



Stalprodukt S.A.

REPORT

OF THE SUPERVISORY BOARD
OF STALPRODUKT S.A.
based in Bochnia

for 2022

Bochnia, May 2023

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 2022.
- II. Assessment of the economic and financial situation of Stalprodukt S.A. for the period from January 1, 2022 to December 31, 2022, 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 2022.
- 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, 2022.
- VII. Report of the Supervisory Board on the results of the assessment of the Report of the Management Board on the activities of Stalprodukt S.A. for the period from January 1, 2021 to December 31, 2022.
- VIII. Assessment of the motion of the Management Board of the Company regarding the distribution of the net profit for 2022.
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I. Activities and decisions of the Supervisory Board of Stalprodukt S.A. and the Audit Committee together with the self-assessment of the work of the Supervisory Board in 2022.

In the period from January 1, 2022 to December 31, 2022, the Supervisory Board acted on the basis of: the provisions of the Commercial Companies Code, the provisions of the Company's Articles of Association, the Regulations of the Supervisory Board of Stalprodukt S.A. as well as the corporate governance principles adopted by the Company set out in the Best Practices of Listed Companies WSE, by constantly supervising the Company's operations in all areas of its operation, as well as considering issues and motions submitted to the Supervisory Board meetings by the Company's Management Board.

Composition of the Supervisory Board in the reporting period:

In 2022, the Supervisory Board worked in the following composition:

Stanisław Kurnik - Chairman of the Supervisory Board

Sanjay Samaddar - Vice-Chairman of the Supervisory Board

Magdalena Janeczek - Secretary of the Supervisory Board

Agata Sierpińska-Sawicz - Member of the Supervisory Board

Romuald Talarek - Member of the Supervisory Board

Statutory activities

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

In the period from January 1, 2022 to December 31, 2022, the Supervisory Board held 3 stationary meetings, during which it adopted 30 resolutions and 8 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 2022, among others:

- analysed the quarterly financial results of the Company,
- assessed the Management Board's report on the Company's operations and the Company's financial statements for the financial year from 1 January to 31 December 2021, as well as the Management Board's motion regarding the distribution of net profit for the financial year from 1 January to 31 December 2021, 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 2021 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 2021,
- considered and gave opinions on the matters that were the subject of the Ordinary General Meeting of the Company,
- approved the Plan of Stalprodukt S.A. for 2022,
- adopted the Report on the remuneration of Members of the Management Board and Supervisory Board of Stalprodukt S.A. for the 2021,
- approved changes and updates to the consolidated text of the Organizational Regulations of Stalprodukt S.A.,
- approved the changes and adopted the consolidated text of the Regulations of the Management Board of Stalprodukt S.A.,
- adopted the Report on the periodic assessment of transactions with related parties for 2021 and the first half of 2022,
- approved changes and updates to the "Policy and procedures for selecting an audit firm and the policy for the provision of additional services by the audit firm, entities related to the audit firm or a member of its network at Stalprodukt S.A.,
- selected the entity authorized to audit financial statements for 2022 and 2023,
- appointed Members of the Management Board for the next term of office,
- adopted changes and approved the uniform text of the "Regulations of the Audit Committee of the Supervisory Board of Stalprodukt S.A."
- consented to the liquidation of the P3 Section of Bent Profiles in Kraków,
- and adopted resolutions in the scope of expressing consent to the performance of specific activities by the Company.

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

Audit Committee

The activities of the Supervisory Board were supported by the Audit Committee, an advisory and opinion-forming body operating within the structures of the Supervisory Board and 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 2022, 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. operate, this is Romuald Talarek.

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 2020 item 1415 dated 19.08.2020)

In the period from January 1, 2022 to December 31, 2022, the Audit Committee held 3 stationary meetings and 5 using means of direct remote communication.

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

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

Self-assessment of the work of the Supervisory Board in 2022

The Supervisory Board (in its opinion) in the period from 1 January to 31 December 2022 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 2022 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, 2022 to December 31, 2022, 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 2022, there were changes in the shaping of assets and their financing sources. In 2022, the Company had assets worth PLN 2,670,230 thousand, which means that this property increased by 9.7% compared to the previous year. Fixed assets decreased by 3.1%, mainly in the items Tangible assets (decrease by 2.7%), which account for over 51.7% of their total value. Long-term financial assets (shares and shares in subsidiaries) account for 36.5% of fixed assets. The decrease in their value in 2022 compared to the previous year was insignificant and amounted to 1.7%. The pledge value of financial assets is much lower than tangible assets (this reduces the possibility of incurring debt).

Current assets increased by 28.5% compared to 2021. In 2022, the Company recorded an increase in inventories by 5.3%, and short-term receivables increased by almost 10.0%. The company achieved exceptionally high growth in cash and cash equivalents. These funds in 2022 increased almost 2.5 times compared to the previous year. These uneven changes in the dynamics of individual components of the company's assets resulted in changes in its structure.

The share of non-current assets in the company's total assets was 52.3% in 2022, while in the previous year it was 59.5%. In 2022, there was also a change in the structure of current assets. The share of inventories in this property decreased from 38.1% in 2022 to 46.5% in 2021. The share of receivables in current assets changed slightly and amounted to 32.2%, while in the previous year it was 31.1%, while the share of cash increased in the analyzed period from 15.5% in 2021 to 29.5%.

At the end of 2022, the Company had PLN 373.9 million on its account. The company maintains a cash balance, and the funds remaining at the end of the year are allocated to current expenses related to operating activities and to investments in the next year.

In 2022, there were also changes in the structure of financing sources. Equity in relation to the previous year increased by 14.7% (mainly in the item *other reserve capitals*). The Company's long-term liabilities decreased by 2.3% and short-term liabilities by 13.4%. The structure of asset financing changed slightly. Equity financed 83.4% of assets in 2022, compared to 79.7% a year earlier. With such a high degree of financing the company with equity, it can be concluded that the company has a strong financial position and is a reliable business partner on the market. It should be noted, however, that the predominance of equity in the structure of assets financing sources affects the level of the rate of return on this capital.

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 2022 amounted to PLN 966.2 million and it financed almost 76.2% of current assets while in 2021 it amounted to PLN 638.9 million and financed 64.8% of these assets. These data indicate a very high level of financing the operating activity with constant capital. On the one hand, this proves financial security, on the other hand, it may contribute to an increase in the average cost of capital and a decrease in the number of profitable investments when comparing their profitability with the average cost of capital

involved in their financing. However, the dynamic environment of the Company, strong competition, increase in energy prices and CO₂ charges, the risk of an increase in debt interest and risks related to the war in Ukraine, as well as fluctuations in the Company's financial result justify the conservative strategy of the Management Board in the area of financing operating activities.

Total liabilities financed only 16.6% of the company's assets, while in 2021 it was 20.3% of total sources of financing. The decrease in debt in the structure of liabilities was influenced by the increase in equity from the net profit generated in 2022. This profit increased by 80.9% compared to the previous year. Part of this profit will be allocated to dividends for shareholders in 2023. When assessing the structure of assets and sources of their financing, the specificity of highly capital-intensive industries should be taken into account. The metallurgical industry is one of them, characterized by a high share of equity in the structure of liabilities due to a significant burden on assets with fixed assets and fluctuations in the financial result under the influence of economic changes. In addition, traditional industries are not highly valued by the stock exchange, especially in conditions of strong market competition. At the end of the year, the stock market valued the shares of Stalprodukt S.A. PLN 238 each, while their book value was PLN 399, which was 67.6% higher than the market value.

Assessment of financial liquidity and debt level

In its assessment, the Supervisory Board emphasizes that the Company's Management Board attaches great importance to the problem of maintaining financial liquidity, i.e. the ability to timely pay due liabilities, pursuing a well-thought-out and effective policy in this regard. The company settled its liabilities towards employees, budget, banks and suppliers in a timely manner. Financial liquidity was measured based on: the size of the Company's current assets, the level of operating cash and current liabilities, the payback period of which is shorter than the financial year.

In 2022, the current financial liquidity ratio increased compared to the previous year, mainly as a result of a faster increase in current assets than short-term liabilities. Current assets were over 4 times higher than payables during the financial year.

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

<i>Specification</i>	2017	2018	2019	2020	2021	2022
<i>Current financial liquidity ratios</i>	1,67	1,75	2,41	3,08	2,84	4,21
<i>Acid liquidity ratios</i>	0,92	0,82	1,27	1,91	1,52	2,60
<i>Short-term investment indicators</i>	0,28	0,13	0,29	0,95	0,45	1,24
<i>Cash liquidity ratios</i>	0,21	-0,06	0,45	0,63	-0,01	0,76

The acid liquidity ratio also increased from 1.52 in 2021 to 2.60 in the analysed year, which means that liquid assets (receivables + short-term investments) were almost one and a half as high as current liabilities. The cash liquidity ratio, calculated as the relation of operating cash

flows to current liabilities, was at a very high level. In 2022, PLN 0.76 of operating cash per PLN 1 of short-term debt and in 2021, the shortage of operating cash was PLN 0.01.

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

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

	2018	2019	2020	2021	2022
- net cash flow from operating activities	-24 996	+115 108	+141 301	-2 095	229 231
- net cash flow in the investment area	-58 943	+79 386	+26 146	+23 051	142 685
- net cash flows from financing activities	+4 780	- 170 484	-25 523	- 61 539	-151 019
- balance sheet change in cash	-79 159	+24 010	+141 924	- 40 583	220 897
- cash at the end of the year	+27 612	+51 621	+193 545	+152 962	373 859

The company generated PLN 229,231 thousand free funds in operating activities. The generated cash covered the needs in the financial area, and the remaining part was accumulated in the bank account, similarly to the funds generated in the investment area. These funds will be allocated to the implementation of strategic investment projects in the coming years.

In 2022, the Company had at its disposal a total of PLN 524,878 thousand (PLN 229,231 thousand from operating activities, PLN 142,685 from investing activities and PLN 152,962 thousand in the account), of which PLN 151,019 thousand was allocated for financial activities, and PLN 373,859 thousand remained on the account to be used in 2023. Among the inflows in the investment area, the dividend from subsidiaries amounted to PLN 143,362 thousand. The Company spent only PLN 16,118 thousand on the purchase of property, plant and equipment and intangible assets with depreciation amounting to PLN 53,025 thousand, which means that it did not carry out a simple reproduction of tangible assets.

The increase in the prices of raw materials, fuels and energy, the increase in inflation and interest rates as well as the uncertainty of the economic situation of recipients of finished products adversely affected some areas of the Company's operations, e.g. on the level of investments.

Company profitability assessment

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

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

Specification	2018	2019	2019*	2020	2021	2022
<i>Sales profitability,%</i>	2,4	- 0,1	1,3	0,9	11,9	13,84
<i>Operating profitability,%</i>	2,1	-3,0	1,0	1,8	11,4	12,11
<i>Gross profitability,%</i>	7,8	5,9	7,1	4,2	12,5	15,89
<i>Net profitability,%</i>	7,3	5,7	6,9	4,1	10,7	13,61

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 2022, there was a clear increase in profitability compared to the previous year, both in terms of sales profitability and gross and net profitability. In 2022, operating revenues (sales revenues, operating and financial revenues) reached PLN 2,924,719 thousand, which means an increase of 41,7% compared to 2021.

The company generated a profit at the level of operating activities in the amount of PLN 336,452 thousand, while a year earlier the amount of this profit was 44.9% lower. Net profit in 2022 amounted to PLN 398,121 thousand and was higher than the net profit from the previous year by 80.9%, while EBITDA amounted to PLN 389,477 thousand and was higher than in 2021 by 38.9%. The company recorded an increase in sales in terms of value in all sales segments. Financial income, mainly from dividends received from subsidiaries, amounted to PLN 146,832 thousand. Dividend income recognized in the profit and loss account does not increase the tax base (it is a net amount), because the tax is paid at source, i.e. by the company paying the dividend tax rate was lower than the nominal rate (19%) and in 2022 it amounted to 14.4%.

The increase in sales revenues and the financial result was mainly influenced by the increase in the prices of metallurgical products.

The main export product of the Company are electrotechnical sheets.

In 2022, domestic sales accounted for only 4.4% of the total sales value of transformer sheets. Revenues from export sales of sheets increased by 83.9%. **One third of the sales went to Italian customers, about 20% of the sheets were delivered to Mexico, and countries such as India, Austria, Germany and Croatia had a share in export sales of 6-7%.** Domestic revenues from the sale of these sheets in 2022 increased by 25.1% compared to the previous year. Total revenues from the sale of electrical sheets in 2022 increased by 80.2% compared to 2021. Imports of transformer sheets to Poland in the period of 12 months of 2022 increased by 15% compared to 2021 and reached 9.7 thousand. tone. One third of sheet metal imports come from Germany, and countries such as France, Italy, the Czech Republic and China each accounted for approx. 12% of total sheet metal imports. Prices of imported sheets increased by 73%, and domestic prices were higher by 69%. The high increase in prices of transformer sheets was largely influenced by the risk of shortages on the market caused by the war in Ukraine and the epidemic situation in China. In 2022, an exceptionally large amount of sheet

metal was imported to European countries, which had a negative impact on production in European companies.

In 2022, **sales of transformer cores and fittings** in value terms increased by **55.8%**. **29.4%** of the production of these products was sold in the country, and over **70%** was exported. Despite strong market competition, we managed to increase sales in terms of tonnage by 4.4%, mainly for export (10.4%), while domestic sales fell by over 7.0%. The main recipients of the cores were Italian companies. The company faces very strong competition in the form of imports, mainly from Turkey (80.0%), as well as Italy, Slovakia and Germany. Competing on the market of these products is more and more difficult for technological reasons. Customers prefer shopping in a place where you can buy components for various types of transformers and at an attractive market price.

Cold bent sections are the basic product of domestic sales. In 2022, 139.7 thousand tonnes were produced, while the year before it was 152.9 thousand tons of these products. Sales of z/g sections in terms of tonnage are systematically decreasing. In 2022, domestic sales decreased by 7.1% and export sales by 12.1%. 70% of production was sold on the Polish market, while the rest (30.0%) was sold to foreign markets. The increase in the prices of sections by 21% compared to 2021 allowed for an increase in the value of sales revenues by 8.5%, while export revenues increased by 13.4%. In the domestic apparent consumption of cold-formed sections, the Company estimates its share at approximately 23%, and its share in Polish exports was approximately 32%.

Sales of road barriers in terms of tonnage in 2022 was lower than in the previous year by 3.6%, while the increase in revenues from the sale of barriers was 21.6%. The prices of road barriers increased by 26% in the country and by 24% in export sales. 66% of the barriers produced were sold in Poland. The company has the ability to develop this segment of products under the conditions of the adopted program for the construction of bypasses, expressways and motorways until 2030.

Weaker results in 2022 were achieved by **the Sheet Metal Service Centre**. 11.9 thousand ton were sold of sheets for PLN 61.6 million, which means a decrease in the volume by 13.6% compared to the previous year and a decrease in sales revenue by 2.4%. The prices of the segment's products increased by 13%. Domestic sales in terms of tonnage accounted for 94.4% of total sales. Revenues from export sales increased by 8.4%, while revenues from domestic sales decreased by 3.2%. The sale of the service center is not significant in the total financial result, as the total revenue of the service center is only 2.7% of the revenue from the sale of products, goods and materials.

In 2022, **the other activity segment**, which mainly covers the sale of goods, recorded an increase in sales revenues by 14.7% compared to 2021. The increase in the prices of finished products had the greatest impact on the Company's financial result. The result of the sheet metal segment increased by 148.4%, the result of the profile segment decreased by 55.7% and the result of the other activity increased by 57.4%.

The return on the Company's assets and equity in 2022 increased. These ratios were calculated as the ratio of net profit to the average annual value of assets and equity.

This is illustrated by the following data:

Specification	2018	2019	2019*	2020	2021	2022
<i>Return on assets (ROA),%</i>	6,0	4,3	5,2	2,5	9,6	15,60
<i>Return on equity (ROE),%</i>	7,9	5,6	6,8	3,2	11,9	19,10
<i>Capital multiplier (assets / equity), (times)</i>	1,33	1,32	1,32	1,26	1,24	1,22

* data restated in accordance with the Financial Statements for 2020

The rate of return on equity increased from 11.9% in 2021 to 19.10% in the analyzed year. The return on assets also increased from 9.6% to 15.60%. Such a good result was due to a significant increase in net profit with an increase in equity by 14.7%.

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

Specification	2018	2019	2020	2021	2022
<i>Number of shares, thous. pcs</i>	5580	5 580	5 580	5 580	5580
<i>Share price (last December quotation)</i>	320	181,60	300,50	263,50	238
<i>MV thous. PLN</i>	1 785 600	1 013 376	1 676 870	1470 330	1 328 040
<i>Equity, thous. PLN</i>	1 632 876	1 699 505	1 754 349	1 940 931	2 226 021
<i>MVA, thous. PLN</i>	152 724	- 686 129	- 77 479	- 470 601	-898 881

At the end of 2022, the capital market valued the Company well below its book value. The book value of one share in 2022 was PLN 399.07 and was higher than in the previous year by 14.7%. At the end of the year, the book value of the shares was 67.7% higher than the share price from the last listing in December 2022. Net profit per share in 2022 increased and amounted to PLN 71.34 compared to PLN 39.44 in the previous year. Over the last dozen or so years, the company has not issued shares, has not used any additional shareholders' capital, and the development was financed mainly from profits retained after dividends have been paid and, periodically, from external capital. In the longer term, taking into account the dividends paid and changes in share prices, Stalprodukt generated a satisfactory rate of return on capital for its shareholders. It should be emphasized that investments in equities are long-term instruments and due to fluctuations in the economic situation on the capital markets in short periods, this rate is also subject to significant changes.

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

The Supervisory Board highly appreciated the work of the Company's Management Board in 2022. Conditions on the steel market have been and still are difficult due to strong competition and large imports of steel products. In addition, changes in the prices of technological input and energy resulting from the war in Ukraine and excessive production capacity in many countries in relation to their domestic consumption affect competition on the market.

The success of the Management Board in the analyzed financial year was:

- **obtaining exceptionally high financial results, strengthening the company's financial stability**, which reduces the need to use external capital to finance the Company's operations, and with relatively high interest rates, it improves the Company's financial results. High financial results are the result of the Management Board's flexible response to market needs and adjustment of product prices to the level and behavior of the competition. The company has a very good cash position, which ensures its financial liquidity. In order to maintain the Company's competitiveness on the market, the Management Board responds flexibly to market needs by changing the assortment structure, improving product quality, ensuring timely deliveries or changes in market prices. Maintaining the Company's market position in the conditions of high volatility of market risk and competition from imports required a lot of effort on the part of the Management Board.
- **maintaining short- and long-term capital and cash balance**. At the end of 2022, the company did not use bank loans, and under lease agreements it was only PLN 75.1 million and concerned the right of perpetual usufruct of land defined by IFRS16 as leasing. The Company has agreements with banks for multi-purpose lines of credit, aimed at securing supplies and letters of credit and maintaining the ability to pay liabilities on time. The company has a large capital potential in the form of equity. It also has the ability to make extensive use of the debt market, and can diversify its activities to limit the impact of industry cycles on financial results. The Company's financial results and assets and capital situation indicate that it can effectively modernize its production technologies, launch the production of new products and implement broadly understood development as well as implement projects in the field of environmental protection.
- **taking care of maintaining the Company's financial liquidity**. Financial liquidity ratios are at a very high level. Current assets are financed with net working capital and spontaneous liabilities. Proper capital management is particularly important in the conditions of fluctuating market of steel products and high competition. At the end of 2022, the Company had almost PLN 373.8 million in the account, which constitutes 29.5% of current assets. These are funds generated in operating activities (net profit + depreciation) and investing activities (dividends) of the Company.
- **proper management of procurement and sales processes**. The Company maintains a reasonable stock of raw materials and materials as well as finished products ensuring continuity of supplies to the sales market. This is extremely important in the conditions of strong market competition and imports of products. Stocks of raw materials and consumables accounted for 58.2% of total stocks. The Management Board conducts systematic activities to ensure continuity and regularity of deliveries and diversification of sources of supply for

technological inputs in order to fulfill orders on time and maintain the volume of inventories at an optimal level. The purpose of inventory management in the Company is to balance the benefits and costs associated with their management.

- **rational trade credit policy.** The Management Board carefully conducts a trade credit policy. It uses various trade credit instruments and flexibly shapes the prices of final products in order to limit the risk of non-recovery of receivables. Overdue receivables in 2022 accounted for 9.4% of receivables from buyers, compared to 7.8% in the previous year. This slight increase in overdue receivables in the conditions of payment backlogs in the economy, high rate of loans and limited possibilities of taking them proves that trade credit policy instruments have been well selected and used by the Management Board. The risk of a possible failure to recover overdue receivables was limited by collateral such as: bank guarantees, sureties and promissory notes. In addition, the trade credit risk is mitigated by activities related to selecting contractors with good creditworthiness, setting credit limits for them, payment security policy and ongoing monitoring in accordance with applicable procedures.

- **rational financial risk management.** The Company's operations are exposed to various types of risk. The Company's financial risk management program focuses on the unpredictability of financial markets. The Management Board tries to minimize their potential negative impact on the Company's financial results. Financial risk management is conducted by the Finance and Risk Management Department subordinated to the Financial Director. In its operations, the Company is exposed to credit and contract risk, liquidity risk and market risk related to changes in interest rates and exchange rates. The Management Board flexibly uses various types of instruments to hedge the Company against the listed risks. It consistently implements the adopted risk management policy, applies a risk avoidance strategy or a risk hedging strategy. The Company has full capacity to pay its liabilities on time, it is not exposed to currency risk resulting from exchange rate volatility due to the possibility of using natural hedging, it settles currency liabilities from sales revenues in foreign currencies. It is not exposed to the risk of changes in interest rates, as it does not use bank loans. The basic risks related to the Company's operations relate to the operating area and include possible restrictions in the supply of energy and raw materials, increase in electricity and gas prices, further tightening of regulations regarding climate policy, in particular the introduction of a new greenhouse gas reduction target and the effects of the so-called border carbon tax, including withdrawal of free CO₂ emission allowances. Risks are also generated by the formal and legal conditions of operations, such as market protection measures (duties and quotas), which significantly distort market competition. The Management Board of the Company systematically takes steps to improve the process of detecting and preventing possible economic crime. A considerable risk for the company results from the cyclicity in the steel industry and the intensifying market competition.

- **care for the environment and adherence to standards related to it. In the opinion of the Supervisory Board,** the Company's Management Board shows exceptional care for the natural environment. The implemented measures for the environment concern in particular the improvement of energy efficiency (e.g. by building a cogeneration source with a capacity of approx. 7MW, reconstruction of technological lines) and decarbonisation of production by

eliminating the use of steam coal, replacing gray hydrogen with green hydrogen and building own renewable energy sources. The company started the construction of a photovoltaic farm and a task related to the construction of a trigeneration source to replace a coal-fired boiler house was launched. In addition, actions are taken to reduce the consumption of raw materials, materials and energy, to reduce emissions of pollutants into the environment, to minimize the amount of waste generated and to deal with it properly, and to meet legal and other requirements relating to environmental aspects. At the same time, the Management Board cares about raising employees' awareness of the impact of their work on the natural environment and the consequences of not complying with the applicable rules of conduct.

Energy consumption decreased from PLN 0.77 GJ/1 thousand in 2021 to PLN 0.58 GJ/1 thousand per unit of revenue.

The extent of water reuse decreased from 52% in 2021 to 49.5% in 2022. The company uses various methods to reduce emissions into the atmosphere. For example, the dust emission sources are equipped with dust extraction systems, such as cyclone and multi-cyclone batteries and bag filters, while the sulfuric acid emission source is equipped with a two-chamber absorption scrubber. 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 assesses that the Management Board takes great care to adapt the Company's operations and its business model to the requirements of environmental protection. The management is trying to use renewable energy and advanced recycling techniques to effectively fit into the circular economy scheme.

- **conducting a rational information policy for the capital market.**

In the Supervisory Board's opinion, the Company's Management Board provides timely and reliable information to investors and clearly presents the company's strategy in the basic areas of its activity.

Summing up, the Supervisory Board positively evaluates the Company's activities in the entire scope of its operation: in the operational, investment and financial areas. The company pursues all its goals in a sustainable manner, based on well-understood rationality, including maintaining business continuity and implementation of plans, mitigating risks and meeting the challenges of market uncertainty, and effectively responding to the rapidly changing law regarding, among others, digital transformation and financial security, environmental protection. The Supervisory Board emphasizes that the Management Board cares with due diligence for the Company's position on the competitive market, for the Company's brand and its reputation as a reliable supplier of products and recipient of supply products. The company is highly rated by stakeholders, thanks to strong relationships with domestic and foreign clients, as well as shareholders on the stock market.

Evaluation of internal control and risk management systems.

In the opinion of the Supervisory Board, the internal control system and the risk management system used in the Company allow for systematic identification and control of risks related to the nature and profile of the Company's operations. The Polish economy remains strongly influenced by the effects of the war in Ukraine, which are reflected in the increase in the cost of energy and natural gas. High prices of CO₂ emission allowances had an impact on the increase in energy consumption costs. The increase in energy costs and the increase in inflation translated into an increase in the prices of many materials and finished products. Risks related to the economic situation on the local market and in the European Union countries, generating demand for the company's products, increase in the prices of input materials, increase in electricity prices, increase in the costs of the EU climate policy are monitored by the Company's Management Board, which systematically takes measures to limit their effects.

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

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

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

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

V. Assessment of the financial statements of Stalprodukt S.A. for the financial year from 1 January to 31 December 2022.

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 2022, which consists of:

- 1) balance sheet prepared as at December 31, 2022, which shows a PLN **2,670,230** thousand balance in assets and liabilities;

- 2) statement of profit and loss and statement of comprehensive income for the period from January 1, 2022 to December 31, 2022, showing comprehensive income and net profit of PLN **398,121** thousand;
- 3) statement of changes in equity for the period from January 1, 2022 to December 31, 2022, showing an increase in equity by the amount of PLN **285,990** thousand;
- 4) cash flow statement for the period from January 1, 2022 to December 31, 2022, showing an increase in cash by the amount of PLN **220,897** thousand;
- 5) additional information on the adopted accounting principles and other explanatory information.

The Supervisory Board got acquainted with the audit company KPW Audyt Sp. z o. o. The report on the audit of the separate annual financial statements, which shows that the audited financial statements:

- provides a reliable and clear picture of the entity's property and financial position as at December 31, 2022, as well as its financial result for the financial year from January 1, 2022 to December 31, 2022, 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 March 29, 2018 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 2018, item 757), 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 analyzing the financial statements of Stalprodukt S.A. prepared for the financial year covering the period from January 1, 2022 to December 31, 2022 and having read 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 states that in its opinion the financial statements of the Company Stalprodukt S.A. prepared for the financial year covering the period from January 1 to December 31, 2022 - as at December 31, 2022, has been prepared correctly, in accordance with applicable law, is consistent with the books and documents as well as with the facts, and presents information fairly and clearly significant for 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 2022 of the Stalprodukt S.A. Capital Group and the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for 2022.

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 2022, which consists of:

- 1) consolidated balance sheet prepared as at December 31, 2022, showing the assets and liabilities in the amount of PLN **5,181,355** thousand;
- 2) consolidated profit and loss account for the period from January 1, 2022 to December 31, 2022, showing a net profit of PLN **480,522** thousand,
- 3) consolidated statement of comprehensive income for the period from January 1, 2022 to December 31, 2022, showing total comprehensive income in the amount of PLN **594,386** thousand;
- 4) statement of changes in consolidated equity for the period from January 1, 2022 to December 31, 2022, showing an increase in equity by PLN **477,108** thousand,
- 5) consolidated cash flow statement for the period from January 1, 2022 to December 31, 2022, showing an increase in cash by the amount of PLN **113,471** thousand,
- 6) additional information on the adopted accounting principles (policy) and other explanatory information.

After analyzing the consolidated financial statements of the Stalprodukt S.A. Capital Group, as well as the Management Board's report on the activities of the Stalprodukt S.A. Capital Group for the period from January 1, 2022 to December 31, 2022, having read the opinion and report of the statutory auditor, the recommendation of the Audit Committee, the Supervisory Board assesses that the reports in question contain all the required elements, have been prepared correctly, in accordance with applicable law and present information significant for 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, 2022 to December 31, 2022.

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, 2022 to December 31, 2022.

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

- Piotr Janeczek - President of the Management Board, General Director in the period 01.01-31.12.2022

- Łukasz Mentel - Member of the Management Board, Financial Director in the period 01.01-31.12.2022

After analysing the report of the Management Board on the activities of Stalprodukt S.A. for 2022, 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.

The sales results achieved, the high financial result, as well as the balance sheet structure, reflected in the economic indicators, allow the Supervisory Board to assess the activities of the Management Board of the Company in the whole of 2022 very well.

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 2022 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, 2022 to December 31, 2022.

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 2022 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, 2022 to December 31, 2022 and the financial statements of Stalprodukt S.A. for the financial year from January 1 to December 31, 2022 as well as the consolidated financial statements for the financial year from January 1, 2022 to December 31, 2022 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 2022 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 2022,
- the acknowledgement of the fulfilment of the duties by Mr. Łukasz Mentel in 2022 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 2022.

VIII. Assessment of the application of the Management Board of the Company regarding the distribution of the net profit for 2022.

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 398,121,895.02 achieved by Stalprodukt S.A. in 2022 in the following way:

- dividend - PLN 80,993,970 ,
- reserve capital - PLN 317,127,925.02 .

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 2022 is justified and recommends the Ordinary General Meeting to adopt the resolution on the distribution of the net profit for the financial year 2022, 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 2022.

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 2022.

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 2022.

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 26, 2023 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)