



**Report on the activities  
of the Supervisory Board of Relpol S.A.  
for the year 2017**

**Warsaw, May 2018**

In accordance with the provisions of Article 382 §3 of the Code of Commercial Companies and the corporate governance principles adopted by Relpol S.A., the Supervisory Board presents a report which includes:

- I. Evaluation of the Relpol S.A.'s standing, including the system of internal control, risk management and internal audit function in 2017.
- II. Evaluation of the separate financial statements of Relpol S.A. and the consolidated financial statements of the Relpol Capital Group in 2017.
- III. Evaluation of the Management Board's report on the activities of Relpol S.A. and the Relpol Capital Group for 2017.
- IV. Evaluation of the Management Board's motion regarding the distribution of net profit for the financial year 2017.
- V. Recommendations of the Supervisory Board.
- VI. Composition of the Supervisory Board and its committees.
- VII. Activities of the Supervisory Board in 2017.
- VIII. Self-evaluation of the Supervisory Board's operations.
- IX. Evaluation of the manner in which the Company fulfils its information obligations regarding the application of corporate governance principles.
- X. Evaluation of the rationality of the sponsoring, charitable or similar policy pursued by the Company.

## **I. Evaluation of the Relpol S.A.'s standing, including the system of internal control, risk management and internal audit function in 2017.**

Based on the financial results obtained by the Company, the results of the audit of the financial statements of the Company and the Capital Group and year-round cooperation with the Management Board, the Supervisory Board estimates that the Company's standing has improved in recent years and is stable with prospects for further development.

The Supervisory Board monitors the effectiveness of systems of internal control, risk management and internal audit existing in the Company. Risk factors related to the Company and the Capital Group and sensitivity to these factors are described in the Management Board's report on the activities of the Company and the Capital Group for 2017. The Company's Management Board is responsible for the risk management system.

The Company's Management Board makes every effort to ensure the smooth operation of the systems of risk management, internal control and internal audit. This objective is accomplished based on:

- the division of competences related to making business decisions,
- the implemented risk management system,
- conducting internal audits,
- compliance with the regulations, procedures and instructions existing in the Company,
- the established method of financial reporting used by the Company,
- the regular evaluation of the Company's activities based on the prepared financial reports,
- the verification of the Company's financial statements by an independent statutory auditor.

The Company identified financial and non-financial risks in all areas of its operations and implemented the risk management system. All risks have been assessed.

The assessment of risks that may occur in Relpol and the planned improvement activities for these risks have been positively assessed by auditors of the PCBC S.A. certification body during the audit of systems of quality management according to the PN EN ISO 9001:2015 standard and environmental management according to the PN EN ISO 14001:2015 standard.

In addition, internal audits and the ongoing reporting system are carried out at the Company.

The internal auditor appointed by the Company conducts scheduled and ad hoc audits in various areas of the Company's operations, including compliance with internal procedures and regulations. The purpose of these audits is, among others, to identify possible irregularities, identify risk areas and analyse them, eliminate irregularities, indicate corrective processes, and monitor the implementation of post-audit tasks. The auditor's task is also to assist in the investigation, in cases of suspected fraud in the Company.

In the Supervisory Board's opinion, the internal control and internal audit systems applied in the Company allow to identify the problem and take the required preventive measures minimising the impact of the problem and its effects on the Company's activities.

## **II. Evaluation of the separate financial statements of Relpol S.A. and the consolidated financial statements of the Relpol Capital Group for 2017.**

Pursuant to the provisions of Article 382 § 3 of the Code of Commercial Companies, the Supervisory Board assessed the Company's separate financial statements for 2017, including:

- 1) A statement of financial position prepared as at 31 December 2017 with assets and liabilities in the amount of PLN 92,381 thousand;
- 2) A statement of comprehensive income for the period from 1 January to 31 December 2017 with a net profit of PLN 6,052 thousand and the total income in the amount of PLN 5,684 thousand;
- 3) A statement of changes in equity for the financial year from 1 January to 31 December 2017 with an increase in equity by the amount of PLN 1,841 thousand;
- 4) A cash flow statement for the financial year from 1 January to 31 December 2017 with a decrease in cash by the amount of PLN 3,385 thousand;
- 5) Additional information and explanations regarding their compliance with the books, documents and factual state;

and the evaluation of the consolidated financial statements for 2017 with:

- 1) A consolidated statement of financial position prepared as at 31 December 2017 with assets and liabilities in the amount of PLN 97,210 thousand;
- 2) A consolidated statement of comprehensive income for the period from 1 January to 31 December 2017 with a net profit of PLN 5,811 thousand and the total income in the amount of PLN 5,571 thousand;
- 3) A consolidated statement of changes in equity for the financial year from 1 January to 31 December 2017 with an increase in equity by the amount of PLN 894 thousand;
- 4) A consolidated cash flow statement for the financial year from 1 January to 31 December 2017 with a decrease in cash by the amount of PLN 4,207 thousand;
- 5) Additional information and explanations regarding their compliance with the books, documents and factual state.

At the Management Board's request, the Supervisory Board entrusted the audit of the financial statements for 2017 to the statutory auditor – Deloitte Polska Sp. z ograniczoną odpowiedzialnością sp. k. with registered office in Warsaw, entered in the list of entities authorised to audit statements under the number 73. From 18.03.2018, the Company operates under the name Deloitte Audyt Sp. z ograniczoną odpowiedzialnością sp. k. The results of the audit are contained in the independent statutory auditor's reports on the audit of the annual financial statements of Relpol S.A. and the Relpol Capital Group, which do not contain any objections to these reports.

The independent statutory auditor's report on the course and results of the audit is attached to the financial statements for 2017 submitted by the Company for approval by the Ordinary General Meeting of Shareholders.

Based on the independent statutory auditor's report covering the full results of the separate and consolidated financial statements for 2017 and after the recommendation of the Audit Committee, the Supervisory Board states that:

- a) the audited separate financial statements and consolidated financial statements present in a reliable and clear manner all information relevant for the evaluation of the financial position of the Company and the Capital Group as at 31 December 2017, as well as their financial result for the financial year from 1 January 2017 to 31 December 2017;
- b) the audited separate financial statements and consolidated financial statements were drawn in compliance with the adopted accounting principles (policy) arising from the International Accounting Standards, International Financial Reporting Standards and their related interpretations published as the implementing regulations of the European Commission, and in the scope which is not regulated by those Standards – according to the requirements of the Accounting Act and the executive acts issued on the basis thereof;
- c) the audited separate financial statements and consolidated financial statements are consistent in form and content with applicable laws and the provisions of the Company's Articles of Association;
- d) the audited separate financial statements and consolidated financial statements presents data in accordance with the requirements of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and conditions for recognising as equivalent information required by provision of law of non-member state (Journal of Laws of 2009, No. 33, item 259).

Considering the statutory auditor's report, the Supervisory Board positively assesses the Company's separate and consolidated financial statements for 2017 and requests the General Meeting of Shareholders to approve the separate financial statements of Relpol SA. and the consolidated financial statements of the Relpol Capital Group for the financial year 2017.

### **III. Evaluation of the Management Board's report on the activities of Relpol S.A. and the Relpol Capital Group for 2017.**

Performing its obligations, by way of a resolution no. 159/56/XIV/2016 adopted at the meeting on 1 December 2016, the Supervisory Board selected Deloitte Polska Sp. z o.o. spółka komandytowa with registered office in Warsaw as an auditing firm to review the semi-annual (separate and consolidated) financial statements, the Management Board's report on the activities of the Company and the Capital Group prepared for the period from 1 January

2017 to 30 June 2017, and to audit the (separate and consolidated) financial statements and the Management Board's report on the activities of the Company and the Capital Group for the period from 1 January 2017 to 31 December 2017.

The results of these audits constituted for the Supervisory Board, in its current composition, the basis for the evaluation of reports on the activities of the Company and the Capital Group. Based on the independent statutory auditor's reports on the statements of the Company, the Supervisory Board states that the Management Board's report on the activities of the Company and the Relpol Capital Group for 2017 reflects the activities of the Company and the Capital Group and presents figures as at 31 December 2017.

Taking into consideration the independent statutory auditor's report on the audit of the annual statements of the Company and the recommendation of the Audit Committee, the Supervisory Board positively evaluated the Management Board's report on the activities of Relpol S.A. and the Relpol Capital Group for 2017 and requests the General Meeting of Shareholders to approve this report as well as requests the General Meeting of Shareholders to grant a vote of acceptance to members of the Management Board of Relpol S.A. for the discharge of their duties in 2017.

#### **IV. Evaluation of the Management Board's request regarding the allocation of net profit for 2017.**

The Supervisory Board took note of the Management Board's request regarding the distribution of net profit for 2017 and the justification for this proposal.

The Supervisory Board issues a positive opinion on the Management Board's request to the General Meeting of Shareholders regarding the allocation of net profit for 2017, partly for the shareholders' dividends in the amount of PLN 3,843,677.20 and for supplementary capital in the remaining amount of PLN 2,207,565.22. Due to the development of the Company, there is a high demand for working capital.

#### **V. Recommendations of the Supervisory Board.**

The Supervisory Board positively evaluates the activities of the Company in 2017 and the reports presented to it for evaluation and, therefore, it recommends to the General Meeting of Shareholders of Relpol S.A. to:

1. Review and approve the report on the activities of the Supervisory Board for the financial year 2017 with the evaluation of the financial statements of Relpol S.A. for the year ended 31 December 2017, the evaluation of the financial statements of the Relpol S.A. Capital Group for the year ended 31 December 2017, the evaluation of the Management Board's report on the activities of the Company and the Relpol S.A. Capital Group in 2017 as well as the evaluation of the Management Board's request regarding the distribution of profit.
2. Approve the evaluation of the Company's position made by the Supervisory Board, including the evaluation of systems of internal control, risk management and internal audit function.
3. Review and approve the financial statements of Relpol S.A. for the financial year 2017.
4. Review and approve the financial statements of the Relpol Capital Group for the financial year 2017.
5. Review and approve the Management Board's report on the activities of Relpol S.A. and the Relpol S.A. Capital Group in 2017.

## VI. Composition of the Supervisory Board and its committees.

The current composition of the Supervisory Board:

<b>Name and surname, function in the Supervisory Board</b>	<b>Meeting the criterion of an independent member of the Supervisory Board</b>
Zbigniew Derdziuk – Chairman	Independent member of the SB
Piotr Osiński – Vice-Chairman	Does not meet the independence criteria
Adam Ambroziak	Does not meet the independence criteria
Agnieszka Trompka	Independent member of the SB
Dariusz Daniluk	Independent member of the SB

On 12.10.2017, Mr Rafał Mania gave in his resignation from the Member of the Supervisory Board.

In connection with this resignation, on the same day, the Supervisory Board appointed Mr Dariusz Daniluk in his place, by co-option.

The Supervisory Board operates based on the provisions of the Code of Commercial Companies, the Articles of Association and the By-Laws of the Supervisory Board, while guided by the legitimate interest of the Company and having in mind the welfare of its Shareholders. The Supervisory Board also operated as part of the Audit Committee and the Remuneration Committee.

At the meeting on 12/10/2017, the Supervisory Board appointed a new composition of the Audit Committee.

1. Zbigniew Derdziuk – Chairman
2. Agnieszka Trompka,
3. Dariusz Daniluk – from 12.10.2017.

Until 12.10.2017, Rafał Mania was a Member of the Audit Committee.

In addition, the Supervisory Board adopted resolutions adapting the Company's internal regulations to the newly applicable Act on statutory auditors. Relpol S.A., as an entity listed on the WSE, is a Public Interest Entity within the meaning of the Act and it complies with the requirements of the Audit Committee, the selection of the auditor and the audit of the independence of the auditor auditing the financial statements.

The Supervisory Board and the Audit Committee adopted the following documents:

1. The By-Laws of the Audit Committee.
2. The policy of selecting the auditing firm.
3. The policy for the auditing firm to provide permitted non-audit services.
4. The procedure for selecting the auditing firm.

In 2017, members of the Audit Committee performed their duties at meetings and on the dates of meetings of the Supervisory Board.

On the basis of the documents presented and the meeting with the auditor, the Audit Committee evaluated and issued a positive opinion on the independent statutory auditor's report on the audit of the financial statements of the Company and the Relpol Capital Group for 2017.

In 2017, in accordance with the adopted regulations, the Audit Committee began the procedure of selecting the auditor for the next reporting period.

The tasks of the Audit Committee resulting from the supervision of the Company's financial reporting processes and internal audit in particular include:

- a/ monitoring the financial reporting process, including in particular the audit of the annual and consolidated financial statements,
- b/ monitoring the effectiveness of the internal audit and, at least once a year, evaluating the internal control system.

The tasks of the Audit Committee resulting from monitoring the work of the statutory auditor in particular include:

- a) recommending to the Supervisory Board the selection and dismissal of an entity performing the function of a statutory auditor,
- b) monitoring the independence of the statutory auditor, in particular providing additional services to the Company,
- c) reviewing the reasons for the resignation of an entity acting as an auditor.

In 2017, the Remuneration Committee was composed of all members of the Supervisory Board.

Three members of the Supervisory Board meet the independence criteria set out in the Company's Articles of Association.

A member of the Supervisory Board meets the independence criterion, in particular, when he/she meets all the following conditions:

- a) he/she is not a member of the Management Board of the company or a subsidiary or a related company and he/she has not been holding such a position in the last five years,
- b) he/she is not an employee of the company or a subsidiary or a related company and he/she has not been an employee thereof in the last three years,
- c) he/she does not receive or has not received additional remuneration in a significant amount from the company or a subsidiary or a related company, in addition to the remuneration received as a member of the supervisory board,
- d) he/she is not a shareholder or does not represent a shareholder holding the controlling interest,
- e) he/she does not currently maintain or has not been maintaining significant commercial relations with the company or a subsidiary or a related company, directly or as a partner, shareholder, member of the management board, member of the Supervisory Board or a high-level employee of a body maintaining such relations within the last year. Commercial relations include the situation of being a significant supplier of goods or services (including financial, legal, consulting or consulting services), a significant customer and an organisation that receives significant contributions from a company or its group,
- f) he/she is not, or has not been, in the last three years, a partner or an employee of the current or former statutory auditor of an external company or a subsidiary or a related company,
- g) he/she did not hold a position on the supervisory board for more than three terms,
- h) he/she is not a member of a family of the member of the management board or persons in the situations described in letters a) to g).

After the end of the financial year and until the date of preparation of this report, there were no changes in the composition of the Company's Supervisory Board.

## **VII. Activities of the Supervisory Board in 2017.**

In the financial year 2017, the Supervisory Board performed permanent supervision over the Company's activities based on the provisions of the Code of Commercial Companies and the Company's Articles of Association through:

- analysing materials received from the Management Board at the request of the Supervisory Board,
- obtaining information and detailed explanations from members of the Management Board during meetings of the Supervisory Board,
- the activities of a statutory auditor who reviewed and audited the financial and accounting documentation and the financial statements prepared on its basis.

The Supervisory Board exercised permanent supervision over the activities of the Company and the Capital Group, assessed the Company's financial results and the operations of the Management Board on an ongoing basis, including through analysis, evaluation and control of:

- the level of revenues from sales, operating and financial revenues,
- the level of costs incurred,
- the operating result, gross and net result,
- the investments conducted by the company in the renewal of industrial lines,
- inventory management,
- cash management, the balance of receivables and liabilities, the Company's financial liquidity,
- the return on sales.

Summing up 2017, the Supervisory Board approves the activities of the Management Board focused on the development of the Company and the Capital Group, in particular the development of product groups conducted by the Company, diversification of products and commercial products, development of high margin products, strengthening of the market position, acquisition of new distribution channels and the market.

In the Supervisory Board's opinion, the situation of the Company and the Capital Group, assessed through the prism of the production potential, poses no threats to the further development of the Company and the Capital Group in 2018 and in the following years.

The Supervisory Board got acquainted and assessed the risk management and internal control system which, in the Supervisory Board's opinion, allows to identify the problem and take the required preventive measures minimising its impact and effects on the Company's activities.

In the financial year 2017, the Supervisory Board held 6 meetings and adopted 27 resolutions, on the following days: 27.02.2017 (3 resolutions); 21.04.2017 (3 resolutions); 30.05.2017 (6 resolutions); 03.07.2017; 12.10.2017 (5 resolutions); 2 resolutions adopted using means of remote communication on 18.10.2017; 1 resolution adopted using means of remote communication on 27.10.2017 and 15.12.2017 (7 resolutions).

The resolutions adopted by the Supervisory Board concerned, among others, the following issues:

- the selection of a statutory auditor to conduct a review of the semi-annual separate and consolidated financial statements and the annual separate and consolidated financial statements for 2018 and 2019,

- the evaluation of the Company's separate statements and the Management Board's report on the activities of Relpol S.A. for 2016,
- the evaluation of the Capital Group's consolidated statements and the Management Board's report on the activities of the Capital Group for 2016,
- the adoption of the report on the activities of the Supervisory Board for 2016,
- issuing an opinion on the documents for the General Meeting of Shareholders,
- granting a discretionary bonus to the Company's Management Board,
- issuing an opinion on the Company's activity plan for 2018,
- selecting of a member of the Supervisory Board by co-option,
- election of the chairman and vice-chairman of the Supervisory Board,
- determination of the composition of the Audit Committee and the Remuneration Committee,
- selecting members of the Management Board and determining their remuneration,
- delegating a Member of the Supervisory Board to temporarily perform the duties of a Member of the Management Board of Relpol S.A. and determining his/her remuneration for the duration of the delegation.

The Supervisory Board issued its opinion on the requests submitted by the Management Board to the General Meeting of Shareholders, which took place on 23 June 2017, and they concerned the following issues:

- approval of the Management Board's report on the Company's activities in 2016,
- approval of the Management Board's report on the activities of the Relpol Capital Group for 2016,
- approval of the Company's financial statements for 2016,
- approval of the consolidated financial statements of the Relpol Capital Group for 2016,
- approval of the report on the activities of the Supervisory Board for 2016,
- granting a vote of acceptance to members of the Company's Management Board for the discharge of their duties for 2016,
- granting a vote of acceptance to members of the Company's Supervisory Board for the discharge of their duties for 2016,
- distribution of profit from 2016.

## **VIII. Self-evaluation of the Supervisory Board's operations.**

In the Supervisory Board's opinion, in 2017, it properly performed its statutory tasks, supervising the activities of the Company on an ongoing basis. Members of the Supervisory Board have appropriate competences to perform their functions and participate in the operations of the Supervisory Board.

The Supervisory Board monitors the financial results of the Company and the Capital Group on an ongoing basis and actively participates in matters relevant to the Company.

**IX. Evaluation of the manner in which the Company fulfils its information obligations regarding the application of corporate governance principles.**

The Supervisory Board positively evaluates the manner in which the Company fulfils its disclosure obligations regarding the application of corporate governance principles set out in the Exchange Rules and regulations regarding current and periodic information provided by issuers of securities. Relpol has adopted corporate governance principles published in the document “Good Practices of Companies Listed on the Warsaw Stock Exchange 2016” adopted by Resolution no. 26/1413/2015 of the Supervisory Board of the WSE. On 13.01.2016, based on Article 29 para 3 of the Warsaw Stock Exchange Rules, the Company provided information (report) on the status of the Company’s application of the recommendations and principles contained in the Good Practices of Companies Listed on the Warsaw Stock Exchange 2016. This document is available on the Company’s website. The Company applies several principles or applies them partially, as explained in the submitted information.

**X. Evaluation of the rationality of the sponsoring, charitable or similar policy pursued by the Company.**

The Supervisory Board positively evaluates the sponsoring and charity activities conducted by the Company. The main objective is to provide financial assistance, support disadvantaged persons as well as institutions that are engaged in upbringing and education of children. Supporting local cultural, educational and sports activities serves to build positive relationships with the environment.

Signatures of members of the Supervisory Board:

Adam Ambroziak .....

Agnieszka Trompka .....

Dariusz Daniluk .....

Piotr Osiński .....

Zbigniew Derdziuk .....