution Company's business plans upon the Management Board's motion.*
13. *Selection of the certified auditor to carry out the audit of the Company's financial report.*
14. *Adopting "The rules of benefits and remuneration of the Management Board", in accordance with the "Remuneration Policy for Members of the Management Board and Supervisory Board" approved by the General Meeting, containing detailed remuneration principles and criteria.*
15. *Submitting to the General Meeting an annual report on the remuneration of members of the Management Board and the Supervisory Board starting from the year after the adoption of the "Remuneration policy for members of the Management Board and the Supervisory Board.*
16. *Appointment of the Audit Committee (if such an obligation results from the generally applicable provisions of law). In such a case, the Supervisory Board adopts the regulations of the Audit Committee, in which it specifies the detailed principles of its functioning.*

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

17. *Expressing consent to the acquisition and transfer of real estate, perpetual usufruct or share in the real estate.*
18. *Developing a procedure for periodical assessment of significant transactions with related entities within the meaning of the Act of 16 October 2019 amending the Act on public offerings and conditions governing the introduction of financial instruments to organized trading, and on public companies and certain other acts (Journal of Laws of 2019, item 2217).*
19. *Assessing and approving the conclusion of significant transactions with related entities referred to in paragraph 18 above.*
20. *Submission of periodic reports on the assessment of significant transactions of the Company, referred to in para. 18 above.*

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

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

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

-people who meet the statutory independence criteria

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

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

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

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

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

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

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

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

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

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

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

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

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

- in accordance with the regulations applicable to the Company, the entity authorised to conduct the audit is selected by the Supervisory Board, acting on the recommendation of the Audit Committee;
- it is forbidden to introduce any contractual clauses that would require the Supervisory Board to choose an entity authorised to carry out analysis from among a specified category or list of entities authorised to carry out analysis;
- The Supervisory Board when making the final selection, and the Audit Committee at the stage of preparing recommendations, is guided by the following guidelines regarding the entity authorised to carry out the analysis:
 - price proposed by the entity authorised to carry out the analysis;
 - ability to provide a full range of services specified by Stalprodukt S.A. (analysis of unit statements, analysis of consolidated statements, inspections, etc.);
 - previous experience of the entity in the analysis of statements of units with a business profile similar to the Stalprodukt S.A. Group;
 - entity's previous experience in examining the statements of public interest units;
 - professional qualifications and experience of persons directly involved in the conducted analysis;
 - availability of qualified experts in the field of specific issues in financial statements, such as the valuation of actuarial provisions, valuation of derivative instruments, analysis of tax issues,
 - ensuring that the analysis is conducted in accordance with the International Standards on Auditing and Assurance Services and compliance with the International Standard on Quality Control 1;
 - 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 2020, the Audit Committee held four 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**

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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 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 report on the activities of the Stalprodukt Capital Group).

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

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

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

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

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

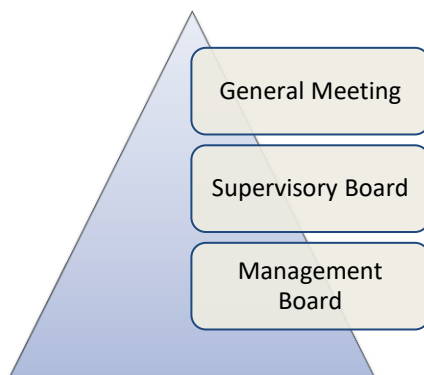
Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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. 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:



Until 28/04/2020, the Management Board of the Company consisted of 3 people. In connection with reaching the retirement age and acquiring the right to retire, one of the members of the Management Board resigned. Therefore, the Management Board of the Company currently consists of 2 people.

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 2019-2020, the above-mentioned indicators for the parent company and for the entire Capital Group were as follows:

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

| Indicator | Capital Group | |
|------------------------------------------------------------|---------------|-------|
| | 2020 | 2019 |
| Revenue per employee (thousand x PLN) | 894,1 | 992,5 |
| Energy consumption per unit of revenue (GJ/PLN 1 thousand) | 1,15 | 1,10 |

In 2020, the revenue per 1 employee decreased from PLN 992.5 thousand to PLN 894.1 thou., i.e. by 9.9%, while the energy consumption per unit of revenue increased - from 1.10 GJ / PLN thous. to 1.15 GJ / PLN 1 thousand in revenue.

1.4. Social and environmental risk management

- Stalprodukt S.A.

Stalprodukt S.A., due to the specific nature of its operations and the related threats, is exposed to the occurrence of events that may affect the safety of people and the environment. All social and environmental aspects related to the conducted activity have been identified.

The plant is currently not classified as high risk of industrial breakdown, nor is it included in the category of increased risk of industrial breakdown. Despite this, the Department declares to maintain a safety management system in which the following operate: Breakdown Prevention Program and elements of the management system required by the Environmental Protection Law. On the premises of the Plant, exercises are carried out to check the means, equipment and personnel to eliminate the effects and combat potential environmental threats.

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

All Stalprodukt S.A. Capital Group companies are required to observe the "Code of Ethics", which is complemented by the "**Anti-corruption and Whistle-blower Protection Policy**". These documents contain a set of standards, rules and guidelines which determine the ethical conduct in the course of conducting business by the companies of the Capital Group. The values and regulations included in these documents apply to all employees as well as other persons working at or on behalf of particular companies.

The regulations contained in the above documents simultaneously meet the requirements and recommendations regarding the scope of non-financial reporting, principles resulting

from the document "Good practices in public companies 2016", as well as guidelines on corruption policy and whistle-blower protection included in the document "Recommended standards for compliance management system in the field of counteracting corruption and protection system for whistle-blowers in companies listed on the markets organized by the Warsaw Stock Exchange S.A.", developed from the initiative of the Compliance Committee of the WSE.

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

2. The environmental area

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 Integrated Management System at Stalprodukt S.A. leads to the improvement of the system, production and management processes as well as the 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, expectations and satisfaction with cooperation with our company,
- continuous modernization of processes by undertaking organizational and investment projects aimed at reducing costs while maintaining high quality of products,
- acting in accordance with legal and other regulations relating to our business,
- constant improvement of the level of qualifications, knowledge and awareness of the company's staff, as well as subcontractors,
- continuous improvement of the working environment so that it is perceived by the company's staff as friendly and enabling the optimal implementation of the IMS Policy,
- development of internal IT systems conditioning the proper flow of information,
- analysis of non-conformities, determining their causes and introducing appropriate actions,
- application of technologies compliant with the best available techniques (BAT),
- limiting the consumption of raw materials, materials and energy,
- reducing the emission of pollutants into the environment,
- minimizing the amount of generated waste and proper handling of it,
- preventing the occurrence of environmental threats in emergency situations,
- maintenance and continuous improvement of the Integrated Management System compliant with ISO 9001 and ISO 14001.

Information on environmental activities is disseminated to company employees, people working for or on behalf of the company, our suppliers and recipients, and shared with other interested parties.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

The management of the company undertakes to provide the resources necessary to achieve the objectives of the IMS Policy and to undertake actions that guarantee the fulfilment of the requirements of the Integrated Management System functioning in the company and its continuous improvement.

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 2020:

- Integrated permit for a landfill in Borek,
- Permit required by Water Law Act for special use of water through drainage of treated rainwater and snow water, drainage water from the plant site and post-cooling water to the surface water - the Raba river,
- Permit required by Water Law Act for special use of water through surface water intake,
- Permit for generating waste in the Dept P3,
- Integrated permit for the installation of the Transformer Steels Department,
- Permit for generating waste in the Dept P4,
- Permit for waste processing in the recovery process,
- An integrated permit for running the installation for treatment of industrial waste water,
- Authorisation for emission of greenhouse gases from the boiler room of the plant,
- Permit for discharging gases and dust into the air from the installation of the Dept P2 and the boiler room of the plant,
- Permit for generating waste for the Dept P2 and for the installation for processing waste emulsions,
- Permit for emission of greenhouse gases from the installation of the Transformer Steels Department,
- Permit required by Water Law Act for Dept P4,
- Permit required by Water Law Act for the landfill in Borek,
- Approval for instructions for running the Stalprodukt S.A. landfill in Borek
- monitoring methodology plan for the installations of the Transformer Sheets Department;
- monitoring methodology plan for the plant's boiler room installation.

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.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

In 2020, the following administrative decisions regarding the use of the environment were obtained:

- Decision - monitoring methodology plan for the installations of the Transformer Sheets Department;
- Decision – monitoring methodology plan for the plant's boiler room installation.

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 | |
|---------------------|----------------------------------------------------------------------------------------|---------------|-------------|-------|
| | | | 2020 | 2019 |
| Stalprodukt S.A. | Hot rolled steel | thousand x Mg | 265,1 | 294,9 |
| | Cold rolled steel | thousand x Mg | 17,7 | 19,3 |
| | Galvanized steel | thousand x Mg | 2,7 | 4,8 |
| | <i>The cost of used materials in relation to net revenue from the sale of products</i> | % | 67,5 | 68,5 |

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 | |
|---------------------|---------------------------------|------|-------------|---------|
| | | | 2020 | 2019 |
| Stalprodukt S.A. | Electricity | GJ | 575 223 | 657 575 |
| | Natural gas, propane and butane | GJ | 574 965 | 640 271 |
| | Bituminous coal | GJ | 283 685 | 361 914 |
| | Fuels | GJ | 3 676 | 4 400 |
| | Heating oil | GJ | 2 245 | 1 849 |

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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

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

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

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 | |
|---------------------|--------------------------------------------------|----------------|-------------|---------|
| | | | 2020 | 2019 |
| Stalprodukt S.A. | Water supply network | m ³ | 31 000 | 33 116 |
| | Surface water intake | m ³ | 685 760 | 737 120 |
| | Water consumption for social and living purposes | % | 4,3 | 4,3 |
| | Processing water consumption | % | 95,7 | 95,7 |

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 | 2020 | 2019 |
|-------------------------------------|----------------|---------|---------|
| Water collected from the Raba river | m ³ | 685 760 | 737 120 |
| Reused water | m ³ | 251 383 | 267 124 |
| % of water reuse | % | 37 | 36 |

The highest demand for water is reported by the Electrical Sheets Segment.

2.4. Biodiversity protection

Stalprodukt S.A. does not carry out any production activities within the range of direct impact on the areas of national parks, resort areas and Natura 2000 areas. Cyclical monitoring of the environment is carried out through water and wastewater tests as well as emission and noise measurements, as well as monitoring of the waste landfill, in accordance with the permits held.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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 | |
|---------------------|--------------------------------------------------|------|-----------|--------|
| | | | 2020 | 2019 |
| Stalprodukt S.A. | CO ₂ | Mg | 57 346 | 67 864 |
| | CO | Mg | 102 | 127 |
| | Dusts | Mg | 2,7 | 3,2 |
| | SO ₂ | Mg | 83 | 104 |
| | NO _x | Mg | 43 | 57 |
| | Aromatic hydrocarbons and aliphatic hydrocarbons | Mg | 0,86 | 0,88 |
| | Hydrofluorocarbons | Mg | 0,034 | 0,055 |
| | Sulphuric acid | Mg | 0,2 | 0,2 |

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

- decarburization annealing furnaces, dryers, stress relief annealing furnaces and a normalizing annealing furnace,
- blasting processes,
- sulphuric acid digestion processes,
- cold rolling of steels processes,
- hydrogen production,
- installations for the production of cold-formed steel sections and sheet metal.

Additional sources of emissions in the Company are also:

- coal-fired boiler house and gas boiler house in Bochnia
- gas and oil heating appliances - for heating halls and buildings and for social purposes.

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.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

2.6 Waste management

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

| Organisational unit | Waste type | Unit | Amount | |
|---------------------|--------------------------------------|-----------|---------------|---------------|
| | | | 2020 | 2019 |
| Stalprodukt S.A. | Hazardous waste | Mg | 1 849 | 1 876 |
| | Waste other than hazardous | Mg | 30 326 | 34 293 |
| | <i>Total waste</i> | <i>Mg</i> | <i>32 175</i> | <i>36 169</i> |
| | Stored waste | Mg | 721 | 708 |
| | Waste recovered | Mg | 1 362 | 1 214 |
| | Waste sent to recovery organisations | Mg | 30 092 | 34 247 |

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. The landfill site and the installation for the processing of waste rolling mill emulsions were equipped with video monitoring.

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 | |
|---------------------|---------------------------------------|----------------------------|--------|-------|
| | | | 2020 | 2019 |
| Stalprodukt S.A. | Total amount of water and waste water | thousand of m ³ | 1 377 | 1 502 |
| | Discharged | thousand of m ³ | 394 | 453 |
| | Treated | thousand of m ³ | 983 | 1 049 |

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

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

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

2.7 Other environmental aspects

In order to ensure proper emergency response procedures and to prevent or limit the negative impact of emergency situations on the environment, materials, processes and activities that may cause such situations, rules of conduct in the event of such situations, forces and measures available, as well as organisational rules applicable to dealing with the consequences of failures have been defined. Additionally, actions to be undertaken in order to prevent the occurrence of failures have been defined.

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.

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

2.8 Enhanced environmental responsibility

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.

Applied Integrated Management System compliant with international standard ISO 9001 and 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. This 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,

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

The effects of the actions are evaluated. The Integrated Management System Policy is implemented taking into account local conditions, aims at continuous improvement of environmental protection and is accepted by the highest management of the Company. The Integrated Management System 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 the Integrated Management System Policy. The aim of the review is to assess the usefulness, adequacy and effectiveness of the functioning Integrated Management System Policy, 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 Integrated Management System Policy, 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 Integrated Management System Policy with specific requirements,
- continuous improvement of Integrated Management System Policy.

In the documents of Integrated Management System Policy 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 Integrated Management System Policy 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 Integrated Management System Policy and reduces the probability of problems in the future. Strategic actions for continuous improvement are undertaken during the review of the top management of Stalprodukt S.A.

3. Social and employee area

3.1. Using public aid and public sector contracts

In 2020, Stalprodukt S.A., at the time of preparing this statement, used public aid in the amount of PLN 988,079.97 (according to the nominal value). This was operating aid for the promotion of energy from

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

renewable sources and for high-efficiency cogeneration, while in 2018, in connection with the relief obtained from renewable energy certificates of origin OZE (which was actually recognized in September 2019 for 2018), the company received funding in the amount of 1 PLN 373,079 (at nominal value).

3.2. Level of employment and level of remuneration

The employment structure by positions

| | | year 2020 | | | | | | year 2019 | | | | | |
|------------------|------------------|-----------|------|-----------------------------|--------------------------------|-----------------------------------|---------------------|-----------|------|-----------------------------|--------------------------------|-----------------------------------|---------------------|
| | Type of position | women | men | Contract for a trial period | Contract for a definite period | Contract for an indefinite period | Civil-law contracts | women | men | Contract for a trial period | Contract for a definite period | Contract for an indefinite period | Civil law contracts |
| Stalprodukt S.A. | Management staff | 3 | 44 | | 0 | 47 | | 3 | 51 | 0 | 1 | 53 | |
| | White-collar | 60 | 170 | | 8 | 222 | 1 | 67 | 180 | 0 | 15 | 232 | |
| | Blue-collar | 29 | 1096 | | 10 | 1115 | | 34 | 1185 | 0 | 92 | 1127 | |
| | total | 92 | 1310 | 0 | 18 | 1384 | 1 | 104 | 1416 | 0 | 108 | 1412 | 5 |

Employment structure by gender

| | | 2020 | | | | 2019 | | | |
|------------------|---------------------|-----------------------------|--------------------------------|-----------------------------------|---------------------|-----------------------------|--------------------------------|-----------------------------------|---------------------|
| | Employees by gender | Contract for a trial period | Contract for a definite period | Contract for an indefinite period | Civil-law contracts | Contract for a trial period | Contract for a definite period | Contract for an indefinite period | Civil-law contracts |
| Stalprodukt S.A. | women | 0 | 5 | 87 | 0 | 0 | 13 | 91 | 2 |
| | men | 0 | 13 | 1297 | 1 | 0 | 95 | 1321 | 3 |
| | total | 0 | 18 | 1384 | 1 | 0 | 108 | 1412 | 5 |

In the employment structure at Stalprodukt S.A. the majority of employees are men, ie over 93% of the employed. They are mainly employed in blue-collar positions. Such specificity of the employment structure is related to and results from the nature of the conducted activity.

The most popular form of employment has been a contract for an indefinite period for years. Their share for all contracts in Stalprodukt S.A. is 99%.

There is a visible decrease in employment by 8% compared to the previous year, which is mainly due to the reduction of fixed-term contracts.

Employment structure by age

| | | 2020 | | | | 2019 | | | |
|-------------------|-----------------|-------|-----|-----------------------|------------------------|-------|-----|-----------------------|------------------------|
| | Division by age | women | men | Blue-collar positions | White-collar positions | women | men | Blue-collar positions | White-collar positions |
| Stal produkt S.A. | up to 30 years | 8 | 152 | 144 | 16 | 9 | 170 | 164 | 15 |
| | 31-50 years | 54 | 774 | 649 | 179 | 52 | 810 | 684 | 178 |
| | >51 years | 30 | 384 | 332 | 82 | 43 | 436 | 371 | 108 |

In the employment structure by age, the highest number of employees is in the 31-50 age group (similar to last year).

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

Newly employed employees by age and gender

| | Division by age | 2020 | | | 2019 | | |
|------------------|-----------------|-------|-----|-------|-------|-----|-------|
| | | women | men | total | women | men | total |
| Stalprodukt S.A. | up to 30 years | | | | 1 | 1 | 2 |
| | 31-50 years | 2 | 0 | 2 | 1 | 1 | 2 |
| | >51 years | | | | 0 | 0 | 0 |

Dismissed employees by age and gender

| | Division by age | 2020 | | | 2019 | | |
|------------------|-----------------|-------|-----|-------|-------|-----|-------|
| | | women | men | total | women | men | total |
| Stalprodukt S.A. | up to 30 years | 1 | 18 | 19 | 0 | 33 | 33 |
| | 31-50 years | 0 | 37 | 37 | 2 | 29 | 31 |
| | >51 years | 12 | 53 | 65 | 10 | 32 | 42 |

Employment of people with disabilities

| | 2020 | | 2019 | |
|------------------|------------------------------------|----------------------|------------------------------------|----------------------|
| | Number of people with disabilities | Employment share [%] | Number of people with disabilities | Employment share [%] |
| Stalprodukt S.A. | 4 | 0,29 | 4 | 0,26 |

Average remuneration (PLN)

| | 2020 | | 2019 | |
|------------------|-------------------------------------------|-------|-------------------------------------------|-------|
| | Average remuneration regardless of gender | 5 216 | Average remuneration regardless of gender | 5 575 |
| Stalprodukt S.A. | | | | |

In Stalprodukt, the average annual salary decreased by approximately 6% compared to 2019. It was caused by the decision to reduce the full-time job to 0.8 for a period of 3 months. The above decision was related to the outbreak of the Covid-19 pandemic.

Contribution to PFRON (in PLN thousand)

| | 2020 | 2019 |
|------------------|-------|-------|
| Stalprodukt S.A. | 1 725 | 1 881 |

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. s and MOZ NSZZ "Solidarność". In 2020, the ratio of employees belonging to trade unions was about 17%, and in 2019 it was about 18%.

In the Company, no collective dispute was initiated in 2020.

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

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,

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

- 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 2019-2020. 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).

| Specification | 2020 | 2019 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| Total number of accidents at work | 9 | 16 |
| Accident frequency indicator (number of accidents/number of people employed x 1000) | 6,43 | 10,54 |
| Number of heavy accidents | 0 | 0 |
| Number of fatalities | 0 | 0 |
| Total number of days of inability to work among employees due to accidents | 597 | 908 |
| Accident severity indicator (number of days of inability/1 accident) | 66,33 | 56,75 |
| 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) | 196 | 256 |
| 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 |

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. 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

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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.

For the sake of satisfaction with the work performed, the Company invests in the professional development of employees and a good atmosphere at work. It creates friendly conditions that make it easier for its employees to acquire knowledge, improve qualifications and use various forms of education. Constant replenishment of knowledge and skills as well as improvement of qualifications is consistent with the company's strategy. The acquired qualifications are used by employees in the position held or will be used in the future. Facilitating the improvement of qualifications creates a positive assessment in the Company towards the studying employees. Continuous improvement of professional qualifications becomes a necessity. The need for continuous learning is related to technological and organizational changes and in order to ensure a sufficiently high level of security, therefore knowledge must be constantly supplemented and updated.

Stalprodukt S.A. helps in the professional development of its employees in various ways. For example, with employees who, on their own initiative, undertake postgraduate studies or training at specialized courses, in accordance with the scope of their professional activities, contracts are concluded to improve qualifications, granting co-financing up to 50% of the price or studies. The company also undertakes to grant training leave and to reimburse the costs of the delegation if the training or studies take place in another city.

Training in Stalprodukt is conducted on the basis of an annual training plan. The training plan covers all organisational units of the Company. Due to the situation as it happened at the beginning of 2020 and still ongoing, i.e. the epidemic in the country, the Company has not implemented the assumed training plan, only training courses were conducted that resulted from the urgent needs of the Company. Training companies gave up the traditional form of training and offered on-line training. In 2020, 32 training courses were conducted in which employees of various professional levels participated.

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

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

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

| | 2020 | 2019 |
|---------------------------|-------------|-------------|
| Number of persons trained | 219 | 802 |

3.6 Managing diversity

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

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

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

In the company Stalprodukt S.A. the Anti-mobbing Policy applies. In 2020, no mobbing occurred in the Company.

3.7 Human rights

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

The Company 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

Stalprodukt S.A. does not employ children and does not use forced or compulsory labor.

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.

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

Stalprodukt S.A. is one of the largest companies operating in Małopolska region and a large employer, employing at the end of 2020 1400 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 2020 include:

- donation to Caritas organization at the parish of St. Nicholas in Bochnia, intended for hot meals for people in need of help, including the homeless,
- donations for the Polish Association of the Blind, District Circle in Bochnia,
- sponsorship of the annual "Days of Bochnia",
- support for charity runs organized by the Auxilium Foundation in Bochnia, which helps people with disabilities,
- support for the Occupational Therapy Workshop in Proszówki (charity campaign "Christmas card).

The total amount of expenditure related to the area of corporate social responsibility in 2020 amounted to PLN 148 thousand.

The Management Board of Stalprodukt also understands corporate social responsibility as caring for one's own employees, their families, timely payment of all contributions, including social and health insurance, as well as timely payment of all due taxes in the place where most of the employees work and live.

The efforts of the Stalprodukt management to satisfy the needs and expectations of the local community have already been appreciated by the city authorities several times. In 2008 Stalprodukt was the first to receive the title of **"Bochniae Bene Meritus". (Well-accomplished for Bochnia)**. According to the intention of the city authorities, this award is to be granted to institutions and companies whose activities positively influence the local labour market and the economic condition of the city.

And in 2016 (on the occasion of the 763 anniversary of the location of Bochnia), President of the Management Board of Stalprodukt S.A. Mr. Piotr Janeczek received the statuette Boleslaus Dux Founder - Bolesław Prince Founder. It is awarded by the Mayor of Bochnia to people who in their activities and life attitude show constant care for the good name and existence of Bochnia (a distinction awarded for the second time since its establishment).

To sum up, it should be emphasized that the activities of Stalprodukt S.A. in the CSR area are aimed at achieving the following objectives: maintaining a positive image of the Company, gaining social acceptance and support for the activities undertaken by the Company and its management, strengthening the Company's image as a significant and reliable employer on the local labour market, a company important for local authorities, environmentally friendly, meeting the quality standards, environmental protection, taking care of the safety of employees and observing the principles of corporate governance.

3.10 Counteracting corruption

To ensure the highest standards of transparency and economic openness, the Anti-Corruption and Signal Protection Policy was adopted in 2018. This document contains the objective and assumptions of the introduced anti-corruption policy and detailed rules concerning, inter alia:

- prohibit the creation of mechanisms to finance property and personal benefits, including the use of company assets,
- anti-corruption clauses used in contracts,
- giving and receiving gifts,
- sponsorship and donation,
- the activities of Corporate Signals (including reporting rules, ensuring the protection of submitters).

The Anti-Corruption and Signal Protection Policy was adopted at the level of the parent company, and the remaining companies of the Capital Group were obliged to implement it.

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

Financial statement of the Stalprodukt S.A. for the financial year 2020
Statement of the Management Board on the activities of the Stalprodukt S.A.

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 2020, the synthetic index was 88.8 points and was one point lower than in the previous year. This is a high level, the index was set at 85 points in the plan of quality objectives.

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: all time-related attributes and price. Continuous improvement is necessary in areas where the implementation differs from the importance and / or evaluation of the competition.

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

In 2020, 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 have in place the legally required policies and procedures related to the protection of personal data resulting from the Regulation on the protection of personal data.

In 2020, there were no events related to the leakage of personal data or unauthorised use of employee or customer data.

3.14 Product labelling

Proper labelling of products is one of the most important issues in customer relations. All products manufactured by Stalprodukt S.A. are appropriately marked (label or tag with appropriate scope of information depending on the product and agreed requirements with the customer). In addition, each product is labelled in accordance with applicable internal instructions and procedures.

Bochnia, 14 May 2021

Łukasz Mentel
Member of the Board
Financial Director

Piotr Janeczek
Chairman of the Board
Chief Executive Officer