

**REPORT OF THE SUPERVISORY BOARD OF NOVITA S.A.**  
**on its activity in the financial year 2022**

**I. Report on the activities of the Supervisory Board and its committee in the financial year 2022**

The Supervisory Board of NOVITA Spółka Akcyjna, with its registered seat in Zielona Góra (hereinafter "**the Company**") acts on the basis of the Code of Commercial Companies, Company Statute, Regulations of the Supervisory Board and Good Practices of companies listed at the Stock Exchange.

**1. Composition of the Supervisory Board in 2022**

There were changes in the composition of the Supervisory Board in the 2022 financial year.

In the period from 1 January 2022 to 29 June 2022, the Supervisory Board was composed of:

- **Mr Eyal Maor** – acting as a Chairman of the Supervisory Board;
- **Mr Uriel Mansoor** – acting as a Deputy Chairman of the Supervisory Board;
- **Mr Ohad Tzkhor** – Member of the Supervisory Board (fulfilling the criteria of independence, not having any real and significant connections with Shareholders holding at least 5% of the total number of votes in the Company);
- **Mr Elazar Benjamin** – Member of the Supervisory Board (fulfilling the criteria of independence, not having any real and significant connections with Shareholders holding at least 5% of the total number of votes in the Company);
- **Mr Janusz Piczak** – Member of the Supervisory Board.

From 29 June 2022 to 31 December 2022, and as well as on the date of elaboration of the hereby report executed control and supervision over the Company's activities in the following composition:

- **Mr. Eyal Maor** – acting as a Chairman of the Supervisory Board;
- **Mr. Uriel Mansoor** – acting as a Deputy Chairman of the Supervisory Board;
- **Mr. Ohad Tzkhor** – Member of the Supervisory Board (fulfilling the criteria of independence, not having any real and significant connections with Shareholders holding at least 5% of the total number of votes in the Company);
- **Ms. Ilanit Ella** – Member of the Supervisory Board (fulfilling the criteria of independence, not having any real and significant connections with Shareholders holding at least 5% of the total number of votes in the Company);
- **Mr. Janusz Piczak** – Member of the Supervisory Board.

**2. Diversity of the Supervisory Board**

The Company has a Diversity Policy. Its principles are applied to both the Management Board and the Supervisory Board. With regard to the gender diversity of the current Supervisory Board, it should be noted that the share of minorities is 20%. It is also worth noting that members of various nationalities were appointed to the Company's Supervisory Board.

### **3. Summary of the activities of the Supervisory Board of NOVITA S.A. in 2022**

In the reporting period from 1 January to 31 December 2022 the Supervisory Board held four meetings through direct remote communication means within the following terms: 28 March 2022, 29 June 2022, 20 September 2022 and 28 December 2022.

On: 11 January 2022, 4 April 2022, 18 May 2022, 5 July 2022 and 3 October 2022 the Chairman of the Supervisory Board ordered resolving resolutions in a written mode (circulating), without formal holding of the Supervisory Board's meeting.

The Supervisory Board executed an ongoing supervision over the Company's activities and analyzed as well as assessed its existing economic-financial results, further to performing its statutory and statute-related duties, in accordance with its entitlements and competencies. The substantial scope of tasks covered during the held meetings of the Board and the resolved by it resolutions encompassed:

- 1) overview and assessment of transactions with related entities;
- 2) assessment of efficiency of internal control systems, risk management procedures, compliance and internal auditing functions;
- 3) issuance of statement regarding appointing and functioning of the Audit Committee for the purposes of annual report for 2021,
- 4) assessment of the report on Company's operations and financial statements for year 2021 in terms of their compliance with the books, documents and the facts;
- 5) assessment of the selection of auditing firm designated to carry out the annual financial statement audit for the purposes of elaborating an annual statement for 2021,
- 6) assessment of the Management Board's proposal concerning division of net profits obtained by the Company in the financial year 2021;
- 7) amendments to the Supervisory Board Regulations;
- 8) adoption of the report on the remuneration of the Members of the Management and Supervisory Board of NOVITA S.A. for year 2021;
- 9) adoption of the report from Supervisory Board's activity for the financial year 2021 along with the written report from the results of assessment: report of the Management Board on Company activity for the financial year 2021, financial report of the Company for the financial year 2021, assessment of the motion submitted by the Management Board concerning division of net profit of the Company for the financial year 2021 and assessment of the Company's situation;
- 10) in connection with the appointment by the Annual General Meeting of the Supervisory Board for a new term of office - election of the Chairman and Deputy Chairman of the Company and the members of the Company's Audit Committee adoption of the Diversity Policy of NOVITA S.A.;
- 11) exemption of the Audit Committee from performance of the supervisory activities.

The Supervisory Board assesses that in 2022 it performed its duties in a correct manner with due diligence and, in light of the above, it requests that the Annual General Assembly of the Shareholders of the Company grants a discharge to Members of the Supervisory Board for their execution of duties in the financial year 2022 and submits this Report to the Annual General Meeting of the Company for approval.

#### 4. Audit Committee

1) Audit Committee of NOVITA S.A. as per 31 December 2022 as well as on the date of elaboration of the hereby report carried out its tasks in the following composition:

- **Mr Ohad Tzkhori** – acting as a Chairman of the Audit Committee fulfilling the criteria of independence;
- **Mrs Ilanit Ella** – Member of the Audit Committee fulfilling the criteria of independence
- **Mr Eyal Maor** – Member of the Audit Committee.

For the period from 1 January 2022 to 29 June 2022, the Audit Committee was composed of:

- **Ohad Tzkhori** – Chairman of the Audit Committee fulfilling the criteria of independence;
- **Elazar Benjamin** – Member of the Audit Committee fulfilling the criteria of independence
- **Eyal Maor** – Member of the Audit Committee

2) The Supervisory Board of NOVITA S.A. declares that the provisions concerning appointment, composition and functioning of the Audit Committee have been adhered to, including those concerning fulfilment by its members of the criteria of independence and the requirements related to possessing knowledge and skills in the scope of the industry in which the issuer operates as well as in the scope of accounting or testing the financial statements. In the opinion of the Supervisory Board, the Audit Committee performed the tasks assigned to it by the binding provisions of the law correctly throughout 2022.

#### 5. Summary of the activities of the Audit Committee of NOVITA S.A. in 2022

The Audit Committee has been carrying out duties provided for in the binding provisions of law. In 2022, it held seven meetings:

- on 25 January 2022, during which it adopted by resolution:
  - a) the Audit Committee's action plan for 2022;
  - b) selected a firm providing an additional service – assessment of the remuneration report of the Supervisory Board and the Management Board of the Company in 2021;
- on 3 April 2022, during which it adopted resolutions regarding the following matters:
  - a) assessment of the process of financial reporting in the Company,
  - b) assessment of the autonomy of expert auditor and of the auditing firm,
  - c) acceptance of the report from the audit carried out by the auditing firm and additional report along with the acceptance of the contents of the information for the Supervisory Board,
  - d) approval of the Report on activities of the Audit Committee of the Company in 2021;
- on 16 May 2022, during which reviewed the Company's interim report for the first quarter of 2022;
- on 7 September 2022 during which reviewed the draft of the Company's interim condensed financial statements for the first half of 2022;
- on 20 October 2022 during which adopted the resolution on the selection of a firm providing an additional service – verification of the correctness of the calculation of the value of the electricity consumption intensity factor in years 2020-2022;
- on 2 November, 2022 during which:

- a) adopted the new version of the Policy and Procedure of Selection of the Audit Firm and Policy Regarding Performance of Allowed Services by the Audit Firm or Affiliates of such Firm and
- b) reviewed the Company's interim report for third quarter of 2022.

The goal of holding both meetings of the Audit Committee was to realize its statutory obligations stemming from the generally binding rights concerning financial reporting of the Company.

The Supervisory Board accepts and positively assesses the report on activities of the Audit Committee for 2022.

## **II. Assessment of the Company's situation taking into account adequacy and effectiveness of the Company's internal control, risk management and compliance systems (compliance of operations with standards or applicable practices) and the internal audit function**

Upon conducting the assessment of Company situation, the Supervisory Board indicates that in 2022, the Company noted satisfactory economic-financial results, which have been discussed in detail in the financial statement as well as in the report of the independent expert auditor on the audit of the annual financial statement.

Last year, the Company generated a net profit of PLN 21.4 million and EBITDA of PLN 33.1 million. Taking into account the high degree of volatility of the industry and macroeconomic environment, including the outbreak of war in Ukraine, the increase in the price of energy factors, the increase in the price of raw materials, labor costs and exchange rate fluctuations, the achieved results should be considered satisfactory.

### ***Company results***

In comparison to 2021, in the financial year 2022:

- 1) sales revenue from products, materials and commodities amounted to PLN 248 849 thousand and exceeded by PLN 27 424 thousand the sales revenue obtained in 2021, which amounted to PLN 221 425 thousand,
- 2) costs of sold products, materials and commodities amounted to PLN 197 147 thousand and exceeded by PLN 59 581 thousand the costs incurred in 2021, which amounted to PLN 137 566 thousand,
- 3) gross profit on sale amounted to PLN 51 702 thousand and was lower by PLN 32 157 thousand from the gross profit achieved in 2021 which amounted to PLN 83 859 thousand,
- 4) operating profit amounted to PLN 28 325 thousand and was lower by PLN 33 388 thousand from the operating profit achieved in 2021 which amounted to PLN 28 325 thousand,
- 5) gross profit amounted to PLN 25 567 thousand and was lower by PLN 35 471 thousand from the gross profit achieved in 2021 which amounted to PLN 61 038 thousand,
- 6) net profit amounted to PLN 21 369 thousand and was lower by PLN 28 390 thousand from the net profit achieved in 2021 which amounted to PLN 49 759 thousand.

### ***Profitability ratios***

In the scope of profitability ratios, in comparison to the previous year, the following was noted:

- 1) decrease in gross return on sales from the level of 27.4% to the level of 11.1%,
- 2) decrease in net return on sales from the level of 22.5% to the level of 8.6%,
- 3) decrease in return on equity (ROE) from the level of 39.0% to the level of 15.6%,
- 4) decrease in return on assets (ROA) from the level of 26.8% to the level of 11.2%.

### ***Risks***

The outbreak of war in Ukraine in 2022, which indirectly contributed to the increase in the prices of energy factors such as gas and electricity, significantly changed the conditions for doing business and accelerated inflationary processes. The accompanying significant fluctuations in the prices of textile raw materials translated into high uncertainty as to the possibility of predicting future trends.

The beginning of 2023 brought symptoms of the previously anticipated economic slowdown. The high level of inflation and the uncertainty of the development of the economic situation among both entrepreneurs and consumers resulted in increased caution in making purchasing decisions and a visible decrease in demand, including also for non-woven fabrics manufactured by the Company. The company carefully monitors the changes taking place in the environment and is prepared to introduce adequate operational and investment activities, bearing in mind the further dynamic development of the company.

The war in Ukraine also contributed to a significant reduction in the Company's operations in Eastern European markets, which will also be visible in 2023. Considering the above, the Company intensified its activities aimed at developing sales on other markets, especially in Poland and in other European countries.

Another factor that may have a significant impact on the Company's operations is the threat related to the emergence of a new wave of COVID-19 cases, which would increase employee sickness absence or reduce the supply of raw materials. However, from the beginning of the pandemic, the above-mentioned factors did not occur to a degree that would have a significant impact on the Company's operations.

The significant risk factors and threats indicated in the Management Board's report that could affect the further development of the Company should not, in the opinion of the Supervisory Board, significantly interfere with the implementation of the plans outlined by the Management Board. In the opinion of the Supervisory Board, the economic and financial situation of the Company does not pose a threat to the continuation of operations in 2023. At the same time, the Supervisory Board assesses that the risk management and compliance method adopted in the Company by individual organizational units of the Company, in accordance with the scope of duties set by the Management Board and under a number of procedures existing in this respect in the Company, ensures effective identification and monitoring of various types of risks at the level of individual areas of the Company's operations.

In the opinion of the Supervisory Board, there are currently no direct threats to the operating activities of NOVITA S.A. During the last year, the Supervisory Board repeatedly assessed the operating activities of the Company, remaining in ongoing contact and cooperation with the Management Board of the Company. The Supervisory Board also assessed the adequacy and effectiveness of the internal control, risk management and compliance systems as well as the internal audit function. In particular, the activity of the controlling department, which plays an important role in the ongoing control of the Company's operations, was assessed. The reporting process is supported by the services of an external law firm, which is responsible for supporting the proper reporting of events concerning the Company in accordance with the regulations.

### **III. Assessment of the application by the Company of the corporate governance principles and the manner of fulfilling the disclosure obligations regarding their application specified in the Stock Exchange Regulations and the provisions on current and periodic information provided by issuers of securities**

The company correctly fulfilled the information obligations regarding the application of the corporate governance rules set out in the Stock Exchange Regulations and the provisions on current information and periodic information provided by issuers of securities. In order to make the above assessment, the Supervisory Board reviewed the principles of corporate governance as well as current and periodic reports and compared them with corporate events that took place last year.

### **IV. Assessment of the legitimacy of the expenses referred to in rule 1.5 of the Best Practices of WSE Listed Companies 2021**

Bearing in mind that the Company does not disclose the amount of expenses incurred by it to support culture, sports, charities, media, social organizations, trade unions, etc., due to the fact that these expenses do not constitute significant expenses of the Company that could affect its current activity, the Supervisory Board of the Company refrains from assessing the legitimacy of the expenses referred to in rule 1.5. the collection of Best Practice for WSE Listed Companies 2021.

### **V. Information on the degree of implementation of the diversity policy in relation to the Management Board and Supervisory Board, including the achievement of the goals referred to in rule 2.1 of the Best Practices of WSE Listed Companies 2021**

Composition of the Management Board and Supervisory Board of NOVITA S.A. meets the criteria of diversity. Both the members of the Management Board and the Supervisory Board of the Company have high and diverse competences, are distinguished by professionalism, many years of professional experience and specialist knowledge in the field of finance and accounting, law, the Company's operations, enterprise management and knowledge of the specificity of the industry. At present, the Company does not ensure the gender diversity of the Company's governing bodies (minority participation in a given body at a level not lower than 30%) – currently this share is 20%.

It is also worth noting that persons of different nationalities were appointed to the Company's Supervisory Board and the Management Board (the majority - four members of the Company's Supervisory Board are Israeli citizens, one of the members is of Polish nationality, as for the Company's

Management Board - two of the members of the Management Board are of Israeli nationality, the other two members of the Management Board are Polish citizens).

Appointment of persons to the Company's Management and Supervisory Boards ensuring diversity, both in terms of gender and culture, aims to ensure the operational versatility of this body of the Company and contributes to the exchange of views and experiences.

In the opinion of the Company's Supervisory Board, the Company implements the objectives referred to in principle 2.1 of the Best Practices of WSE Listed Companies 2021 and resulting from the Diversity Policy. The Company's Supervisory Board also assesses that the degree of diversity of the Management and Supervisory Boards.

## **VI. Report on the results of the evaluation:**

### **Report of the Management Board on Company activity and financial statement of the Company for the financial year 2022**

1. The NOVITA Supervisory Board of S.A. (hereinafter referred to as: "Company" or "Issuer"), declares that acting pursuant to art. 382 § 3 of the Polish Code of Commercial Companies it has carried out an assessment of:
  - 1) the Company's financial statements for 2022 including:
    - a) statement of financial position showing as at 31 December 2022 on the assets side and on equity and liabilities the sum 186 748 thousand PLN (in words: one hundred and eighty six million seven hundred and forty eight thousand zlotys);
    - b) statement of comprehensive income showing as at 31 December 2022 total net income in the amount of 21 380 thousand PLN (in words: twenty one million three hundred and eighty thousand zlotys) and net profit of 21 369 thousand PLN (in words: twenty one million three hundred and sixty nine thousand zlotys);
    - c) statement of changes in equity showing as at 31 December 2022 an increase in equity 21 380 thousand PLN (in words: twenty one million three hundred and eighty thousand zlotys);
    - d) cash flow statement showing as at 31 December 2022 a net increase in cash by the amount of 1 887 thousand PLN (in words: one million eight hundred and eighty seven thousand zlotys);
  - 2) financial statements for the financial year 2022, in terms of compliance with the books, documents and the facts;
  - 3) reports on the Issuer's activity in the financial year 2022, in terms of compliance with books, documents and the facts;
  - 4) The assessment was made on the basis of the analysis:
    - a) content of the above reports submitted by the Company's Management Board;
    - b) documents and accounting books as well as information provided by the Management Board of the Company;
    - c) the results of additional verifying activities carried out in selected financial and operational areas;
    - d) the opinion of the auditing firm Kancelaria Porad Finansowo-Księgowych dr Rojek Sp. z o.o. with registered office in Katowice from the examination of the Issuer's financial report for the financial year 2022;

- e) reports of an additional auditing company for the Audit Committee referred to in art. 131 of the Act on statutory auditors, auditing companies and public supervision;
  - f) information of the Audit Committee on the progress, results and significance of the audit for the reliability of financial reporting in the Company and the role of the Committee in the process of auditing financial statements.
2. The Issuer's Supervisory Board made a positive assessment of the above reports, and on the basis of possessed knowledge about the Company and a wide range of activities undertaken in connection with the preparation and examination of the abovementioned reports, assesses that the reports on the Issuer's activity in the financial year 2022 and the Issuer's financial statements for the financial year 2022 have been prepared in accordance with the applicable legal regulations and that these documents are compliant with accounting books, documents and the facts and contain a true view of the development and achievements and the situation of the Company, and also do not raise objections as to the form and content contained in them.
  3. The Supervisory Board recommends that the Annual General Assembly of the Shareholders approves the Report of the Management Board on Company activity for the financial year 2022 and the Financial Statement of the Company for the financial year 2022.

· **Evaluation of the Management Board's motions regarding profit distribution or loss coverage**

The Supervisory Board decided to support the proposal of the Management Board concerning the distribution of the Company's net profit for the financial year 2022 in the amount of PLN 21,368,899.41, as follows:

1. net profit in the amount of PLN 21,350,000.00 (in words: twenty-one million three hundred and fifty thousand zlotys) be allocated to the payment of dividends to the Company's shareholders, i.e. the amount of PLN 8.54 (in words: eight zlotys 54/100) per share,
2. the net profit of PLN 18,899.41 (in words: eighteen thousand eight hundred and ninety nine zlotys 41/100) be allocated to the Company's reserve capital.

At the same time, the Supervisory Board recommends that the General Meeting adopt a resolution on the distribution of net profit in accordance with the proposal of the Management Board.

· **Assessment of the fulfillment by the Management Board of the obligations referred to in art. 380(1) of the Code of Commercial Companies**

The Company's Management Board provided the Supervisory Board with exhaustive information on: resolutions of the Management Board and their subject matter, the current situation of the Company, including its assets, as well as significant circumstances related to the conduct of the Company's affairs, in particular in the operational, investment and HR areas, progress in the implementation of the designated directions of development of the Company's operations, transactions and other events or circumstances that significantly affect or may affect the Company's financial situation, including its profitability or financial liquidity.



The above-mentioned information was provided immediately after the occurrence of certain events or circumstances or at meetings of the Company's Supervisory Board. The Supervisory Board positively assesses the manner in which the Company's Management Board prepares or submits any information, documents, reports or explanations.

With regard to the total remuneration due from the Company for all audits commissioned by the Company's Supervisory Board during the financial year in the manner specified in art. 382(1) of the Code of Commercial Companies, it is indicated that the Supervisory Board did not order an examination at the Company's expense of a specific matter concerning its operations or its assets by a selected advisor.

#### **Summary**

In conclusion, the Supervisory Board assesses that both the Report of the Management Board on Company activity for the financial year 2022 and the financial statement of the Company for the financial year 2022 are compliant with individual provisions in the accounting books and Company documents, as well as with the factual state, and highly assesses the actions performed by the Management Board in 2022 as well as financial results obtained by the Company, in light of which it requests that the Annual General Meeting of the Shareholders of the Company approves as follows: the Report of the Management Board on Company activity, the financial statement for 2022 and granting a discharge to members of the Management Board for their execution of duties in the financial year 2022.

On behalf of the Supervisory Board of NOVITA S.A.

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**EYAL MAOR**

Chairman of the Supervisory Board of NOVITA S.A. based in Zielona Góra