



**Report on the activities
of the Supervisory Board of Relpol S.A.
for the year 2018**

Translation from the original Polish version.

In the event of differences resulting from the translation, reference should be made to the official Polish version.

Warsaw, May 2019

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 2018.
- II. Evaluation of the separate financial statements of Relpol S.A. and the consolidated financial statements of the Relpol Capital Group in 2018.
- III. Evaluation of the Management Board's report on the activities of Relpol S.A. and the Relpol Capital Group for 2018.
- IV. Evaluation of the Management Board's motion regarding the distribution of net profit for the financial year 2018.
- V. Recommendations of the Supervisory Board.
- VI. Composition of the Supervisory Board and its committees.
- VII. Activities of the Supervisory Board in 2018.
- 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 2018.

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 2018. 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 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 audit systems applied in the Company allow to identify the problem and take the required preventive measures in order to minimise its effects on the Company's activities.

The company provides the Supervisory Board with the opportunity to improve qualifications by attending the conferences and training related to the activities of Supervisory Boards, Audit Committees, informing them about such events or sending presentations and publications on this subject. If it is necessary, the Company is disposed to cover the costs of independent consulting service crucial for an effective supervision.

II. Evaluation of the separate financial statements of Relpol S.A. and the consolidated financial statements of the Relpol Capital Group for 2018.

Pursuant to the provisions of Article 382 § 3 of the Code of Commercial Companies, § 2 point a) of the Regulations of the Supervisory Board and § 70 para. 1 point 14) and § 71 para. 1 point 12) of the Ordinance of the Minister of Finance of 29 March 2018 regarding current and periodic information published by issuers of securities and conditions for recognizing information required by law of a non-member country as equal (Journal of Laws of 2018, item. 757) the Supervisory Board assessed the Company's separate financial statements for 2018, including:

- 1) A statement of financial position prepared as at 31 December 2018 with assets and liabilities in the amount of PLN 101,248 thousand;
- 2) A statement of profit and loss and other comprehensive income for the period from 1 January to 31 December 2018 with a net profit of PLN 9,023 thousand and the total income in the amount of PLN 8,938 thousand;
- 3) A statement of changes in equity for the financial year from 1 January to 31 December 2018 with an increase in equity by the amount of PLN 5,091 thousand;
- 4) A cash flow statement for the financial year from 1 January to 31 December 2018 with a decrease in cash by the amount of PLN 318 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 2018 with:

- 1) A consolidated statement of financial position prepared as at 31 December 2018 with assets and liabilities in the amount of PLN 106,176 thousand;
- 2) A consolidated statement of profit and loss and other comprehensive income for the period from 1 January to 31 December 2018 with a net profit of PLN 9,486 thousand and the total income in the amount of PLN 9,770 thousand;
- 3) A consolidated statement of changes in equity for the financial year from 1 January to 31 December 2018 with an increase in equity by the amount of PLN 5,094 thousand;
- 4) A consolidated cash flow statement for the financial year from 1 January to 31 December 2018 with a decrease in cash by the amount of PLN 140 thousand;

- 5) Additional information and explanations regarding their compliance with the books, documents and factual state.

Audit of financial statements for 2018 and 2019, the Supervisory Board at the request of the Management Board and having become acquainted with the position of the Audit Committee, entrusted UHY ECA Audyt Spółka z ograniczoną odpowiedzialnością Sp. K with its registered office in Krakow, entered in the list of entities authorized to audit reports under item 3115. 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 2018 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 2018 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 2018, as well as their financial result for the financial year from 1 January 2018 to 31 December 2018;
- 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 29 March 2018 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 2018, item 757).

Considering the statutory auditor's report, the recommendation of the Audit Committee, interviews conducted with the Management Board and the statutory auditor, the Supervisory Board positively assesses the Company's separate and consolidated financial statements for 2018 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 2018.

III. Evaluation of the Management Board's report on the activities of Relpol S.A. and the Relpol Capital Group for 2018.

Performing its obligations, by way of a resolution no. 183/65/XIV/2017 adopted at the meeting on 15 December 2017, the Supervisory Board selected UHY ECA Audyt Sp. z ograniczoną odpowiedzialnością sp. K with registered office in Krakow 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 2018 and 2019 years, 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 2018 and 2019.

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 2018 reflects the activities of the Company and the Capital Group and presents figures as at 31 December 2018.

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 2018 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 2018.

IV. Evaluation of the Management Board's request regarding the allocation of net profit for 2018.

The Supervisory Board took note of the Management Board's request regarding the distribution of net profit for 2018 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 2018, partly for the shareholders' dividends in the amount of PLN 4,035,861.06 and for supplementary capital in the remaining amount of PLN 4,987,328,85. Due to the development of the Company and adopted investment plans, 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 2018 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 2018 with the evaluation of the financial statements of Relpol S.A. for the year ended 31 December 2018, the evaluation of the financial statements of the Relpol S.A. Capital Group for the year ended 31 December 2018, the evaluation of the Management Board's report on the activities of the Company and the Relpol S.A. Capital Group in 2018 as well as the evaluation of the Management Board's request regarding the distribution of profit.
2. Review and approve the financial statements of Relpol S.A. for the financial year 2018.

3. Review and approve the financial statements of the Relpol Capital Group for the financial year 2018.
4. Review and approve the Management Board's report on the activities of Relpol S.A. and the Relpol S.A. Capital Group in 2018.
5. Granting discharge to members of the Management Board of the Company in respect of performance of their duties in 2018.
6. Granting discharge to Members of the Supervisory Board in respect of performance of their duties in 2018.

VI. Composition of the Supervisory Board and its committees.

The Supervisory Board operates based on the provisions of the Commercial Companies Code, the Company's Articles of Association and the Regulations of the Supervisory Board, guided by the legitimate interest of the Company and having in mind the welfare of its Shareholders.

The current composition of the Supervisory Board:

Name and surname, function in the Supervisory Board	Meeting the criterion of an independent member of the Supervisory Board
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
Jacek Gdański	Independent member of the SB

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

The member of the Supervisory Board meets the independence criterion referred to in para 1, in particular, when he/she meets all the independence criteria set out in the Act on statutory auditors, auditing firms and public supervision (Journal of Laws of 6 June 2017, item 1089, as amended), in Annex II to the Recommendation of the European Commission (2005/162/EC) of 15 February 2005 on the role of non-executive directors or supervisory board members of listed companies and committees of the (supervisory) board as amended and in the principles of "Good Practices of WSE Listed Companies 2016" adopted by the Supervisory Board of the Warsaw Stock Exchange.

The Supervisory Board operated independently, but also within the Audit Committee and the Remuneration Committee.

Composition of the Audit Committee.

1. Zbigniew Derdziuk - Chairman
2. Agnieszka Trompka
3. Jacek Gdański.

In 2018, 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 2018.

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.

Composition of the Remuneration Committee:

- 1. Piotr Osiński - Chairman
- 2. Adam Ambroziak
- 3. Agnieszka Trompka
- 4. Jacek Gdański.
- 5. Zbigniew Derdziuk

The Remuneration Committee developed and recommended to the Supervisory Board the adoption of the Bonus Rules for the Management Board of Relpol SA. The amount of the annual bonus depends mainly on the degree of implementation of the tasks set out in the Company's Annual Plan of Activity for a given calendar year and the period of work on the company's management board. In order for a board member to receive an annual bonus, he must work for at least five months in the Management Board in a given year.

Changes in the composition of the Supervisory Board

After the end of the financial year 2018, there were changes in the composition of the Company's Supervisory Board.

After resignation submitted on 11/03/2019 by Mr. Dariusz Daniluk, the Supervisory Board at its meeting on 04/04/2019, by co-optioning, appointed Mr. Jacek Gdański in his place. Mr. Jacek Gdański declared that he meets all the independence criteria of a member of the Supervisory Board, in addition, he has knowledge and experience in the field of finance and accounting. Mr. Jacek Gdański from 04/04/2019 was also appointed to the Audit Committee and the Remuneration Committee.

VII. Activities of the Supervisory Board in 2018.

In the financial year 2018, 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 2018, the Supervisory Board approves the activities of the Management Board focused on the development of the Company and the Capital Group, in particular, an investment program run by the Company aimed at increasing production capacity and automating production, the development of product groups conducted by the Company, diversification of products and commercial 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 2019 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 2018, the Supervisory Board held 4 meetings and adopted 11 resolutions.

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

- shortening the period of posting a member of the Supervisory Board to temporarily perform the duties of a Member of the Management Board of the Company,
- election of the President and Vice President of the Management Board of the Company,
- establishing the remuneration rules for the Management Board of the Company,
- election of the Chairman and Deputy Chairman of the Supervisory Board,
- the evaluation of the Company's separate statements and the Management Board's report on the activities of Relpol S.A. for 2017,
- the evaluation of the Capital Group's consolidated statements and the Management Board's report on the activities of the Capital Group for 2017,
- the adoption of the report on the activities of the Supervisory Board for 2017,
- 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 2019,
- selecting of a member of the Supervisory Board by co-optioning,

The Supervisory Board issued its opinion on the requests submitted by the Management Board to the General Meeting of Shareholders, which took place on 12 June 2018, and they concerned the following issues:

- approval of the Management Board's report on the Company's activities in 2017,
- approval of the Management Board's report on the activities of the Relpol Capital Group for 2017,
- approval of the Company's financial statements for 2017,
- approval of the consolidated financial statements of the Relpol Capital Group for 2017,
- approval of the report on the activities of the Supervisory Board for 2017,
- granting a vote of acceptance to members of the Company's Management Board for the discharge of their duties for 2017,
- granting a vote of acceptance to members of the Company's Supervisory Board for the discharge of their duties for 2017,
- distribution of profit from 2017.

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

In the Supervisory Board's opinion, in 2018, 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. Expenses for sponsoring and charity activities constitute a small part of the Company's expenses, and the main objective of this activity is to provide financial assistance, and support institutions that bare for the upbringing and education of children. The Company also supports 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

Jacek Gdański

Piotr Osiński

Zbigniew Derdziuk