



Stalprodukt S.A.

REPORT

OF THE SUPERVISORY BOARD
OF STALPRODUKT S.A.

based in Bochnia

for 2021

Bochnia, May 2022

This report covers:

- I. Activities and decisions of the Supervisory Board of Stalprodukt S.A. and the Audit Committee along with the self-assessment of the work of the Supervisory Board in 2021.
- II. Assessment of the economic and financial situation of Stalprodukt S.A. for the period from January 1, 2021 to December 31, 2021, including the assessment of internal control systems, risk management and the work of the Company's Management Board.
- III. Assessment of the manner in which the Company fulfils its disclosure obligations regarding the application of the corporate governance principles set out in the Stock Exchange Regulations and the provisions on current and periodic information provided by issuers of securities.
- IV. Assessment of the rationality of the company's policy in the field of sponsorship, charity or other activities of a similar nature.
- V. Report of the Supervisory Board on the results of the assessment of the financial statements of Stalprodukt S.A. for the period from 1 January to 31 December 2021.
- VI. Report of the Supervisory Board on the results of the assessment of the consolidated financial statements of the Stalprodukt S.A. Capital Group and the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for the period from January 1 to December 31, 2021.
- VII. Report of the Supervisory Board on the results of the assessment of the Report of the Management Board on the activities of Stalprodukt S.A. for the period from January 1, 2021 to December 31, 2021.
- VIII. Assessment of the motion of the Management Board of the Company regarding the distribution of the net profit for 2021.
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I. Activities and decisions of the Supervisory Board of Stalprodukt S.A. and the Audit Committee together with the self-assessment of the work of the Supervisory Board in 2021.

In the period from January 1, 2021 to December 31, 2021, the Supervisory Board acted on the basis of: the provisions of the Commercial Companies Code, the provisions of the Company's Articles of Association, the Regulations of the Supervisory Board of Stalprodukt S.A. as well as the corporate governance principles adopted by the Company set out in the Best Practices of Listed Companies WSE, by constantly supervising the Company's operations in all areas of its operation, as well as considering issues and motions submitted to the Supervisory Board meetings by the Company's Management Board.

Composition of the Supervisory Board in the reporting period:

In 2021, the Supervisory Board worked in the following composition :

Stanisław Kurnik - Chairman of the Supervisory Board

Sanjay Samaddar - Vice-Chairman of the Supervisory Board

Magdalena Janeczek - Secretary of the Supervisory Board

Agata Sierpińska-Sawicz - Member of the Supervisory Board

Romuald Talarek - Member of the Supervisory Board

Statutory activities

In the reporting period, the Supervisory Board conducted its activities in the form of meetings (stationary and remote) convened by the Chairman of the Supervisory Board. The Supervisory Board performed its activities collectively.

In the period from January 1, 2021 to December 31, 2021, the Supervisory Board held 3 minuted meetings, during which it adopted 29 resolutions and 9 resolutions that were adopted using means of direct remote communication.

At each meeting, the Supervisory Board analysed the financial results of the Company, assessed the economic situation of the Company's operations, as well as (-) assessed the current situation of the Company.

At the meetings of the Supervisory Board, members of the Management Board of the Company presented extensive information on the current economic and financial situation of the Company, its operations, action plans and significant events that may affect its operations. The Management Board of the Company informed the Supervisory Board in detail about all important issues

connected with the conducted activity and about the risks associated with them and the method of managing these risks.

The cooperation with the Management Board of the Company throughout the period was correct and did not raise any reservations. The Supervisory Board received exhaustive information on the situation of the Company, as well as on all other matters on the Board's agenda.

The Supervisory Board in 2021, among others:

- analysed the quarterly financial results of the Company,
- assessed the Management Board's report on the Company's operations and the Company's financial statements for the financial year from 1 January to 31 December 2020, as well as the Management Board's motion regarding the distribution of net profit for the financial year from 1 January to 31 December 2020, and recommended the Annual General Meeting to adopt resolutions in accordance with these conclusions,
- assessed the consolidated financial statements of the Stalprodukt S.A. Capital Group and the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for the financial year from 1 January to 31 December 2020 and recommended the Annual General Meeting to adopt a resolution in accordance with this request,
- prepared and approved a report on the activities of the Supervisory Board in the period from 1 January to 31 December 2020,
- considered and gave opinions on the matters that were the subject of the Ordinary General Meeting of the Company,
- approved the Plan of Stalprodukt S.A. for 2021,
- adopted the Report on the remuneration of Members of the Management Board and Supervisory Board of Stalprodukt S.A. for the years 2019 and 2020,
- adopted the Report on the periodic assessment of transactions with related parties for 2020 and the first half of 2021,
- gave opinions on the proposed scope of application by the company Stalprodukt S.A. the rules contained in the document "Best Practices of WSE Listed Companies 2021",
- approved changes to the Company's plan (Investment budget) for 2021,
- consented to the acquisition of shares in the increased share capital of ANEW INSTITUTE Sp. z o.o. based in Krakow, - consented to the liquidation of the subsidiary "Stalprodukt-Centrostal Kraków" Sp. z o.o. based in Bochnia,
- and adopted resolutions in the scope of expressing consent to the performance of specific activities by the Company.

All meetings of the Supervisory Board were documented in the minutes of the meetings.

Audit Committee

The activities of the Supervisory Board were supported by the Audit Committee as an advisory and opinion-making body operating within the Supervisory Board, appointed from among its members.

The scope of activities of the Audit Committee is determined by the Regulations of the Audit Committee adopted by the Supervisory Board.

In the period from 1 January to 31 December 2021, the Audit Committee of the Supervisory Board of Stalprodukt S.A. performed its duties in the following composition:

- Agata Sierpińska-Sawicz - Chairwoman,
- Romuald Talarek - Deputy Chairwoman,
- Magdalena Janeczek - Member.

Ms. Agata Sierpińska-Sawicz has knowledge and skills in the field of accounting and auditing of financial statements, Romuald Talarek has knowledge and skills in the industry in which Stalprodukt S.A. operates.

Two members of the Audit Committee, i.e. Ms. Agata Sierpińska-Sawicz and Mr. Romuald Talarek, are independent of the Company, i.e. meet the independence criteria referred to in Art. 129 section 3 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws 2017 item 1089 dated 06.06.2017)

In the period from January 1, 2021 to December 31, 2021, the Audit Committee held 3 stationary meetings and 3 using means of direct remote communication.

Throughout the reporting period, the Audit Committee monitored the process of preparing financial statements and submitted to the Supervisory Board a report on its work along with a recommendation regarding the assessment of financial statements.

The Audit Committee actively cooperated with the statutory auditor carrying out the review of the semi-annual financial statements and discussed the results of the annual audits of financial statements.

Self-assessment of the work of the Supervisory Board in 2021

The Supervisory Board (in its opinion) in the period from 1 January to 31 December 2021 correctly performed its tasks and obligations resulting from the Articles of Association and the

Regulations of the Supervisory Board, as well as from the Code of Commercial Companies, consisting in constant supervision over the Company's activities.

The Supervisory Board monitored the financial results and the situation of the Company on an ongoing basis. The Management Board of the Company informed the Supervisory Board about the situation of the Company as well as about possible threats and risks related to the conducted activity. Due to the appropriate competences to perform its functions and efficient organization of work, the Supervisory Board effectively carried out its statutory tasks, guided by the interests of the Company.

The Supervisory Board assesses its work throughout 2021 as effective and conducted in accordance with the best standards.

II. Assessment of the economic and financial situation of the Company for the period from January 1, 2021 to December 31, 2021, including the assessment of internal control systems, risk management and assessment of the work of the Management Board.

Based on the Financial Statement, the Management Board's Report and the Independent Auditor's Report, the Supervisory Board assesses the Company's financial standing as good.

The following areas were taken into account in this assessment:

- structure of assets and sources of its financing,
- the level of financial liquidity and debt,
- profitability of the company and factors shaping it.

Structure of assets and sources of its financing

In 2021, there were changes in the shaping of assets and their financing sources. In 2021, the Company had assets worth PLN 2,434,023 thousand, which means that this property increased by 12.5% compared to the previous year. Fixed assets decreased by 1.6%, mainly in the items *Tangible assets (decrease by 4.8%), which account for over 51.5% of their total value*. Current assets increased by 42.7%. Inventories almost doubled, while short-term receivables increased by 43.5%. Short-term investments consisting mainly of cash decreased by 21% compared to the previous year. These uneven changes in the dynamics of individual assets of the company resulted in changes in its structure.

The share of non-current assets in the company's total assets was 59.5% in 2021, while in the previous year it was 68%. In 2021, there was also a change in the structure of current assets. The share of inventories in this property decreased from 46.5% in 2021 to 34.4% in 2020. The

share of receivables in current assets also increased from 31.1% to 37.3%, while the share of short-term investments creased in the analysed period from 15.5% in 2020 to 30.7% in 2021. The accumulated cash on the company's account amounted to almost PLN 153 million.

In 2021, there were also changes in the structure of financing sources. Equity in relation to the previous year increased by 10.6%, mainly in the item *other reserve capitals* with a increase in liabilities by 21%³. The structure of asset financing changed slightly. In 2021, equity financed 79.7% of the assets, while in 2020 it was 81.1%. Therefore, there was an increase in financing assets with equity by 1.4 p.p. which proves the company's strong financial position and its credibility towards business partners.

Part of the equity in the form of net working capital is used to finance the operating activities of the company. Net working capital in 2021 amounted to PLN 638.9 million and it financed almost 64.8% of current assets. In the previous year, the involvement of net working capital in financing current assets was higher and amounted to 70%. These data indicate an increase in the degree of financing operating activities with fixed capital. On the one hand, it proves financial security, and on the other hand, it may increase the average cost of capital. However, the dynamic environment of the company, increased competition, increase in energy prices and CO₂ charges related to the pandemic fully justify the company's conservative strategy in the area of financing operating activities.

In 2021, liabilities and provisions for liabilities accounted for 20.3% of total financing sources, while in 2020 it was 18.9%, and in 2019 their share in financing assets was 21.6%. The structure of the debt changed slightly. Long-term liabilities decreased and accounted for 29.3% of total debts, while in 2020 it was 43.6%. Predominance of equity in the structure of sources of financing assets affects the level of the rate of returns on this capital.

The company also has a significant share of long-term financial assets (36%) in the structure of non-current assets, the pledge value of which is much lower than that of tangible assets. Moreover, in the steel industry, a high share of equity in the structure of liabilities is characteristic due to the significant encumbrance of assets with fixed assets and fluctuations in the financial result under the influence of economic changes. It is worth to note that traditional industries are not valued too high by the stock exchange, especially in conditions of strong market competition. Excessive import to Poland of products from countries where production costs are lower weakens the position of companies in Poland and adversely affects the prices

of their steel products. Due to the low level of debt, Stalprodukt S.A. maintains its cash balance from year to year, and the funds remaining at the end of the year are allocated to current operating expenses and investments in the following year. The liquidity of individual components of current assets translates into financial liquidity, which determines the ability to settle liabilities on time.

Assessment of financial liquidity and debt level

In 2021, as in previous years, the Management Board attached great importance to the problem of maintaining financial liquidity, pursuing a well-thought-out and effective policy in this regard. The company timely settled its liabilities towards employees, the budget, banks and suppliers. The measurement of financial liquidity was based on the amount of the Company's current assets, the level of operating cash and current liabilities, the return period of which is shorter than the financial year.

In 2021, the current financial liquidity ratio slightly decreased compared to the previous year, mainly as a result of an increase in short-term liabilities.

The financial liquidity ratios in the next five years were as follows:

<i>Specification</i>	2016	2017	2018	2019*	2020	2021
<i>Current financial liquidity ratios</i>	1,33	1,67	1,75	2,41	3,08	2,84
<i>Acid liquidity ratios</i>	0,72	0,92	0,82	1,27	1,91	1,52
<i>Short-term investment indicators</i>	0,13	0,28	0,13	0,29	0,95	0,45
<i>Cash liquidity ratios</i>	0,22	0,21	-0,06	0,45	0,63	-0,01

** transformed data*

The acid liquidity ratio also decreased from 1.91 in 2020 to 1.52 in the analysed year, which means that liquid assets (receivables + short-term investments) were almost one and a half as high as current liabilities. The cash liquidity ratio, calculated as the relation of operating cash flows to current liabilities, was on a minimal level. In 2020, PLN 0.63 of operating cash per PLN 1 of short-term debt and in 2021, the shortage of operating cash was PLN 0.01.

To assess the company's financial condition a cash flow statement was also used. It shows in which areas of activity the funds were generated, and which areas these funds were absorbed.

Cash flows in the following years were as follows (in PLN thousand):

	2017	2018	2019*	2020	2021
- net cash flow from operating activities	+79 026	-24 996	+115 108	+141 301	-2 095
- net cash flow in the investment area	+72 170	-58 943	+79 386	+26 146	+23 051
- net cash flows from financing activities	-63 501	+4 780	- 170 484	-25 523	- 61 539

- balance sheet change in cash	+87 695	-79 159	+24 010	+141 924	- 40 583
- cash at the end of the year	+106 771	+27 612	+51 621	+193 545	+152 962

** transformed data*

The company did not generate any free funds in operating activities. The generated cash in the form of net profit, amortization and increase in short-term liabilities was allocated to financing the operating activities presented in the balance sheet in the form of an increase in inventories and receivables.

The needs in the financial area were covered from the funds generated in the investment area and debited from the account, which reduced the amount of cash. In 2021, the Company had at its disposal a total of PLN 167,447 thousand - PLN 23,051 thousand generated in investment activities and PLN 193,545 thousand on the account, of which PLN 61,539 thousand was spent on financial activities, and PLN 152,962 thousand remained in the account in 2022. Among the inflows in the investment area from its subsidiaries dividend from subsidiaries was PLN 31,539 thousand. The Company spent only PLN 13,725 thousand on the purchase of tangible fixed assets and intangible assets with depreciation amounting to PLN 50,140 thousand. Pandemic conditions, increase of commodities as well fuel and energy prices, rising inflation and interest rates and uncertainty of the economic situation among recipients of finished products had a negative impact on many areas of the Company's operations, including the impact on the level of investments being implemented.

Company profitability assessment

The main determinant of the company's financial condition for shareholders is the rate of return on engaged capital. In their investment decisions, they are guided by the rate of return, comparing it to alternative possibilities of using free funds. One of the determinants of the rate of return on capital is return on sales. It was calculated at four levels of the profit and loss account.

In the audited financial year, the return on sales at individual levels of the profit and loss account was as follows:

Specification	2017	2018	2019	2019*	2020	2021
<i>Sales profitability,%</i>	1,4	2,4	- 0,1	1,3	0,9	11,9
<i>Operating profitability,%</i>	1,5	2,1	-3,0	1,0	1,8	11,4
<i>Gross profitability,%</i>	7,7	7,8	5,9	7,1	4,2	12,5
<i>Net profitability,%</i>	7,1	7,3	5,7	6,9	4,1	10,7

Gross and net profitability has been established as the ratio of gross or net profit to the company's total revenues (sum of revenues from product sales, other operating revenues and financial revenues).

In 2021, there was a clear increase in profitability compared to the previous year, both in terms of sales profitability and gross and net profitability. In 2021, operating revenues (sales revenues, operating and financial revenues) reached PLN 2,063,988 thousand, which means an increase of 55.3% compared to 2020. The company generated operating profit in the amount of PLN 232.263 thousand, while in the previous year the amount of this profit was over 10 times lower. Net profit in 2021 amounted to PLN 220.063 thousand and was four times higher than the net profit for the previous year, while EBITDA was PLN 280.403 thousand.

In all business segments, the Company recorded a decrease in sales in terms of value. Financial income, mainly due to dividends received from subsidiaries, amounted to PLN 32,564 thousand. The dividend income recognized in the profit and loss account does not increase the tax base, because the tax is paid at source, i.e. at the source of the dividend payer, the net amount was transferred to the company. Due to the dividend and deferred settlement as costs of certain expenses, the effective tax rate was lower than the nominal rate (19%) and amounted to 14.5%.

The increase in sales revenues and the financial result was mainly influenced by the increase in the economic activity of the recipients of the company's products and the increase in the prices of its products

The main export product of the Company is electrical sheet metal. In 2021, domestic sales accounted for only 6.3% of the total sales value of transformer sheets. The sheet metal export was concentrated on the European market. The largest recipients were Italy (31%), Austria (10%), India (9%), Germany (7%), UAE (6%) and Mexico (6%). Domestic revenues from the sale of these sheets in 2021 increased by 43.1% compared to the previous year, while export revenues increased by 62.8%. Total revenues from the sale of electrical sheets increased in 2021 by 11.1%. Sheet metal prices increased by an average of 45%. The rise in the prices of sheets was caused by the increases in the prices of raw materials, but the growth rate of these prices was slower than the increase in the prices of finished products. On the market of transformer sheets, some threats can be observed in relation to the application of anti-dumping measures on the part of countries producing electrical sheets and an increase in freight rates for goods resulting from the shortage of containers on the transport market.

Sales of **toroidal cores** expressed in tonnes in 2021 was on the similar level compares to the previous year. On the other hand, prices increased, which resulted in an increase in sales revenues by 29.1%. In Poland, 31.5% of the production of these products was sold and 68.5% was exported. The company has very strong competition in the form of imports (13,500

tonnes), mainly from Turkey (81%), Italy (5%) and Slovakia (4%). The average export price was 30% higher than the imported cores and fittings. Competing in the market for these products is becoming more and more difficult due to technological reasons. Customers prefer complementary purchases and buy where they can purchase components of various types of transformers at a more attractive price.

Cold-formed sections are the basic product of domestic sales. In 2021, 152 thousand tonnes of these products were produced, while a year earlier it was 164 thousand tonnes. Sales in terms of tonnage to the domestic market systematically decreased. In 2021, this decrease was 6.9%, with domestic sales falling by as much as 12.5%, while export sales increased by 8.1%. 68.8% of the production was sold on the Polish market and the rest (31.2%) was sold to foreign markets. The increase in section prices by 80% allowed for an increase in the value of sales revenues by 67.3%. A systematic decline in the company's share in domestic exports of cold-formed sections should be noted. In 2021 it was 27%, while in 2020 it was nearly 37% and in 2019 44%. Total domestic export of sections increased by 43%, and imports by 25%. Apparent consumption of cold-formed sections in 2021 increased by 2% compared to the previous year and amounted to 429 thousand tonnes, which means that the company had a 24.5% share in it. In 2020, this share was 26%, and in 2019, 30%. Strong competition on the market and the increase in imports of these products with relatively stable apparent consumption make it difficult to maintain the dynamics of production and sales of sections.

The sale of **road barriers** in terms of tonnage in 2021 was higher than in the previous year by 3.9%, and the increase in revenues from the sale of barriers was 16.7%. The prices of road barriers increased by 12%. 65% of the produced barriers were sold per country, compared to 68% a year earlier. The company has the opportunity to develop this products segment under the conditions of the adopted program of construction of bypasses, expressways and highways until 2030. However, the company will be subject to many risk factors and uncertainties on the market. It is mainly on an increase in the prices of raw materials, materials, services and wages, which creates a risk of staying within the contractual limits when implementing the investment. A mechanism of indexation of this amount has been introduced, but in the conditions of inflation it may turn out to be insufficient and may not prevent losses in the course of the investment. An additional risk is high competition and the appearance of new products in the road barrier segment on the market.

Good results in 2021 were achieved by the Service Center. 13.7% thousand tonnes of electrical sheets were sold for PLN 63.2 million, which gives an increase in volume by 19.4% compared to the previous year and an increase in sales revenues by 125.1%. Domestic sales accounted for 94% of total sales in terms of tonnage. The decrease in the volume of export sales by a quarter did not significantly affect the results of the Service Center with the increase in product prices. The sales of the Service Center does not have a significant impact on the total financial result, because the total revenues of the service are only 3.2% of the revenues from the sale of products, goods and materials. In the area of activities of all service centers, there can be noticed a strong competition from smelters service centers, which makes the operation of independent services difficult. This situation results from the excessive production capacity in the area of the centers.

The segment of other activities, which mainly includes the sale of goods, recorded an increase in revenues in 2021 by 52.9% compared to 2020.

The biggest impact on the financial result of the Company had the increase in the prices of finished products and the increase in production in terms of tonnages had. The sales structure changed slightly. Revenues from the sale of sections decreased by 2.3 pp. and road barriers by 2.7 pp. As a result of the increase in prices, there was a significant increase in margins. The margin of the Electrical Sheets Segment increased from 7.8% to 20.8%. The result of the Profiles Segment was 10 times higher than in the previous year and the margin increased from 2.3% to 13.7%.

The profitability of the Company's assets and equity in 2021 increased. These ratios were calculated as the ratio of net profit to the average annual value of assets and equity.

This is illustrated by the following data:

<i>Specification</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2019*</i>	<i>2020</i>	<i>2021</i>
<i>Return on assets (ROA),%</i>	<i>5,1</i>	<i>6,0</i>	<i>4,3</i>	<i>5,2</i>	<i>2,5</i>	<i>9,6</i>
<i>Return on equity (ROE),%</i>	<i>6,7</i>	<i>7,9</i>	<i>5,6</i>	<i>6,8</i>	<i>3,2</i>	<i>11,9</i>
<i>Capital multiplier (assets / equity), (times)</i>	<i>1,32</i>	<i>1,33</i>	<i>1,32</i>	<i>1,32</i>	<i>1,26</i>	<i>1,24</i>

The return on equity increased from 3.2% in 2020 to 11.9% in 2021. The return on assets also increased from 2.5% to 9.6%. Such a good result was due to a 4-fold increase in net profit with an increase in equity by 10.6%.

The level of benefits generated for shareholders can be expressed in the value for shareholders, as shown in the table below.

<i>Specification</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>
<i>Number of shares, thous. pcs</i>	5 580	5580	5 580	5 580	5 580
<i>Share price (last December quotation)</i>	504,50	320	181,60	300,50	263,50
<i>MV thous. PLN</i>	2 815 110	1 785 600	1 013 376	1 676 870	1 470 330
<i>Equity, thous. PLN</i>	1 535 001	1 632 876	1 699 505	1 754 349	1 940 931
<i>MVA, thous. PLN</i>	1280 109	152 724	- 686 129	- 77 479	- 470 601

At the end of 2021, the capital market valued the Company well below its book value. The book value of one share in 2021 was PLN 347.82 and was higher than in the previous year by 10.6%. At the end of the year, the book value of the shares was 32% higher than the share price from the last listing in December 2021. Net profit per share in 2021 increased and amounted to PLN 39.43 compared to PLN 9.83 in the previous year. Over the last dozen or so years, the company has not issued shares, has not used any additional shareholders' capital, and the development was financed mainly from profits retained after dividends have been paid and, periodically, from external capital. In the longer term, taking into account the dividends paid and changes in share prices, Stalprodukt generated a satisfactory rate of return on capital for its shareholders. It should be emphasized that investments in equities are long-term instruments and due to fluctuations in the economic situation on the capital markets in short periods, this rate is also subject to significant changes.

Assessment of the work of the Company's Management Board.

The Supervisory Board highly appreciated the work of the Company's Management Board in 2021. The conditions on the steel market were extremely difficult due to the pandemic situation and the decline in demand in many areas of activity due to the suspension or limitation of economic activity by recipients of the products manufactured by the company. This difficulty is exacerbated by strong competition resulting additionally from excessive production and import in relation to consumption.

The basic achievements of the Management Board in the analysed financial year include:

- **obtaining high financial results, which strengthens the company's financial stability**, reduces debt financing costs and ensures financial liquidity. The company's net profit increased more than 4 times. It should be emphasized that the company's cash position is very good. In order to maintain the Company's competitiveness on the market, the Management Board flexibly reacts to the market needs by changing the product structure, improving product quality, ensuring timely deliveries or changes in market prices. In the conditions of a pandemic, excess production capacity and import of metallurgical products, maintaining the relatively high market position of the Company required an exceptionally high effort of the Management Board.

- **maintaining the balance of capital and cash**, both short-term and long-term, is a constant concern of the Management Board. At the end of 2021, the company used only PLN 20 million of a short-term loan and PLN 10 million of a long-term loan. These are the minimum values in relation to the assets held, amounting to PLN 2.4 billion. The company renewed contracts with banks for multi-purpose credit lines, aimed at securing deliveries and letters of credit. The company has a large capital potential in the form of equity capital. It also has the ability to make extensive use of the debt market and can diversify its activities in order to limit the impact of industry business cycles on financial results. The company's financial results and the property and capital situation indicate that the Company can effectively accelerate restructuring, modernize production technologies, launch the production of new products and implement broadly understood development.

- **taking care to maintain the company's financial liquidity**. Financial liquidity ratios are at a high level. The minimum indebtedness of the Company and proper capital management are particularly important in the conditions of fluctuations in the market of products manufactured by the company and high competition on this market, especially from imports. At the end of 2021, the company had almost PLN 153 million on its account, which is 15.5% of its current assets. The company maintains cash reserves to flexibly respond to the market situation. The funds generated in operating activities (PLN 220 million of net profit and over PLN 50 million of depreciation) were used to finance current assets, the increase of which was a result of an increase in production and sales.

- **proper management of procurement and sales processes**. In the conditions of rising prices of raw materials and materials, interrupted logistic lines and difficult market conditions,

cyclicality of production of technological charge, especially for the production of electrotechnical sheets, the Company must maintain a rational stock level. Inventories of raw materials and materials constitute 49% of total inventories. The Management Board conducts systematic activities to ensure the continuity and rhythm of supplies and the diversification of supply sources with technological charge in order to fulfill orders on time and maintain the amount of stocks at an optimal level. The main supplier of the technological charge to the company is ArcelorMittal - Europe - Flat Products, which supplies hot and cold rolled coils. The aim of inventory management in the company is to balance the benefits and costs related to their management.

- **rational trade credit policy.** The Management Board carefully pursues the trade credit policy, which undoubtedly contributes to the good situation in the area of financial liquidity. It uses various trade credit instruments and flexibly shapes the prices of final products in order to reduce the risk of non-recovery. The trade credit risk is mitigated by activities aimed at selecting contractors with good creditworthiness, setting credit limits for them, the policy of securing payments and their ongoing monitoring in accordance with the applicable procedures. Therefore, the exposure of the Company to the risk of bad debts is insignificant. Overdue receivables in 2021 accounted for only 7.8% of receivables from recipients, in the previous year it was 11.8% and in 2019 12.1%. The amount of overdue receivables includes the amount of PLN 1,992 thousand. In addition, the risk of non-recovery of overdue receivables is limited by collaterals such as: bank guarantees, sureties and bills of exchange.

- **rational management of financial risk.** In its activities, the Company is exposed to credit risk, contract risk, liquidity risk and market risk related to changes in interest rates and foreign exchange rates. The Management Board flexibly applies various types of instruments securing the Company against the aforementioned risks. Consistently implements the adopted policy in risk management, applies a risk avoidance strategy or a strategy for securing it. The company has not experienced payment gridlocks, is not exposed to currency risk resulting from fluctuations in exchange rates due to the possibility of using natural hedging, and it regulates foreign currency liabilities with revenues from sales in foreign currencies. It is not exposed to the risk of changes in interest rates as it uses bank loans to a limited extent. On the other hand, the risk is generated by fluctuations in the prices of raw materials, energy and formal and legal conditions of operations, such as market protection measures (customs duties and quotas), which significantly distort market competition. The Management Board of the Company

systematically takes actions to improve the process of detecting and preventing possible economic crime. A considerable risk for the company results from the cyclical nature of the steel industry and the increasing market competition.

- **care for the environment and compliance with related standards.** The Management Board of the Company shows exceptional care for the natural environment. The implemented activities for the environment relate in particular to the use of technologies compliant with the best available techniques (BAT), reducing the consumption of raw materials, materials and energy, reducing the emission of pollutants into the environment, minimizing the amount of waste generated and handling them properly, meeting legal and other requirements that relate to environmental aspects, i.e. raising employees' awareness of the impact of their work on the natural environment and the consequences of not complying with the applicable rules of conduct. Energy consumption decreased from 1.15 GJ / PLN 1 thousand in 2020 up to 0.77 GJ / PLN 1 thous. in revenues in 2021. The scope of water reuse increased from 37% in 2020 to 52% in 2021. The rates of emissions of harmful substances into the atmosphere decreased significantly in relation to the production volume. In the opinion of the Supervisory Board, the Management Board of the Company rightly focuses on its sustainable development as an opportunity to increase competitiveness and efficiency. The Supervisory Board positively evaluates the efforts of the Management Board in adapting the Company's operations and its business model to the environmental protection requirements. The management board is trying to use renewable energy and advanced recycling techniques to effectively fit into the scheme of the circular economy.

- **conducting a rational information policy for the capital market.** The Management Board strives to provide investors with reliable information in a timely manner and clearly presents the company's strategy in the main areas of its operations.

To sum up, the Supervisory Board highly evaluates the activities of the Company in the entire scope of its operation, including maintaining business continuity and implementation of plans, reducing risks and meeting the challenges of market uncertainty, and effectively responding to rapidly changing law concerning, inter alia, digital transformation and financial security, environmental protection, etc. The Supervisory Board emphasizes that the Company pursues all its goals (production, service, financial and development) in a sustainable manner, relying on well-understood reliability. This is evidenced by the widely recognized brand and

reputation of Stalprodukt, as well as strong relationships with domestic and foreign customers, as well as high stakeholder ratings.

Assessment of internal control and risk management systems.

Risks related to the economic situation on the local market and in European Union countries, generating demand for the company's products, lack of protection of the EU transformer sheet market, increase in the prices of input materials, increase in electricity prices, increase in the costs of the EU climate policy are systematically monitored by the management board, which takes measures to reduce their effects. In the opinion of the Supervisory Board, the current internal control system and the risk management system in force in the Company allow for systematic identification and control of the risk related to the nature and profile of the Company's operations. The internal control system as well as the risk management system have been shaped in the Company in a way that takes into account the risks related to the Company's operations, which was emphasized in the assessment of the work of the Management Board.

III. Assessment of the manner in which the Company fulfils its disclosure obligations regarding the application of the corporate governance rules set out in the Stock Exchange Regulations and the provisions on current and periodic information published by issuers of securities.

The Supervisory Board positively assesses the manner of fulfilling the disclosure obligations regarding the application of the corporate governance principles set out in the Stock Exchange Regulations and the provisions on periodic and current information published by issuers of securities. The Management Board informs and clearly explains to the shareholders the restrictions on the application of certain corporate governance principles.

IV. Assessment of the rationality of the company's policy in the field of sponsorship, charity or other activities of a similar nature.

The Supervisory Board positively assesses the policy pursued by the Management Board of Stalprodukt S.A. in the field of sponsorship, charity or other activities of a similar nature.

V. Assessment of the financial statements of Stalprodukt S.A. for the financial year from 1 January to 31 December 2021.

In carrying out the tasks resulting from art. 382 § 3 of the Commercial Companies Code and § 28 item 2 of the Company's Articles of Association, the Supervisory Board assessed the financial statements of Stalprodukt S.A. prepared for the financial year covering the period from 1 January to 31 December 2021, which consists of:

- 1) balance sheet prepared as at December 31, 2021, which shows a PLN 2,434,023 thousand balance in assets and liabilities;
- 2) statement of profit and loss and statement of comprehensive income for the period from January 1, 2021 to December 31, 2021, showing comprehensive income and net profit of PLN 220,063 thousand;
- 3) statement of changes in equity for the period from January 1, 2021 to December 31, 2021, showing an increase in equity by the amount of PLN 186,582 thousand;
- 4) cash flow statement for the period from January 1, 2021 to December 31, 2021, showing an increase in cash by the amount of PLN 40,583 thousand;
- 5) additional information on the adopted accounting principles and other explanatory information.

The Supervisory Board got acquainted with the presented by the entity "Polscy Biegli" Sp. z o.o. (currently PB Audyt Sp.z o.o.) with headquarters in Warsaw at ul. Józefa Bema 87 lok. 3U, entered by the Polish Chamber of Statutory Auditors on the list of audit companies under number 4159, Report on the audit of the separate annual financial statements (the key statutory auditor responsible for the audit is Ms. Renata Lubowicka - reg. No. 11041).

The presented Opinion of the Independent Statutory Auditor shows that the audited financial statements:

- provides a reliable and clear picture of the entity's property and financial position as at December 31, 2021, as well as its financial result for the financial year from January 1, 2021 to December 31, 2021, in accordance with the International Financial Reporting Standards approved by the European Union,
- has been prepared, in all material respects, in accordance with the International Financial Reporting Standards as approved by the European Union,

- complies in all material aspects, in terms of form and content, with the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information provided by issuers of securities and the conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2014, item 133, as amended), hereinafter referred to as the regulation on current and periodic information and with the provisions of the Company's Articles of Association affecting its content,
- has been prepared on the basis of correctly kept, in all material aspects, accounting books in accordance with the principles set out in the Accounting Act.

The Supervisory Board familiarized itself with the reservation expressed by the statutory auditor, which was formulated as follows:

In the financial statements as at December 31, 2021, in the item "Intangible assets other than goodwill" and in Note 1a of the additional information, research and development works related to the implementation of the project "in the area of renewable energy sources, i.e. construction of a prototype of an innovative wind turbine" were presented, measured at the cost of production, with a value of PLN 30,601 thousand. In addition, the shares in aNew Insitute Sp. z o.o. with a value of PLN 8,589 thousand, which is a member of the Consortium implementing the above-mentioned research and development project. Until the date of the audit report, the Company has not presented any impairment tests that meet the requirements of IAS 36 "Impairment of Assets" for the above assets. Accordingly, we have not obtained appropriate and sufficient audit evidence to support the appropriateness of the valuation of the assets described above.

In accordance with applicable regulations, the Management Board of Stalprodukt S.A. presented his position on this issue. In the opinion of the Company's management, the conditions for activating research and development works related to the implemented project, as specified in IAS 38, are met. It should also be emphasized that the current state of knowledge and advancement of the project does not allow for the assumption of a commercialization forecast (the choice of commercialization method will be possible after testing and device certification). Moreover, all the conditions set out in IAS 38 Intangible Assets have been met for the components of intangible assets to be recognized as arising from development works.

Due to the subject of its activity (ANEW INSTITUTE Sp.z o.o. is a research and development special purpose vehicle), incurring expenditure on work and focusing on achieving the basic goal, this company does not report any revenues from commercial activities. As at December 31, 2021, the value of shares is PLN 8 589 thousand and mostly are intangible assets related to the design and executive documentation. The company is also the owner of patents covering the applied solutions. The turbine design was assessed by the National Center for Research and Development, and the final implementation report was approved.

Taking into account the fact that the completed turbine prototype is on the verge of entering the final stage, i.e. certification and testing, the Supervisory Board of the Company agrees with the Management Board that there are no grounds for a write-off as at December 31, 2021 of the value of assets in the form of intangible assets including project of B1 Power Plant and shares in a subsidiary below the value included in the financial statements.

After analysing the financial statements of Stalprodukt SA for the financial year covering the period from January 1, 2021 to December 31, 2021, and after reading the opinion and report of the statutory auditor, the recommendation of the Audit Committee, as well as based on its own analyses, the Supervisory Board concludes that in its opinion, the financial statements of Stalprodukt S.A. for the financial year covering the period from January 1 to December 31, 2021 - as at December 31, 2021, were drawn up correctly, in accordance with applicable law, comply with the books and documents as well as with the facts and reliably and clearly presents information relevant to the assessment of the property and financial situation of the Company.

VI. Assessment of the consolidated financial statements for the financial year from 1 January to 31 December 2021 of the Stalprodukt S.A. Capital Group and the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for 2021.

The Supervisory Board assessed the Management Board's report on the activities of the Stalprodukt SA Capital Group and the consolidated financial statements for the financial year from 1 January to 31 December 2021, which consists of:

- 1) consolidated balance sheet prepared as at December 31, 2021, showing the assets and liabilities in the amount of PLN 4,841,895 thousand;
- 2) consolidated profit and loss account for the period from January 1, 2021 to December 31, 2021, showing a net profit of PLN 528,729 thousand,
- 3) consolidated statement of comprehensive income for the period from January 1, 2021 to December 31, 2021, showing total comprehensive income in the amount of PLN 416,411 thousand;
- 4) statement of changes in consolidated equity for the period from January 1, 2021 to December 31, 2021, showing an increase in equity by PLN 458,027 thousand,

- 5) consolidated cash flow statement for the period from January 1, 2021 to December 31, 2021, showing an increase in cash by the amount of PLN 55,863 thousand,
- 6) additional information on the adopted accounting principles (policy) and other explanatory information.

The Supervisory Board familiarized itself with the opinion and reservation expressed by the statutory auditor. The qualification expressed by the auditor was worded as follows:

In the audited period, the Group released the provision for the costs of decommissioning, reclamation and environmental repair costs (in the previous period presented in the financial statements as "contingent liabilities for the purchase of ZGH") created in connection with the acquisition of ZGH "Bolesław" S.A. The total value of the released provision was PLN 237,748 thousand, of which PLN 160,532 thousand was included in the result for the current period, while the amount of PLN 77,216 thousand as error correction retained earnings. The basis for the release of these provisions was their recognition at the level of a subsidiary, i.e. ZGH Bolesław S.A. as at December 31, 2021, which the Company did not make in the report prepared as at December 31, 2020.

In our opinion, the above-mentioned circumstances constituting the basis for the dissolution of the provision created in previous periods at the level of the consolidated financial statements do not constitute an error correction within the meaning of IAS 8.

For the purposes of the audit of the consolidated financial statements for 2021, we were presented with the calculation of provisions related to the effects of the closure of the Olkusz-Pomorzany mine. Until the date of issuing the audit report, we had not received assumptions for the presented estimates, and the deadline for submitting these calculations made it impossible to verify them by an expert in the field of mine decommissioning indicated by a certified auditor. Therefore, we are not able to confirm whether the value of the provision in the amount of PLN 154,727 thousand established at the level of the subsidiary ZGH "Bolesław" S.A. for the decommissioning of the mine has been correctly estimated.

If the Company had recognized the effects of the termination of the contingent liability in full in the financial result, the net profit for 2021 would have been higher by PLN 77,216 thousand.

In accordance with the applicable regulations, the Management Board of Stalprodukt S.A. presented its position on this issue. The Supervisory Board shares the opinion of the Management Board that any update, due to the underestimation of the amount of provisions by

the subsidiary, should not have a significant impact on the consolidated annual financial statements of the Group. The Supervisory Board gives a positive opinion on the position presented by the Management Board.

After analyzing the consolidated financial statements of the Stalprodukt SA Capital Group as well as the Management Board's report on the activities of the Stalprodukt SA Capital Group for the period from January 1, 2021 to December 31, 2021, reading the opinion and report of the statutory auditor, the recommendation of the Audit Committee, the Supervisory Board assesses that these reports contain all the required elements, have been prepared correctly, in accordance with applicable law and present information relevant to the assessment of the property and financial situation of the Stalprodukt S.A. Capital Group

VII. Assessment of the Management Board Report on the operations of Stalprodukt S.A. for the period from January 1, 2021 to December 31, 2021.

In carrying out the tasks resulting from art. 382 § 3 of the Commercial Companies Code and § 28 item 2 of the Company's Articles of Association, the Supervisory Board assessed the Management Board's Report on the activities of Stalprodukt SA prepared for the period from January 1, 2021 to December 31, 2021.

The Management Board of the Company worked in the following composition:

- Piotr Janeczek - President of the Management Board, General Director in the period 01.01-31.12.2021
- Łukasz Mentel - Member of the Management Board, Financial Director in the period 01.01-31.12.2021

After analysing the report of the Management Board on the activities of Stalprodukt S.A. for 2021, the Supervisory Board states that, in its opinion, the report was prepared correctly, contains all the required elements, complies with the books and documents as well as the actual state, and presents the situation of the Company in the reporting period reliably and clearly. The Management Board of the Company duly shows the threats and risks of the conducted activity and describes the course of events having a significant impact on the Company's activity.

Considering the sales results, the positive financial result as well as the balance sheet structure reflected in the economic indicators allow the Supervisory Board to highly evaluate the activities of the Management Board of the Company throughout 2021.

The Supervisory Board states that the Management Board's Report on the Company's operations for the financial year covering the period from 1 January to 31 December 2021 contains all information required by law. The financial data presented in the Management Board's Report on the Company's operations are consistent with the information contained in the audited financial statements for the period from January 1, 2021 to December 31, 2021.

The Management Board of the Company attached to the submitted Report a statement on the application of corporate governance principles in the Company.

The completeness of the Management Board's report on the Company's operations for 2020 and its compliance with the information disclosed therein was confirmed by the certified auditor.

As a result of the assessment and following the opinion of the Statutory Auditor, the Supervisory Board recommends to the Ordinary General Meeting to adopt resolutions approving the Management Board's Report on the activities of Stalprodukt S.A. for the period from January 1, 2021 to December 31, 2021 and the financial statements of Stalprodukt S.A. for the financial year from January 1 to December 31, 2021 as well as the consolidated financial statements for the financial year from January 1, 2020 to December 31, 2021 by adopting appropriate resolutions.

The Supervisory Board applies to the Annual General Meeting of Stalprodukt S.A. for granting:

- the acknowledgement of the fulfilment of the duties by Mr. Piotr Janeczek in 2021 in connection with the performance of the position of the President of the Management Board of the Company in the period from 1 January to 31 December 2021,
- the acknowledgement of the fulfilment of the duties by Mr. Łukasz Mentel in 2021 in connection with the performance of the position of a Member of the Management Board of the Company in the period from 1 January to 31 December 2021.

VIII. Assessment of the application of the Management Board of the Company regarding the distribution of the net profit for 2021.

Acting pursuant to Art. 382 § 3 of the Commercial Companies Code and § 28 par. 2 of the Company's Articles of Association, the Supervisory Board, having read the recommendation of the Audit Committee, positively assesses the application of the Management Board of the

Company regarding the distribution of net profit in the amount of PLN 220,063 thousand achieved by Stalprodukt S.A. in 2021 in the following way:

- reserve capital - PLN 66,963 thousand,
- dividend - PLN 153,100 thousand.

The Supervisory Board expresses the opinion that the application presented by the Management Board of Stalprodukt S.A. regarding the distribution of the net profit for 2021 is justified and recommends the Ordinary General Meeting to adopt the resolution on the distribution of the net profit for the financial year 2021, as proposed in the application of the Management Board of the Company.

IX. Summary.

This report presents the main directions of the activities of the Supervisory Board of Stalprodukt S.A. in 2021.

The own assessments presented in this report and the opinion expressed by the statutory auditor allow the Supervisory Board to positively assess the situation of the Company in 2021. In the opinion of the Supervisory Board, the Management Board of the Company exercised due diligence in order to achieve the best possible results by the Company in difficult market conditions, therefore the Supervisory Board highly appreciated the activities and work of the Management Board of the Company throughout 2021.

All members of the Supervisory Board exercised due diligence in the performance of their duties in the Supervisory Board, using their best knowledge and experience in the performance of their functions with commitment.

This report has been considered and adopted by resolution at the meeting of the Supervisory Board on May 20, 2022 for submission to the Annual General Meeting of Stalprodukt S.A.

Signatures:

Stanisław Kurnik

Sanjay Samaddar

Magdalena Janeczek

*(Chairman of the
Supervisory Board)*

*(Vice-Chairman of the
Supervisory Board)*

*(Secretary of the
Supervisory Board)*

Agata Sierpińska-Sawicz

Romuald Talarek

(Member of the Supervisory Board)

(Member of the Supervisory Board)