



***Stalprodukt S.A.***

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**REPORT**

OF THE SUPERVISORY BOARD  
OF STALPRODUKT S.A.

based in Bochnia

for 2020

***Bochnia, May 2021***

**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 2020.
- II. Assessment of the economic and financial situation of Stalprodukt S.A. for the period from January 1, 2020 to December 31, 2020, 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 2020.
- 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, 2020.
- 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, 2020 to December 31, 2020.
- VIII. Assessment of the motion of the Management Board of the Company regarding the distribution of the net profit for 2020.
- IX. Summary.

## **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 2020.**

In the period from January 1, 2020 to December 31, 2020, 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.

The Covid-19 pandemic in 2020 was a new challenge faced by the Management Board and Supervisory Board. The pandemic posed significant risks for many aspects of the Company's operations. The management board focused on key issues affecting the company's operations. The main ones include: economic slowdown, disturbance in supply chain management, diversified financial condition of clients causing them problems related to financial liquidity, forced holidays, remote work, care for the company's sanitary regime, etc.

The Supervisory Board, apart from the ongoing evaluation of the Company's operations, also monitored the risks related to the continuity of its operations and the implementation of development plans. In 2020, the Supervisory Board also supervised issues related to climate change, digital transformation and the Company's financial security. The board had the opportunity to analyse these problems with the management of the Company. The Supervisory Board highly appreciated the manner in which the Management Board responded to the above-mentioned issues, including those caused by the Covid- 19 crisis.

### Composition of the Supervisory Board in the reporting period:

In 2020, in connection with the end of the term of office of the Supervisory Board, the Ordinary General Meeting of Stalprodukt S.A. appointed members of the Supervisory Board for the next term of office. In connection with the above, the Supervisory Board worked in the following composition:

*Janusz Bodek - Chairman of the Supervisory Board in the period from 01.01 to 15.06.2020,*

*Stanisław Kurnik - Chairman of the Supervisory Board in the period from 15.06-31.12.2020,*

*Sanjay Samaddar - Vice-Chairman of the Supervisory Board in the period from 01.01 to 31.12.2020*

*Magdalena Janeczek - Secretary of the Supervisory Board in the period 01.01-31.12.2020*

*Agata Sierpińska-Sawicz - Member of the Supervisory Board in the period 01.01-31.12.2020*

*Romuald Talarek - Member of the Supervisory Board in the period 01.01-31.12.2020*

### 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, 2020 to December 31, 2020, 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 2020, among others:

- analysed the quarterly financial results of the Company, as well as determined the amount of the quarterly bonus for the Management Board 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 2019, as well as the Management Board's motion regarding the distribution of net profit for the financial year from 1 January to 31 December 2019, 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 2019 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 2019,
- considered and gave opinions on the matters that were the subject of the Ordinary General Meeting of the Company,
- consented to the acquisition by Stalprodukt S.A. of 100% of shares in the Company Hotel Ferreus Spółka z o.o. with its seat in Krakow,
- approved the changes and the uniform text of the Organizational Regulations and the Scheme of Stalprodukt S.A.,
- approved the decision of the Management Board of Stalprodukt SA regarding the signed agreements with representatives of the Company's Trade Unions,
- approved the Plan of Stalprodukt S.A. for 2020,
- consented to the sale of a developed plot of land located in Warsaw at 10 Traktorzystów Street,
- gave an opinion on the draft "Policy of remuneration of members of the Management Board and Supervisory Board of Stalprodukt S.A.",
- selected an entity authorized to audit financial statements for 2020 and 2021,
- The Supervisory Board of the new term of office elected the chairman, vice-chairman and secretary, as well as appointed members of the Audit Committee for the new term,
- introduced new rules and criteria for remunerating Members of the Management Board of the Company in accordance with the adopted Remuneration Policy,
- determined the amount of remuneration for the President and Member of the Management Board,
- adopted a procedure for periodic assessment of transactions with related entities,
- 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 2020, 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, 2020 to December 31, 2020, the Audit Committee held 4 minuted meetings. Thanks to the good cooperation with the Finance Director, the Committee was kept informed about the current financial situation of the Company, which was important for the constructive and effective work of the Supervisory Board. Throughout the reporting period, the Committee monitored the process of preparing financial statements and submitted a report on its work to the Supervisory Board 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 2020

The Supervisory Board (in its opinion) in the period from 1 January to 31 December 2020 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 2020 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, 2020 to December 31, 2020, 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 2020, there were no significant changes in the shaping of assets and their financing sources. In 2020, the Company had assets worth PLN 2,162,913 thousand, which means that this property decreased by 0.3% compared to the previous year. Fixed assets decreased by less than 3.3%, mainly in the items *Tangible assets (decrease by 4.6%) and the right of perpetual usufruct of land*. Current assets increased by almost 12%. Inventories decreased by over 18%, receivables by 14%, and short-term investments consisting mainly of cash increased by 190.5%. 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 68% in 2020, while in the previous year it was 70.8%. In 2020, there was also a change in the structure of current assets. The share of inventories in this property decreased from 47.2% in 2019 to 34.4% in 2020. The share of receivables in current assets also decreased from 40.8% to 31.3%, while the share of short-term investments increased in the analysed period from 12% in 2019 to 30.7% in 2020. The accumulated cash on the company's account amounted to almost PLN 193.5 million.

In 2020, there were also changes in the structure of financing sources. Equity in relation to the previous year increased by 3.2%, mainly in the item *other reserve capitals* with a decrease in liabilities by 13%. The structure of asset financing changed slightly. In 2020, equity financed 81.1% of the assets, while in 2019 it was 78.4%. Therefore, there was an increase in financing assets with equity by 2.7 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 2020 amounted to PLN 461.2 million and financed

almost 70% of current assets, while in 2019 it was PLN 386.4 million, which accounted for 62.6% of current assets. 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 CO<sub>2</sub> charges related to the pandemic fully justify the company's conservative strategy in the area of financing operating activities. In 2020, liabilities and provisions for liabilities accounted for 18.9% of total financing sources, while in 2019 it was 21.6%, and in 2018 their share in financing assets was 26.4%. This method of financing the company's operations affects the level of return on equity. In the steel industry, however, 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. The book value of one share in 2020 was PLN 314.38 and in 2019 PLN 300.91. The book value of the shares calculated based on the verified values for 2019 was slightly higher and amounted to PLN 304.56. The market price of shares at the end of the year hovered around book value. It is worth noting 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 2020, 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 2020, the current financial liquidity ratio increased by 0.67 compared to the previous year, mainly as a result of a decrease in short-term liabilities by 13.5%.



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

<i>Specification</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019*</i>	<i>2020</i>
<i>Current financial liquidity ratios</i>	<i>1.85</i>	<i>1.33</i>	<i>1.67</i>	<i>1.75</i>	<i>2.41</i>	<i>3.08</i>
<i>Acid liquidity ratios</i>	<i>0.91</i>	<i>0.72</i>	<i>0.92</i>	<i>0.82</i>	<i>1.27</i>	<i>1.91</i>
<i>Short-term investment indicators</i>	<i>0.05</i>	<i>0.13</i>	<i>0.28</i>	<i>0.13</i>	<i>0.29</i>	<i>0.95</i>
<i>Cash liquidity ratios</i>	<i>0.73</i>	<i>0.22</i>	<i>0.21</i>	<i>-0.06</i>	<i>0.45</i>	<i>0.63</i>

*\* transformed data*

The acid liquidity ratio also increased from 1.27 in 2019 to 1.91 in the analysed year, which means that liquid assets (receivables + short-term investments) were almost twice as high as current liabilities. The cash liquidity ratio, calculated as the relation of operating cash flows to current liabilities, increased significantly. While in 2019, PLN 0.4 of operating cash per PLN 1 of short-term debt, in 2020 it was PLN 0.33. The generated cash was used mainly for the repayment of bank loans and the rest was accumulated in the bank account.

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

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

	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019*</i>	<i>2020</i>
<i>- net cash flow from operating activities</i>	<i>+102,096</i>	<i>+79,026</i>	<i>-24,996</i>	<i>+115,108</i>	<i>+141,301</i>
<i>- net cash flow in the investment area</i>	<i>- 39.200</i>	<i>+72,170</i>	<i>-58,943</i>	<i>+79,386</i>	<i>+26,146</i>
<i>- net cash flows from financing activities</i>	<i>- 63.477</i>	<i>-63,501</i>	<i>+4,780</i>	<i>- 170.484</i>	<i>-25,523</i>
<i>- balance sheet change in cash</i>	<i>- 581</i>	<i>+87,695</i>	<i>-79,159</i>	<i>+24,010</i>	<i>+141,924</i>
<i>- cash at the end of the year</i>	<i>+19,076</i>	<i>+106,771</i>	<i>+27,612</i>	<i>+51,621</i>	<i>+193,545</i>

*\* transformed data*

Financial activity was used for the vast majority of funds generated in operating activities. In 2020, the Company had a total of PLN 167,447 thousand at its disposal (PLN 141 301 thousand generated in operating activities and PLN 26 146 thousand obtained in the investment area) of which PLN 25 523 thousand was spent on financial activities and PLN 193 545 thousand remained on the account for development in 2021. The cash on the Company's account increased 3.7 times compared to the previous year. Among the inflows in the investment area totalling PLN 47 198 thousand, the dividend from subsidiaries was PLN 37,057 thousand. The Company spent only PLN 15,088 thousand on the purchase of tangible fixed assets and intangible assets with depreciation amounting to PLN 52 754 thousand.

Pandemic conditions, a drop in sales and the 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 basic determinant of the Company's financial condition is the rate of return on capital employed. 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:*

<b>Specification</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019*</b>	<b>2020</b>
<i>Sales profitability, %</i>	9.4	1.4	2.4	- 0.1	1.3	0.9
<i>Operating profitability, %</i>	9.5	1.5	2.1	-3.0	1.0	1.8
<i>Gross profitability, %</i>	9.3	7.7	7.8	5.9	7.1	4.2
<i>Net profitability, %</i>	7.5	7.1	7.3	5.7	6.9	4.1

*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 2020, there was a clear decrease in profitability compared to the previous year, both in terms of sales profitability and gross and net profitability. In 2020, operating revenues (sales revenues, operating and financial revenues) reached PLN 1,328.7 million, which means a decrease of 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 all business segments, the Company recorded a decrease in sales in terms of value by 16.9% and in terms of volume by 13.0%. The increase in the net financial result as compared to the operating result was significantly influenced by the dividend obtained from subsidiaries in the amount of over PLN 37 million. 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.

The decline in sales revenues and the financial result was mainly influenced by the Covid19 pandemic, which limited the economic activity of the recipients of Stalprodukt finished products both in Poland and abroad.

**The main export product of the Company is electrical sheet metal.** In 2020, domestic sales accounted for only 8.0% of the total sales value of transformer sheets. The sheet metal export was concentrated on the European market. The largest recipients were Italy

(23%), Austria (12%) and Germany (11%). Domestic revenues from the sale of these sheets in 2020 decreased by 32.9% compared to the previous year, while export revenues decreased by 23.3%. Total revenues from the sale of electrical sheets decreased in 2020 by over 24% compared to 2019. The decrease in sales of electrical sheets in terms of tonnage was lower and amounted to 19.7% in total. On the transformer sheet market, threats related to excessive production capacity and a drop in orders from foreign customers due to the global pandemic situation can be observed.

Sales of **toroidal cores** expressed in tonnes in 2020 increased by 5.4% compared to the previous year, and in terms of value it was an increase by 9.2%, with a decrease in revenues from domestic sales by as much as 20.9%. On the other hand, export revenues increased by 33.8%.

**Cold-formed sections are the basic product of domestic sales.** In 2020, 164,000 thousand tonnes of these products were produced, while a year earlier it was 184 thousand tonnes. Sales in terms of tonnage to the domestic market decreased by 11.4% and exports by 8.3%. Revenues from their sale in 2020 were 13.5% lower compared to the previous year, while the decrease in sales revenues per country was 14.3%. The decrease in sales revenues and the financial result of this production segment was mainly due to strong market competition and import of these products (despite its decrease in 2020 by 18%). The company has a 26% share in the apparent consumption of cold-formed sections on the domestic market, compared to 30% a year earlier. The share in the export of these products amounted to 37% of the total export of this assortment, while in 2019 it was 44%.

The sale of **road barriers** in terms of tonnage in 2020 was lower by 8.6% than in the previous year, while the decrease in revenues from the sale of barriers was 13% and was the result of a decrease in sales to the domestic market by 20%. The share of domestic sales in total sales amounted to 68%, and export sales - 32%.

In 2020, approximately 11.5% of tonnes of metal sheets of **the service centre** were sold for over PLN 28 million. This means a decrease in sales revenues by 20.1%. Almost 90% of total sales in terms of tonnage are domestic sales, whose sales revenues decreased by 23.4%, which means a decrease in prices on this market. 1,238 tons of these products were sold for export for the amount of PLN 3,121 thousand. Export sales, both in terms of tonnage and value, increased, but they accounted for only 10% of the overall revenues of the service centre. The sale of the service centre plays a minor role in shaping total financial result, as the total revenue of the service centre is only 2.2% of the revenue from the sale of products, goods and materials. In the area of service centre, strong competition from steelworks service centre can

be noticed, which hinders the functioning of independent service centre. This state of affairs is the result of excessive production capacity in the area of centre and low prices on the market.

**The segment of other activities**, which mainly includes the sale of goods, recorded a decrease in revenues in 2020 by 13.1% compared to 2019.

The Company's financial result was undoubtedly affected by the change in the production quantity, sold production and sales structure due to the diversification of profitability of individual product groups. While the margin on the sheet metal segment was 7.8% compared to 9% in the previous year, the margin on the cold rolled profile segment increased to 2.3%. In the previous year, this segment was characterized by a deficit of 1.9%. On other activities, the margin decreased from 1.5% to 0.2% of sales revenues.

**The profitability of the Company's assets and equity in 2020** decreased. 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:*

<b>Specification</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019*</b>	<b>2020</b>
<i>Return on assets (ROA),%</i>	5.0	5.1	6.0	4.3	5.2	2.5
<i>Return on equity (ROE),%</i>	6.4	6.7	7.9	5.6	6.8	3.2
<i>Capital multiplier (assets / equity), (times)</i>	1.35	1.32	1.33	1.32	1.32	1.26

The return on equity in 2020 decreased and amounted to 3.2% compared to 6.8% in the previous year. It was the result of a decrease in net profit and changes in equity. The return on assets also decreased by 2.7 percentage points.

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

<b>Specification</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<i>Number of shares, thous. pcs</i>	5580	5,580	5580	5,580	5,580
<i>Share price (last December quotation)</i>	525	504.50	320	181.60	300.50
<i>MV thous. PLN</i>	2,929,500	2,815 110	1,785,600	1,013 376	1,676 870
<i>Equity, thous. PLN</i>	1,451 688	1,535,001	1,632,876	1,699 505	1,754 349
<i>MVA, thous. PLN</i>	1,477 812	1280 109	152,724	-686,129	-77,479

At the end of 2020, the capital market valued the Company slightly below its book value. This valuation is almost 4.4% lower than the book value. Net profit per share in 2020 decreased and

amounted to PLN 9.83 compared to PLN 20.28 in 2019. Over the last dozen or so years, the company has not issued any shares, has not used any additional shareholders' capital, and its development has been 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 they may show a decline in the rate of return on invested capital.

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

The Supervisory Board highly appreciated the work of the Company's Management Board in 2020. 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:

##### **Strengthening the brand and reputation of the Company, maintaining strong relationships with customers**

The Supervisory Board highly appreciates the activities of the Company in the entire scope of its operation, including maintaining business continuity and implementation of plans, limiting 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.

To sustain the Company's competitiveness on the market, the Management Board flexibly reacts to market needs by changing the product structure, improving product quality, ensuring timely deliveries or price changes. Under the conditions of a pandemic, excess production capacity and import of metallurgical products, maintaining the relatively high market position

of the Company required an exceptional effort by the Management Board. Flexible response to customer needs is facilitated by the distribution network organized by the subsidiary.

**Good property and financial situation.**

Despite difficult economic conditions, the Company generated a positive financial result on its core business in the amount of PLN 10,972 thousand and operating activities PLN 22 918 thousand.

61% of the profit generated in the amount of PLN 54 844 thousand net will be allocated to the payment of the dividends. Maintaining the capital and cash balance, both short-term and long-term, is a constant concern of the Management Board. In order to disperse the risk and reduce the costs of using foreign capital, the Management Board signed loan agreements with several banks, mainly to secure deliveries and letters of credit. At the end of 2020, the company did not use short-term bank loans, and long-term debt is small in relation to the equity held. The company's financial situation allows the management board to restructure its operations and look for new directions of development. The company has a large capital potential in the form of equity, from which it can cover possible losses resulting from the market situation. It also has the ability to make extensive use of the debt market. It can diversify its activities to limit the impact of industry business cycles on financial results.

**Taking care to maintain the company's financial liquidity.**

The financial liquidity ratios are at a high level and increased compared to the previous year . The company's net debt (total debt - cash) at the end of the year was only PLN 192 353 thousand, which constituted 11 % in relation to equity. The minimum indebtedness of the Company and proper capital management are particularly important in the context of the economic slowdown caused by the Covid19 pandemic. At the end of 2020, short-term investments, mainly cash, amounted to PLN 212,433 thousand, which is almost 31% of current assets. It could be concluded that the Company has over-liquidity, but not in the conditions of a pandemic and economic crisis. The company must have cash reserves to flexibly react to the market situation.

**Rational trade credit policy** . The trade credit policy pursued by the company's management board undoubtedly contributes to the exceptionally good situation in the area of financial liquidity. The Management Board uses various trade credit instruments and flexibly determines the prices of final products. At the same time, it reduces the risk of non-recovery of receivables by assessing the customer lending risk, setting credit limits, collateral, monitoring receivables and possible debt collection, in accordance with the applicable procedures.

Overdue receivables in 2020 accounted for 11.8% of trade receivables (gross) and remained at

a level similar (12.1%) to 2019. The amount of overdue receivables includes the amount of PLN 2,100 thousand. The risk of non-recovery of overdue receivables is small as they are secured by bank guarantees, sureties and surety bills of exchange.

**Rational financial risk management.**

The Supervisory Board emphasizes that the risk management function in the Company is an important tool for identifying, monitoring and forecasting risks. The Management Board consistently implements the adopted policy in risk management, applies a risk avoidance strategy or a strategy for hedging it. The company has not experienced payment gridlocks, is not at risk of currency risk resulting from fluctuations in exchange rates due to the possibility of using natural hedging, and it regulates currency liabilities from sales in foreign currencies. On the other hand, the risk is generated by fluctuations in the prices of raw materials, energy utilities and the formal and legal conditions of operations, such as market protection measures (customs duties and quotas), which significantly distort market competition. The Management Board flexibly applies various types of instruments securing the Company against the aforementioned risks. The Management Board of the Company also took steps to improve the process of detecting and preventing possible economic crime. A significant risk for the company results from the cyclical nature of the steel industry and increasing market competition. The Management Board uses both internal and external data in the decision-making processes increasing the Company's resistance to competition.

**Caring for the environment and meeting all related standards.** The Management Board of the Company shows exceptional care for the environment. The implemented activities for the natural environment relate in particular to the use of technologies compliant with the best available BAT techniques, limiting 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 relating to environmental aspects, 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. 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 so as to use renewable energy, advanced recycling techniques and effectively fit into the circular economy scheme.

**Proper management of procurement and sales processes.** The main objective of inventory management in the company is to assess the benefits and costs and to balance them. The

Management Board conducts systematic activities to ensure the continuity and rhythm of deliveries and the diversification of supply sources with technological change in order to fulfil orders on time and maintain the amount of stocks at an optimal level.

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

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 Management Board informs and clearly explains to the shareholders the restrictions on the application of certain corporate governance principles. 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.

**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 2020.**

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 2020, which consists of:

- 1) balance sheet prepared as at December 31, 2020, which shows a PLN 2 162 913 thousand balance in assets and liabilities;
- 2) statement of profit and loss and statement of comprehensive income for the period from January 1, 2020 to December 31, 2020, showing comprehensive income and net profit of PLN 54 844 thousand;
- 3) statement of changes in equity for the period from January 1, 2020 to December 31, 2020, showing an increase in equity by the amount of PLN 75,202 thousand;
- 4) cash flow statement for the period from January 1, 2020 to December 31, 2020, showing an increase in cash by the amount of PLN 141,924 thousand;
- 5) additional information on the adopted accounting principles and other explanatory information.

The audit of the financial statements of Stalprodukt S.A. was carried out by an entity authorized to audit financial statements, the company "Polscy Biegli" sp. z o.o, entered into the list of entities authorized to audit financial statements kept by the National Council of Statutory Auditors under number 4159, which was selected by The Supervisory Board to conduct this audit.

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, 2020, as well as its financial result for the financial year from January 1, 2020 to December 31, 2020, 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.

After analysing the financial statements of Stalprodukt SA for the financial year covering the period from January 1, 2020 to December 31, 2020, 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, 2020 - as at December 31, 2020, 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 2020 of the Stalprodukt S.A. Capital Group and the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for 2020.**

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 2020, which consists of:

- 1) consolidated balance sheet prepared as at December 31, 2020, showing the assets and liabilities in the amount of PLN 4,360,350 thousand;
- 2) consolidated profit and loss account for the period from January 1, 2020 to December 31, 2020, showing a net profit of PLN 183,776 thousand,
- 3) consolidated statement of comprehensive income for the period from January 1, 2020 to December 31, 2020, showing total comprehensive income in the amount of PLN 123,904 thousand;

- 4) statement of changes in consolidated equity for the period from January 1, 2020 to December 31, 2020, showing an increase in equity by PLN 155,163 thousand,
- 5) consolidated cash flow statement for the period from January 1, 2020 to December 31, 2020, showing an increase in cash by the amount of PLN 31,891 thousand,
- 6) additional information on the adopted accounting principles (policy) and other explanatory information.

The Supervisory Board got acquainted with the opinion and the reservation expressed by the statutory auditor concerning the following issues:

- no validation evidence as of the balance sheet date, the estimates presented in the financial statements related to the effect of the decommissioning of the "Olkusz-Pomorzany" mine, which significantly limited the scope of the audit, as a result of which the experts were unable to determine the impact of this risk on the audited consolidated financial statements;
- in the opinion of the experts, the contingent liabilities arising in connection with the closure of the "Olkusz-Pomorzany" mine are no longer contingent items, as the mine decommissioning process began in December 2020;
- in terms of the risk of non-recovery of funds involved in Gradir Montenegro d.o.o. Nisic, in the opinion of the experts, it should be assessed on the basis of IAS 36 "impairment of assets" and recognized in the separate financial statements of the subsidiary.

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, 2020 to December 31, 2020, 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, 2020 to December 31, 2020.**

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, 2020 to December 31, 2020.

In connection with the acquisition of pension rights, Mr. Józef Ryszka resigned from the position of a Member of the Management Board and Marketing Director as of April 29, 2020.

Therefore, the Management Board of the Company worked in the following composition:

- Piotr Janeczek - President of the Management Board, General Director in the period 01.01-31.12.2020
- Józef Ryszka - Member of the Management Board, Marketing Director in the period 01.01-28.04.2020.
- Łukasz Mentel - Member of the Management Board, Financial Director in the period 01.01-31.12.2020

After analysing the report of the Management Board on the activities of Stalprodukt S.A. for 2020, 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 2020.

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 2020 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, 2020 to December 31, 2020.

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, 2020 to December 31, 2020 and the financial statements of Stalprodukt S.A. for the financial year from January 1 to December 31, 2020 as well as the consolidated financial statements for the financial year from January 1, 2020 to December 31, 2020 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 2020 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 2020,
- the acknowledgement of the fulfilment of the duties by Mr Józef Ryszka in 2020 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 28 April 2020
- the acknowledgement of the fulfilment of the duties by Mr. Łukasz Mentel in 2020 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 2020.

### **VIII. Assessment of the application of the Management Board of the Company regarding the distribution of the net profit for 2020.**

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 54 843 411.16 achieved by Stalprodukt S.A. in 2020 in the following way:

- reserve capital - PLN 21,361,809.16,

- Dividend - PLN 33,481,602.00.

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 2020 is justified and recommends the Ordinary General Meeting to adopt the resolution on the distribution of the net profit for the financial year 2020, 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 2020.

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 2020. 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 2020.

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 21, 2021 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)*