



Stalprodukt S.A.

REPORT

OF THE SUPERVISORY BOARD
OF STALPRODUKT S.A.

Based in Bochnia

For the year 2018

Bochnia, maj 2019 r.

This Report contains:

- I. Activities and decisions taken by the Stalprodukt S.A. Supervisory Board and Audit Committee combined with the Board's self-assessment of its work in 2018.
- II. Assessment of the Stalprodukt S.A.'s economic and financial standing for the period from 1 January 2018 to 31 December 2018 including the internal audit systems, risk management and assessment of the Management Board's work.
- III. Assessment of the Company compliance with the obligatory disclosures concerning the application of the corporate governance rules, defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the 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. Supervisory Board's Report on the Stalprodukt S.A.'s Financial Report assessment results for the period from 1 January to 31 December 2018.
- VI. Supervisory Board's Report on the results of assessment of the Stalprodukt S.A. Capital Group's Consolidated Financial Report and Management Board's Report on the Activities of the Stalprodukt S.A. Capital Group for the period from 1 January to 31 December 2018.
- VII. Supervisory Board's Report on the results of assessment of the Management Board's Report on the Stalprodukt S.A. Company's activities for the period from 1 January 2018 to 31 December 2018 .
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I. Activities and decisions taken by the Stalprodukt S.A. Supervisory Board and Audit Committee combined with the Board's self-assessment of its work in 2018

In the period from 1 January 2018 to 31 December 2018, the Supervisory Board acted pursuant to the provisions of the Code of Commercial Companies, Company's Articles of Association, as well as with the corporate governance rules defined in the Code of Best Practice for WSE listed Companies, exercising constant supervision over the Company's activities in all the areas of its activity as well as examining the issues and motions submitted by the Management Board at the Supervisory Board's meetings.

Supervisory Board's Composition in the reporting period:

In the period from 1 January 2018 to 31 December 2018 the Supervisory Board consisted of:

Janusz Bodek	-	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

Activities performed under Articles of Association

In the reporting period the Supervisory Board carried out its activities following the mode of meetings convened by the Chairman of the Supervisory Board. The Board carried out its activities collectively.

In the period from 1 January 2018 to 31 December 2018, the Supervisory Board had 4 minuted meetings, during which 37 resolutions were adopted.

During each meeting, the Supervisory Board analyzed the Company's financial results, assessed the Company's economic and business standing as well as assessed the Company's on-going operations.

During the Supervisory Board's meetings, the members of the Company's Management Board furnished extensive information on the Company's updated economic and financial standing, its operations, planned activities and important events likely to affect the Company's operations. The Company's Management Board informed the Supervisory Board in detail about all the important issues connected with the pursued activities and on the risks related thereto as well as on the respective ways of risk management.

Throughout the reporting period, the cooperation with the Management Board proceeded satisfactorily and not arousing any reservations. The Supervisory Board kept receiving exhausting information on the Company's standing and also on all other matters discussed by the Supervisory Board.

In 2018, the Supervisory Board pursued the following activities among others:

- analyzed the Company's quarterly financial reports as well as determined the amounts of the quarterly bonuses for the Management Board,
- assessed the Management Board's Report on the Company's Activities and the Financial Statement for the reporting year from 1 January to 31 December 2017, as well as the Management Board's motion regarding the net profit distribution for the reporting year from 1 January to 31 December 2017 and recommended that respective resolutions should be adopted accordingly by the Ordinary General Meeting of Shareholders,
- assessed the Consolidated Financial Report of the Stalprodukt S.A. Capital Group and Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the reporting year from 1 January to 31 December 2017 and recommended and recommended that respective resolutions should be adopted accordingly by the Ordinary General Meeting of Shareholders,
- prepared and accepted the Report on the Supervisory Board's Activities in the period from 1 January to 31 December 2017,
- examined and expressed its opinion on the matters considered by the Ordinary General Meeting of the Company's Shareholders,
- agreed to the acquisition of a land property located in Bochnia and Borek,
- consented to the acquisition of the remaining shares of Zakłady Górniczo-Hutnicze "Bolesław" S.A.,
- approved the uniform text of the Organizational Regulations of Stalprodukt S.A.,
- approved the price conditions for the acquisition of GO Steel Frydek Mistek a.s.,
- approved the Plan of Stalprodukt S.A. for 2018,
- agreed to introduce changes to the rules of cooperation with Stalprodukt Centrostal Kraków Sp. z o.o.,
- adopted resolutions in the scope of expressing consent to the performance of specific activities by the Company.

Pursuant to par. 28 subpar. 13 of the Company's Articles, in its Resolution No 35/XI/2018, on 25 May 2018, the Supervisory Board selected the entity authorized to perform financial audits – the company "Polscy Biegli" Spółka z o.o. based in Warszawa, to carry out the audit of the Company's Annual Report for the year 2018 and 2019 and the Consolidated Financial Report of the Capital Group for the year 2018 and 2018, as well as the semi-annual reviews. All the Supervisory Board's meetings are documented in the minutes recorded during such meetings.

Audit Committee

The Supervisory Board's activities were supported by the Audit Committee as an advisory and opinion-forming body, acting in the structure of the Supervisory Board, appointed from among of its members.

The scope of the Audit Committee's activities is defined in the Rules of Audit Committee passed by the Supervisory Board.

In the period from 1 January 2018 to 31 December 2018 the Audit Committee of the Stalprodukt S.A. Supervisory Board discharged its duties being composed of:

- Agata Sierpińska-Sawicz - Chairman
- Romuald Talarek – Vice-Chairman
- Magdalena Janeczek – Member.

Agata Sierpińska-Sawicz has knowledge and skills in the field of accounting or auditing of financial statements, at least one member of the Audit Committee has knowledge and skills in the industry in which Stalprodukt S.A. operates.

Two members of the Audit Committee, ie Ms. Agata Sierpińska-Sawicz and Mr. Romuald Talarek, are independent of the Company, ie meet the independence criteria referred to in Art. 129 (3) of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (Journal of Laws 2017, item 1089 of 06/06/2017).

In the period from 1 January 2018 to 31 December 2018, the Audit Committee held 3 minuted meetings, during which it adopted 9 resolutions.

Throughout the reporting period, the Audit Committee was monitoring the process of the financial reports' preparation and reported the results of their work to the Supervisory Board also submitting their recommendations concerning the assessment of the financial reports.

The Audit Committee actively cooperated with the certified auditor, carrying out the reviews of the semi-annual financial reports, and discussed the results of the annual financial reports.

Within the scope of their work the Audit Committee issued a recommendation concerning the choice of the certified auditor authorized to audit the financial reports.

Supervisory Board's Self-Assessment in 2018 r.

In the period from 1 January to 31 December 2018, the Supervisory Board (in its own opinion) correctly discharged its duties and fulfilled its tasks arising from the Company's Articles of Association and Rules of Supervisory Board as well as from the Code of Commercial Companies, consisting in the constant supervision exercised over the Company's activities.

The Supervisory Board monitored the Company's financial results and condition on an on-going basis.

The Company's Management Board informed the Supervisory Board on the Company's condition as well as on possible threats and risks related to the pursued activities.

Thanks to the appropriate competences enabling the Supervisory Board to fulfil its functions and efficient organization of work, the Supervisory Board effectively fulfilled its tasks defined in the Company's Articles of Association pursuing the Company's interest.

II. Assessment of the Stalprodukt S.A.'s economic and financial standing for the period from 1 January 2018 to 31 December 2018 including the internal audit systems, risk management and assessment of the Management Board's work.

On the basis of the Financial Report, Management Board's Report as well as the Certified Auditor's Opinion and Report, the Supervisory Board assesses the Company's financial standing as very good.

In the present assessment the following areas were taken into consideration:

- structure of assets and their financing sources,
- level of financial liquidity and debt,
- Company's profitability and factors shaping it.

Structure of the Assets and their Financing Sources

In 2018, the Company had assets worth PLN 2,218,872 thousand, which means that this property increased by 12.1% compared to the previous year. This increase was due to the purchase of GO Steel Frytek Mistek a.s. located in the Czech Republic and an increase in inventories. The purchase of the company will improve the company's competitiveness on the market, as it will be able to supply its customers in a complementary manner both with

standard transformer sheets and sheets with enhanced HiB sheet parameters. The steady growth of fixed and current assets did not change the structure of the company's assets. The company's fixed assets account for 68% of total assets. In 2018, the structure of current assets changed. Inventories increased from PLN 240.3 million in 2017 to PLN 377.1 million in the analyzed year, i.e. by 57.1%. This increase was the result of taking over inventories of finished products from Stalprodukt-Centrostal Kraków sp.z o.o. and changes in the method of settlements with this company, changes in the method of inventory valuation and the purchase of a charge of hot-rolled sheets in coils under a long-term agreement with ArcelorMittal Flat Carbon Europe S.A. (The "HRC Agreement"). Receivables increased by 16% compared to the previous year, while short-term investments decreased from PLN 137.8 million to PLN 51.1 million, i.e. by 63%. The funds accumulated at the end of the year were used to purchase the shares of GO Steel Frydek Mistek a.s. In 2018, the structure of current assets changed. Inventories accounted for 53.0% and receivables for 39.7% of total current assets. The share of short-term investments in current assets decreased from 22.0% in 2017 to 7.2% in 2018. One should also pay attention to the decrease in accruals by the amount of PLN 11.6 million, resulting from the transfer of major repairs to property, plant and equipment.

Due to a faster increase in liabilities as compared to equity, the structure of asset financing slightly changed. In 2017, equity financed 77.6% of the company's assets, and in 2018 it was 73.6%. Part of the equity in the form of net working capital was used to finance the operating activities of the company.

In 2017, liabilities and provisions for liabilities accounted for 22,4% of the total assets financing sources. In 2018, their share in the Company's assets financing decreased to the level of 26.4%. Such a way of financing of the Company's activities affects the ROE level. It should be added that a large equity share in the liabilities structure is typical for the metallurgical industry due to a substantial burden of the fixed assets and financial market fluctuations caused by the changing economic conditions. The book value per single share increased from PLN 275.085 in 2017 to PLN 273.24 in the analyzed year. The Company maintains the year-to-year cash balance and the funds remaining towards the end of the year are appropriated for the on-going expenses related to the operating activities and for the investments in the following year. The liquidity of the particular elements of current assets is translated into the financial liquidity determining the Company's capacity to settle its liabilities on time.

Financial Liquidity and Debt Level Assessment

In 2018, as in the previous years, the Management Board attached great importance to the maintenance of financial liquidity. The Company punctually settled its liabilities both in respect of its employees, the state budget, banks and in respect of the suppliers.

The financial liquidity measurement was based on the Company's current assets figure, operating cash level and current liabilities whose payback time is shorter than the reporting year.

In 2018, the current financial liquidity ratio increased compared to the previous year, mainly as a result of an increase in current assets - inventories and receivables.

During five consecutive years the financial liquidity ratios reached the following levels:

<i>Itemization</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
<i>Current Ratios</i>	<i>1.7</i>	<i>1.85</i>	<i>1.33</i>	<i>1.67</i>	<i>1,75</i>
<i>Quick Ratios</i>	<i>0.77</i>	<i>0.91</i>	<i>0.72</i>	<i>0.92</i>	<i>0,82</i>
<i>Short-Term Investment Ratios</i>	<i>0.12</i>	<i>0.05</i>	<i>0.13</i>	<i>0.28</i>	<i>0,13</i>
<i>Cash Ratios</i>	<i>0.18</i>	<i>0.73</i>	<i>0.22</i>	<i>0.21</i>	<i>-0,06</i>

On the other hand, the accelerated liquidity ratio decreased from 0.92 in 2017 to 0.82 in the analyzed year. The cash liquidity ratio, calculated as the relation of operating cash flows to short-term liabilities, clearly deteriorated. While in 2017, PLN 1 of current liabilities corresponded to PLN 0.21 of the generated operating cash, in the analyzed year the shortage of cash was PLN 0.01 per PLN 1 of current liabilities. The generated cash was not enough to cover the increase in inventories and receivables. In the event of a shortage of funds to finance operating activities, the company used loans. The company had agreements for credit lines with several banks, which it could use flexibly as needed, which allowed it to fully secure its financial liquidity.

The cash flow statement was used to make the assessment of the Company's financial condition. It shows which areas of activity generated funds and which ones absorbed them.

In consecutive years cash flows fluctuated as follows (PLN thousand):

	2014	2015	2016	2017	2018
<i>- net cash flows from operating activities</i>	<i>+57 894</i>	<i>+190 484</i>	<i>+102 096</i>	<i>+79 026</i>	<i>-24 996</i>
<i>- net cash flows from investments</i>	<i>- 49 594</i>	<i>-58 295</i>	<i>- 39 200</i>	<i>+72 170</i>	<i>-58 943</i>
<i>- net cash flows from financial activities</i>	<i>- 7 769</i>	<i>-150 812</i>	<i>- 63 477</i>	<i>-63 501</i>	<i>+4 780</i>

- balance sheet change in cash	+531	-18 623	- 581	+87 695	-79 159
- cash at the end of the year	+38 280	+19 659	+19 076	+106 771	+27 612

The major part of the funds generated from the operating activities was absorbed by the financial activities. In 2018, the Company had at its disposal the total of PLN 111 551 thousand. (PLN 4 780 thousand of generated funds and PLN 106 771 thousands retained from the previous year) out of which the amount of PLN 24 996 thousand was appropriated for the financial activities, and PLN 27 612 thousand remained on the account to be allocated in 2019.

This way of operating cash allocation resulted from the fulfillment of the Company's development plans.

The Management Board's operating activity policy is reflected in the simplified operating cash structure presented underneath (PLN thousand):

	2014	2015	2016	2017	2017 retrosp.	2018
- profit before taxation					109 365	133 475
- net profit	27 151	108 661	95 731	100 054		
- depreciation	44 989	47 064	49 912	47 105	47 105	48 000
- profit adjustments	19 579	17 255	8 772	-81 711	-90 845	-92 871
- generated operating cash	91 719	172 980	154 415	65 448	65 625	88 604
- change in net working capital needs	-33 825	+17 504	- 52 319	+13 578	13 401	-113 600
- net cash flows from operating activities	57 894	190 484	102 096	79 026	79 026	-24 996

In 2018, the Company generated PLN 88 604 thousand, i.e. 35,4% more than in the previous year, from the net profit, depreciation and profit adjustments made in respect of the operations unrelated to the operating activities. The amount of PLN 113 600 thousand was appropriated to the financing of operating activities (increase of inventories and receivables). The shortage of funds was covered with the cash resources that the company had on bank accounts. The capital expenditure was also covered from these funds.

Assessment of Company's Profitability

For the Shareholders the return from the capital employed is the main indicator of the Company's financial condition. As in their investment-related decisions they are guided by the rate of return, comparing it with the alternative options for the allocation of available

funds. The Return on Sale is one of the determiners of the capital return. It was calculated at four levels of the Profit and Loss Account.

In the analyzed year the Return on Sales fluctuated as follows at the particular levels of the Profit and Loss Account:

Itemization	2014	2015	2016	2017	2018
<i>Return on Sales, %</i>	3.4	11.4	9.4	1.4	2.4
<i>Operating Margin, %</i>	2.9	10.8	9.5	1.5	2.1
<i>Gross Margin, %</i>	2.8	9.9	9.3	7.7	7.8
<i>Net Margin, %</i>	2.1	8.0	7.5	7.1	7.3

In 2018, a increase in relation to the previous year was recorded for both the return on sales and operating margin as well as gross and net margins. Considering the increase of the sales of products, goods and materials, by 21.4% compared to 2017, the profit on sales increase almost 100% , whereas the net profit figure was by 25% higher than in the previous year. At the remaining operating level, the deficit was PLN 4 856 thousand. The net profit was the result of the increase in financial revenues obtained from the subsidiary in the form of dividends. Financial income (received dividends and interest) amounted to PLN 108,460 thousand while financial costs only PLN 8,082 thousand. Gross profit was 3.5 times higher than the profit from core business.

The company's main export product is electrical sheet metal. In 2018, domestic sales accounted for only 5.8% of the total sales of transformer sheets expressed in tonnes. Total revenues from the sale of these sheets in 2018 increased by 6.3% compared to the previous year, mainly as a result of an increase in prices by approx. 7%, while the increase in revenues from domestic sales was 13.5%, and export sales amounted to 5.9 %. In terms of tonnage, sheet metal sales were almost the same as in the previous year. Revenues from the sale of sheets on the domestic market accounted for 6.8% of total revenues from the sale of these sheets. In the transformer sheet market, there are risks associated with excess production capacity in several countries producing sheets with the highest parameters. A positive phenomenon for the company on the sheet metal market in 2018 was the decrease in their imports by nearly a quarter compared to 2017. The prices of imported material also decreased, which increased competition on the market.

Sales of toroidal cores expressed in tonnes in 2018 increased by 16% compared to the previous year, and in terms of value it was an increase of over 22%. The improvement of the result on the domestic market was achieved through the sale of products with a higher degree of processing.

Cold-formed sections are the main product of domestic sales. 189,000 tonnes of these products were produced in 2018. Sales in terms of tonnage to the domestic market decreased by almost 8%, and export sales by 6.2%. Revenues from their sale in 2018 were almost the same as in the previous year. The structure of these revenues did not change either, domestic sales constituted 68.8% of revenues. This is a very good result considering the very strong competition in the market. In 2018, the import of g / m sections increased by 19% (nearly 300 thousand tonnes), mainly from Ukraine, Belarus, Italy and Russia. At the same time, exports of closed cold-formed sections decreased by 101 thousand tons, i.e. by 11%.

The sale of road barriers in terms of tonnage in 2018 was higher than in the previous year by 18.5 %, and the increase in revenues from the sale of barriers was 24.5%. In the analyzed year, export sales accounted for 22.4% of total revenues from their sale, and in terms of tonnage it was 25%.

Revenues from the sale of sheet metal and cold and hot-rolled strips in service centers in 2018 were lower than in the previous year by as much as 27.5%, with the decrease in export revenues amounted to 48.6%. This state of affairs was the result of excessive production capacity in the area of centers and the persistent low prices on the market. Moreover, strong competition from the steelworks service centers made it difficult for independent service centers to function.

The changed sales structure caused by the varying profitability levels in particular product groups, undoubtedly, had an impact the Company's financial result.

In 2018, the Return on Assets (ROA) and Return on Equity (ROE) slightly increased. These ratios were calculated as the proportion of net profit to annual average value of assets and equity.

This is reflected by the following data:

<i>Return on Assets (ROA), %</i>	2014	2015	2016	2017	2018
<i>Return on Equity (ROE), %</i>	1.4	5.7	5.0	5.1	6.0
<i>Capital multiplier (Assets/Equity), (multiplexing)</i>	1.77	7.0	6.4	6.7	7.9
<i>Rotation of Assets, (multiplexing)</i>	1.26	1.23	1.35	1.32	1.33
<i>Return on Assets (ROA), %</i>	0.66	0.71	0.67	0.66	0.76

In 2018, the Return on Equity increased and reached the level of 7.9%. This was due to the increase of net profit and changes in equity. The Return on Assets increased to a low degree by only 0.1 of a percentage point.

Apart from the Return on Equity, the level of benefits generated for the Shareholders could also be expressed with the Shareholder Value, which is reflected in the table underneath:

<i>Itemization</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>
<i>Number of shares, thousands of items</i>	<i>6725</i>	<i>6725</i>	<i>5580</i>	<i>5 580</i>	<i>5580</i>
<i>Share price (last quotation in December)</i>	<i>404.50</i>	<i>299.00</i>	<i>525</i>	<i>504.50</i>	<i>320</i>
<i>MV PLN thousand</i>	<i>2 720 262</i>	<i>2 010 775</i>	<i>2 929 500</i>	<i>2 815 110</i>	<i>1 785 600</i>
<i>Equity, PLN thousand</i>	<i>1 547 862</i>	<i>1 554 115</i>	<i>1 451 688</i>	<i>1 535 001</i>	<i>1 632 876</i>
<i>MVA, PLN thousand</i>	<i>1 172 400</i>	<i>+456 660</i>	<i>1 477 812</i>	<i>1280 109</i>	<i>152 724</i>

The capital market valued the Company much above its book value. This valuation is 9.3% higher than the book value. Towards the end of 2018, the shares were valued by the stock market slightly lower than towards the end of the previous year. Net profit per share in 2018 was 22.41 compared to PLN 17.93 in 2017. During the recent several years, the Company has not issued any shares, has not used up any extra shareholding capital, and its development was mainly financed from the profits retained after the disbursement of dividends. Considering the disbursed dividends, it is worth underlining that in the long-term perspective Stalprodukt generated a satisfactory rate of capital return for the Company's Shareholders.

Assessment of Management Board's Work

The Supervisory Board highly appreciates the Management Board's work in 2017. The steel market conditions are still very difficult due to the production overcapacity especially affecting the transformer sheets area, their oversupply on the market and excessive imports.

Among the Management Board's main achievements there are:

Taking care of the company's good position on the market. In the conditions of excess production capacity and import of steel products, maintaining the company's competitiveness on the market required an exceptional effort of the Management Board. The company's core business profit was twice as high as in the previous year. The Management Board flexibly responded to the increasingly complex market needs by changing the product structure,

improving product quality, ensuring timely deliveries, or changes in market prices. Flexible response to the needs of recipients is facilitated by our own distribution network.

Rational financial risk management. The Management Board applies a risk avoidance or hedging strategy. The company is exposed to credit risk, liquidity risk and market risk - interest rate and currency risk. The Management Board flexibly applies various types of instruments securing the Company against the aforementioned risks.

Rational trade credit policy. The Management Board runs a credit risk management policy based on the Credit Procedure. It uses various trade credit instruments and flexibly shapes 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. In 2018, overdue receivables accounted for 8% of trade receivables. The ratio of overdue receivables below 10% proves the rational management of the company's receivables.

Taking care of the Company's maintained financial liquidity. The financial liquidity ratios stand at a rational level. The Company uses short-term credits to finance its operating activities. Towards the end of the year the Company's debt accounted for only 10.72% in relation to equity. In the previous year it was 4.35%. In 2018, the company managed its capital properly. The basic ratios related to the capital structure and working capital management, specified in the financial plan, reached the expected values, which enabled the Company to achieve its goals, operate efficiently and reliably, and raise funds for further development.

Good level of assets and financial standing. The Company is not indebted, which allows for the use of diversified forms of its financing. Preserving the capital-cash balance, both in the short-term and long-term perspective, remains the object of the Management Board's constant concern. In order to achieve risk dispersion and reduction of borrowed capital costs the Management Board signed a few agreements with banks, diversifying the potential providers of short-term credits, mainly to secure supplies and letters of credit.

The Company enjoys a huge development potential, based both on its own resources, and possible wide use of the debt market.

Correct management of supply and sales processes. The Management Board takes care of diversifying the Company's supply markets in order to reduce the risk from disrupted supplies of charge material, on-time order fulfillment and maintained storage of inventories at the optimal level.

Pursuing a rational information policy for the capital market. The Management Board tries to deliver accurate information to investors. At the end of 2018, the Company's goodwill was valued by the stock market by 9.3% higher than its book value was.

Evaluation of internal audit and risk management systems.

In the Supervisory Board's assessment, the present internal audit system and risk management system applicable in the Company allow for the systematic identification and control of risk related to the character and profile of the Company's activities.

The internal audit system as well as the risk management system were developed in the Company in a way taking into account the risks connected with the activities pursued by the Company.

III. Assessment of the Company's compliance with the obligatory disclosures concerning the application of the corporate governance rules, defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the issuers of securities

The Supervisory Board positively assesses the manner in which the disclosure obligations were fulfilled, concerning the application of the corporate governance rules defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the 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 activities carried out by Stalprodukt S.A. a policy in the field of sponsorship, charity or other activities of a similar nature.

V. Supervisory Board's Report on the Stalprodukt S.A.'s Financial Report assessment results for the fiscal year from 1 January to 31 December 2018.

Executing the tasks arising from art. 382 par. 3 of the Code of Commercial Companies and par. 28 subpar. 2 of the Company's Articles, the Supervisory Board assessed the Financial Report of the Stalprodukt S.A. Company for the reporting year from 1 January to 31 December 2018, consisting of:

1. Balance Sheet drawn up as of 31 December 2018 with the assets and liabilities amounting to PLN 2 218 872 thousand,

2. Profit and Loss Account and Comprehensive Income Statement for the period from 1 January 2018 to 31 December 2018, showing the comprehensive income and net profit amounting to PLN 125 048 thousand,
3. Statement of Changes in Equity for the period from 1 January 2018 to 31 December 2018 showing an increase in equity amounting to PLN 97 875 thousand,
4. Cash Flow Statement for the period from 1 January 2018 to 31 December 2018 showing an increase in cash amounting to PLN 79 159 thousand,
5. Additional Information on the adopted accounting principles and other explanatory information

The Stalprodukt S.A. Financial Report was audited by the company “Polscy Biegli” Spółka z o.o authorized to audit financial reports, based in Warszawa at ul. Józefa Bema 87 lok. 3U, recorded on the list of companies authorized to audit financial reports kept by the National Council of Certified Auditors as No 4159, which was selected by the Supervisory Board to carry out the audit.

The key statutory auditor responsible for the audit was Ms Katarzyna Kiec-Domańska (reg. No. 13309).

It is evident from the presented Independent Certified Auditor's Opinion that the audited financial report:

- presents a fair and clear picture of the Company's property and financial position as at December 31, 2018, as well as its financial result and cash flows for the financial year ended on that date in accordance with the applicable International Financial Reporting Standards approved by the European Union and the adopted accounting principles (policy)
- was prepared in all essential aspects in line with the International Financial Reporting Standards approved of by the European Union,
- stands in accordance in all essential aspects, as to its form and content, with the Regulation of the Minister of Finance as of 29 March 2018 regarding current and periodic information disclosed by the issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws 2018), hereinafter referred to as Regulation on current and periodic information as well as with provisions of the Company's Articles of Association affecting its content,
- has been prepared on the basis of properly kept, in all material aspects, accounting books in accordance with the provisions of chapter 2 of the Act of September 29, 1994 on

accounting ("Accounting Act", Journal of Laws of 2018, item 351 with subsequent amendments).

After the analysis of the Stalprodukt S.A. Financial Report prepared for the reporting year covering the period from 1 January 2018 to 31 December 2018 and after getting familiar with the Certified Auditor's Opinion and Report, by the recommendation from the Audit Committee as well as on the basis of its own analyses, the Supervisory Board states that in their assessment the Stalprodukt S.A. Financial Report prepared for the reporting year covering the period from 1 January to 31 December 2018 – as of the day 31 December 2018 – was drawn up correctly, in accordance with the applicable legal provisions, stands in accordance with the relevant books and documents as well as with the factual circumstances and it accurately and clearly presents the information essential for the assessment of the Company's assets and financial standing.

VI. Assessment of the Stalprodukt S.A. Capital Group's Consolidated Financial Report for the reporting year from 1 January to 31 December 2018 and Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the year 2018.

The Supervisory Board assessed Management Board's Report on the Stalprodukt S.A. Capital Group's Activities and Consolidated Financial Report for the reporting year from 1 January to 31 December 2018, consisting of:

1. Consolidated Balance Sheet drawn up as of 31 December 2018, which shows the assets and liabilities amounting to PLN 4 357 371 thousand,
2. Consolidated Profit and Loss Account for the period from 1 January 2018 to 31 December 2018 showing a net profit amounting to PLN 284 652 thousand,
3. Consolidated Statement of Comprehensive Income for the period from 1 January 2018 to 31 December 2018 showing the total comprehensive income amounting to PLN 476 918 thousand,
4. Statement of Changes in Consolidated Equity for the period from 1 January 2018 to 31 December 2018 showing an increase in equity amounting to PLN 464 172 thousand,
5. Consolidated Cash Flow Statement for the period from 1 January 2018 to 31 December 2018 showing an increase of cash amounting to PLN 25 451 thousand,
6. Additional information on the adopted accounting principles (policy) and other explanatory information

After the analysis of the Stalprodukt S.A. Capital Group's Consolidated Financial Report as well as Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the period from 1 January 2018 to 31 December 2018, after getting familiar with the Certified Auditor's Opinion and Report, by recommendation of the Audit Committee, the Supervisory Board assesses that the reports concerned contain all the required elements, were prepared correctly in accordance with the applicable legal provisions, stand in accordance with the relevant books and documents as well as with the factual circumstances and they accurately and clearly present the information essential for the assessment of Stalprodukt S.A. Capital Group's assets and financial standing.

VII. Assessment of Stalprodukt S.A. Management Board's Report on the Stalprodukt S.A. Company's Activities for the period from 1 January 2018 to 31 December 2018.

Fulfilling its tasks arising from art. 382, par. 3 of the Code of Commercial Companies and par. 28, subpar. 2 of the Company's Articles, the Supervisory Board assessed the Management Board's Report on the Stalprodukt S.A. Activities prepared for the period from 1 January 2018 to 31 December 2018.

Throughout the reporting period the Company's Management Board consisted of:

- | | |
|------------------|--|
| - Piotr Janeczek | - President of the Board Chief Executive Officer |
| - Józef Ryszka | - Member of the Board Marketing Director |
| - Łukasz Mentel | - Member of the Board Financial Director |

After the analysis of the Management Board's Report on the Stalprodukt S.A. Company's Activities prepared for the year 2018, the Supervisory Board states that in their opinion the report concerned was drawn up correctly, contains all the required elements, stands in accordance with the relevant books and documents as well as with the factual circumstances and it accurately and clearly presents the Company's standing in the reporting period. The Company's Management Board duly indicates the threats and risks to the pursued activities and describes the course of events having a major impact on the Company's activities.

The sales results, the positive financial result as well as the balance sheet structure, which are reflected in the economic ratios, allow the Supervisory Board to highly appreciate the Management Board's activities throughout the year 2018.

The Supervisory Board states that the Management Board's Report on the Company's Activities for the reporting year covering the period from 1 January to 31 December 2018 contains all the information required by the legal provisions. The financial data presented

in the Management Board's Report stand in accordance with the information contained in the audited Financial Report prepared for the period from 1 January 2018 to 31 December 2018.

The Company's Management Board enclosed their corporate governance statement in the submitted Report.

The completeness of the Management Board's Report on the Company's Activities for the year 2018 and its consistence in respect of the information disclosed therein was confirmed by a certified auditor.

As a result of the assessment, guided by the positive Certified Auditor's Opinion, the Supervisory Board recommends that the Ordinary General Meeting should approve of the Management Board's Report on the Stalprodukt S.A. Company's Activities for the period from 1 January 2017 to 31 December 2018 and Stalprodukt S.A.'s Financial Report for the reporting year from 1 January to 31 December 2018 as well as the Consolidated Financial Report for the reporting year from 1 January 2018 to 31 December 2018, adopting respective resolutions.

The Supervisory Board files a motion with the Ordinary General Meeting of Stalprodukt S.A to grant:

- a vote of absolute approval to Mr. Piotr Janeczek for discharging his duties in the year 2018 related to his function as the President of the Company's Management Board exercised in the period from 1 January to 31 December 2018,
- a vote of absolute approval to Mr. Józef Ryszka for discharging his duties in the year 2018 related to his function of the Member of the Company's Management Board exercised in the period from 1 January to 31 December 2018,
- a vote of absolute approval to Mr. Łukasz Mentel for discharging his duties in the year 2018 related to his function of the Member of the Company's Management Board in the year 2018 exercised in the period from 1 January to 31 December 2018 .

VIII. Assessment of the Management Board's motion concerning the distribution of the net profit for the year 2018.

Acting pursuant to art. 382, par. 3 of the Code of Commercial Companies and par. 28 subpar. 2 of the Company's Articles of Association, the Supervisory Board, having got familiar with the Audit Committee, approves of the Company's Management Board's motion concerning the distribution of the net profit generated by Stalprodukt S.A. in the following way:

· dividend	-	PLN 27,901,335.00
· reserve capital	-	PLN 97,146,402.82
· total	-	PLN 125,047,737.82

The Supervisory Board expresses its opinion that the motion submitted by the Stalprodukt S.A. Management Board, concerning the distribution of the net profit for the year 2018, stands in accordance with the Company's policy and recommends that the Ordinary General Meeting should adopt a resolution on the distribution of the net profit for the year 2018 in accordance with the suggestion included in the Company's Management Board's motion.

VIII. Conclusion.

The present Report presents the main directions of the Stalprodukt S.A. Supervisory Board's activities in the year 2018.

The individual opinions as well as the Certified Auditor's Opinion presented herein allow the Supervisory Board to give a positive assessment to the Company's standing in the year 2018. In the assessment of the Supervisory Board, the Company's Management Board exercised due diligence for the Company to achieve the best possible results, therefore the Supervisory Board highly appreciated the activities and work performed by the Company's Management Board in the entire year 2018.

All the Members of the Supervisory Board exercised due diligence discharging their duties, making use of their best knowledge with involvement and experience within the scope of their functions.

The present Report was examined and adopted by way of a resolution at the meeting of the Supervisory Board on 24 May 2019 with a view to be submitted to the Ordinary General Meeting of Shareholders of Stalprodukt S.A.

Signatures:

Janusz Bodek

Sanjay Samaddar

Magdalena Janeczek

(Chairman of Supervisory Board)

(Vice-Chairman of Supervisory Board)

(Secretary of Supervisory Board)

Agata Sierpińska Sawicz

Romuald Talarek

(Member of Supervisory Board)

(Member of Supervisory Board)