



Stalprodukt S.A.

REPORT

of the
STALPRODUKT S.A. SUPERVISORY BOARD

for the period
from 1 January 2014 to 31 December 2014

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I. Stalprodukt S.A. Supervisory Board's Activities and Decisions

In the period from 1 January 2014 to 31 December 2014, the Supervisory Board acted pursuant to the regulations of the Code of Commercial Companies, provisions of the Company's Articles of Association, Stalprodukt S.A. Supervisory Board's Rules as well as in compliance with the corporate governance rules adopted by the Company, as defined in the Code of Best Practice for WSE-Listed Companies, exercising permanent supervision over the Company's Activities in all the areas of activity and, also, considering the issues brought forward and motions filed by the Company's Management Board during the Supervisory Board's meetings .

Supervisory Board's Composition in the Reporting Period:

In the period from 1 January 2014 to 31 December 2014, the Supervisory Board consisted of:

Stanisław Kurnik	-	Chairman
Maria Sierpińska	-	Vice-Chairman
Kazimierz Szydłowski	-	Secretary
Janusz Bodek	-	Member
Tomasz Plaskura	-	Member
Sanjay Samaddar	-	Member
Tomasz Ślęzak	-	Member

Activities Defined in the Articles of Association

In the period concerned, the Supervisory Board held 6 minuted meetings, during which 30 resolutions were adopted. During the meetings, The Board analyzed the Company's financial results, assessed the Company's economic and business standing, approved of the Stalprodukt S.A. Plan for 2014 submitted by the Management Board.

In the reporting period, the Supervisory Board pursued its activities in the mode of meetings convened by the Chairman of the Supervisory Board. The Supervisory Board performed its activities collectively.

During the meetings, the Management Board Members presented extensive information on the Company's economic and financial standing, Company's functioning, planned activities and events potentially essential to its functioning. The Company's Management Board informed the Supervisory Board in detail about all the essential issues connected with the on-going activities and about the risks related thereto and ways of risk management. During each meeting, the Supervisory Board precisely analyzed the Company's economic and financial results against the Plan assumptions and the Company's updated standing.

The control and supervision over the Company's on-going activities in all the areas of its activity was the object of the Supervisory Board's control and supervision.

During the entire reporting period, the cooperation with the Company's Management Board was running smoothly and in the manner not raising any reservations. The Supervisory Board kept receiving exhausting information on the Company's and Capital Group's standing and, also, regarding all the other matters undergoing the Supervisory Board's discussions.

In 2014, the Supervisory Board discharged the following duties, among others:

- analyzed the Company's quarterly financial results as well as determined amounts of the Company's Management Board's quarterly bonuses,
- adopted the Stalprodukt S.A. Plan for the year 2014,
- assessed the Management Board's Report on the Company's Activities and Company's Financial Report for the fiscal year from 1 January to 31 December 2013 and, also, the Management Board's Motion for the Net Profit Distribution in respect of the fiscal year from 1 January to 31 December 2013 and recommended that the Ordinary General Meeting should adopt resolutions in accordance with the motions concerned,

- assessed the Stalprodukt S.A. Capital Group's Consolidated Financial Report and the Management Board's Report on the Stalprodukt S.A. Capital Group' Activities for the reporting year from 1 January to 31 December 2013 and recommended that the Ordinary General Meeting of Shareholders should adopt a resolution in accordance with the Motion concerned,
- prepared and adopted the report concerning the activities of the Supervisory Board in the period from 1 January to 31 December 2013,
- granted its consent to the subscription by the Company of the new-issue registered shares in the raised initial capital of Zakłady Górniczo-Hutnicze „Bolesław” S.A.,
- granted its consent to the acquisition of the right of perpetual usufruct in respect of the land built-up real estates situated in Warsaw and in Bochnia,
- adopted resolutions in respect of the consents granted to the Company for the performance of definite actions.

In accordance with par. 28 subpar. 13 of the Company's Articles of Association, as of 25 June 2014, by way of the Resolution No 31/IX/2014 , the Supervisory Board selected the certified auditor – the company: „Accord’ab” Biegli Rewidenci Spółka z o.o. [*limited liability company*] based in Wrocław, which conducted the audit of the Company's Financial Report in respect of 2014 and the Capital Group's Consolidated Report in respect of 2014.

The Supervisory Board's activities were documented in the minutes recorded during the Board's meetings.

Audit Committee

In pursuing its activities the Supervisory Board was assisted by the Audit Committee , an advisory and opinion-forming body, acting within the structures of the Supervisory Board, appointed from among its members.

In the period from 1 January to 31 December 2014 the Stalprodukt S.A. Supervisory Board's Audit Committee discharged its duties consisting of:

- Maria Sierpińska - Chairman
- Kazimierz Szydłowski - Member
- Tomasz Ślęzak – Member

The Audit Committee was monitoring the financial reports' preparation process and submitted with the Supervisory Board the report on the Committee's activities along with the recommendation regarding the assessment of the financial reports.

Personal Matters

During the meeting held as of 16 May 2014, in connection with the expiring term of office, the Stalprodukt S.A. Supervisory Board appointed Mr. Józef Ryszka to the Stalprodukt S.A. Management Board's Member's position, for another 3-year term of office as well as adopted a resolution regarding the employment contract and its terms and conditions with the so appointed Member of the Company's Management Board.

II. Assessment of the Company's Economic and Financial Standing for the period from 1 January 2014 to 31 December 2014

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

In this assessment the following areas were taken into consideration:

- ✓ the structure of assets and their financing sources
- ✓ level of financial liquidity and indebtedness,
- ✓ Company's profitability and factors determining it.

Structure of Assets and Their Financing Sources

In 2014, no significant changes occurred in the structure of assets and their financing sources. The balance sheet value of the fixed assets increased by 1.1% whereas

the value of the current assets dropped by 3.5%. This did not essentially affect the structure of the Company's assets. The fixed assets' share in the total assets structure reached the level of 72%, i.e. by one percentage point more than in the previous year. The current assets accounted for 28% of the Company's total assets. Such a structure is characteristic of the capital-absorbing industries among which metallurgy belongs. The assets which the Company had at its disposal totalled PLN 1 941.8 million. The assets financing sources were also subject to a slight change resulting from the increase of equity and decrease of liabilities and reserves by almost PLN 27 million. The equity financed 79% of the Company's assets, which, compared to the fixed assets' share (72%), means that a certain portion of the equity was engaged in the operating activities. The liabilities and reserves account for merely 21% of total assets financing sources. Such a way of financing of the Company's activities affects the rate of return from equity - ROE. It should be added that a big equity share in the liabilities structure is characteristic of the metallurgical industry due to the large fluctuations of the financial results, occurring under the impact of the fluctuating market conditions. This result acts as the basis for the repayment of debt incurred for investments. The book value per share increased insignificantly from PLN 226.74 in 2013 to PLN 230.17 in 2014.

In the current assets group, the inventories increased by 2% and receivables decreased by 7.6%, which only insignificantly changed the structure of these assets. The inventories' share in this group of assets increased to 52.9%, in 2013 it equalled 50.2%. The receivables' share dropped from 40.5% in 2013 to 38.7% in the analyzed period, whereas the share of short-term investments decreased, respectively, from 8.6% in 2013 to 7.4% in 2014. The level of cash stayed almost unchanged at the level of PLN 38,280 thousand. From year to year, the Company maintains a good cash balance, and the resources remaining towards the end of the year are appropriated for the on-going expenses related to the operating activities and investments. The liquidity of the particular elements of current assets is translated to the financial

liquidity, determining the Company's capacity for the punctual settlement of its liabilities.

Assessment of the Financial Liquidity and Level of Indebtedness

In the analyzed year - 2014, the Company maintained high financial liquidity. The current assets were by 70% higher than the short-term liabilities with their maturity dates falling within the reporting year. In this group of liabilities there are both spontaneous liabilities towards suppliers, public law institutions and liabilities concerning the incurred loans and credits. The Company maintained its financial liquidity based on its net working capital of PLN 228.6 million. Thus, it benefitted from bank loans only to the modest extent, however, the Company had agreements with banks concerning multi-product credit lines, which were used from time to time, should necessity arise. The financial liquidity measurements were based on the level of the Company's current assets, operating cash and current liabilities, whose payback time is shorter than the reporting year.

Financial liquidity ratios in the five consecutive years fluctuated as follows:

Itemization	2010	2011	2012	2013	2014
Current ratios	2.5	2.7	2.1	1.9	1.7
Quick ratios	1.4	1.7	1.2	0.92	0.77
Short-term investments ratios	0.1	0.2	0.2	0.16	0.12
Cash liquidity ratios	0.47	0.42	0.85	0.36	0.18

The current ratio decreased from 1.9 in 2013 to 1.7 in 2014, also the quick ratio dropped from 0.92 to 0.77 in the analyzed year. The cash liquidity ratio decreased from the level of 0.36 to 0.18, which means that 1 *zloty* [PLN 1.00] of the current liabilities corresponded to 18 *groszy* [PLN 0.18] of the generated operating cash. This cash was used by the Company to finance the investments, repay credits and loans and financial leasing instalments. Out of this cash the Company also disbursed the dividend to the Shareholders totalling PLN 4.1 million, which accounted for almost 42% of the net profit generated in 2013.

The decrease of the financial liquidity ratios does not stand for the worsening of the financial liquidity, likely to disable the Company's on-time settlement of its liabilities. The level of the financial activity is affected by the Company's financial policy in the areas of current assets and short-term liabilities. This policy is illustrated by the day-based cycles. In 2014, the Company maintained the average inventory turnover at the level of 81 days, in 2013 the same totaled 77 days. The average receivables turnover totaled 60 days in 2014 whereas in the preceding two years the same stood at 71 days. The short-term receivables turnover also decreased from 75 days in 2013 to 65 days in the analyzed period. This indicates that the Company has been pursuing an appropriate financial policy which does not threaten with the loss of financial liquidity.

The Company enjoyed sufficient financial liquidity throughout the entire reporting period, punctually settled its liabilities both towards its employees, the state budget, banks and suppliers. What should be underlined, is the high credit capacity resulting

from the generated financial results and the level of the generated operating cash. The transparent assets and ownership status allow the Company to obtain various forms of financing available on the market. The maintenance of the capital-cash balance, both the short-term and long-term one, was the matter of the Management Board's constant concern.

Also the cash flow statement was used in the analysis of the Company's financial standing. It shows which areas of activity generated financial means and which ones would rather absorb them.

Cash flow fluctuated as follows over the years (PLN thousand):

	2010	2011	2012	2013	2014
- net cash flow from operating activities	+108 918	+104 339	+259 218	+106 477	+57 894
- net cash flow in the area of investments	-91 418	-51965	-346 909	- 87 926	- 49 594
- net cash flow from financial activities	-65 991	- 31 623	+96 977	- 33 138	- 7 769
- balance sheet net cash flow	48491	+20 751	+9 286	- 14 587	+531
- cash at the end of the year	+22 299	+43 050	+59 926	+37 749	+38 280

The proportion of the financial means appropriated to the investment activities to the funds extracted from the operating activities is 85.7%. However, comparing the depreciation level, amounting to PLN 44,989 thousand, and the level of the investment-related expenses, standing at PLN 49,594 thousand, one can notice that the Company has ensured a simple reproduction of assets. The financial activities absorbed only PLN 7,769 thousand, considering that the proceeds from credits and loans amounted to PLN 61.3 million while the expenses stood at PLN 68.1 million accounting for the credits repayment, dividend disbursement and credit interest repayment. In 2014, the Company had at its disposal the total of PLN 95, 643 thousand (PLN 57,894 thousand extracted and secured and PLN 37,749 thousand

retained from the previous year) out of which 51.8% was appropriated to investments, 8.1% to financial activities and 40.1% remained in the account to be utilized in 2015. Such operating cash management resulted from the on-going needs to finance the Company's operating activities in order to maintain its financial liquidity and secure the Company's development plans to be carried out in 2015.

The Management Board's policy in the area of operating activities is illustrated with the simplified operating cash structure, presented in the breakdown below (PLN thousand):

	2010	2011	2012	2013	2014
- net profit	145 294	122 451	67 785	9 938	27 151
-depreciation	33 318	41 326	44 740	42 968	44 989
- profit adjustments	- 354	3 953	-682	+ 8 333	19 579
- operating cash secured and made available	178 258	167 730	111 843	+61 239	91 719
- change in net working capital needs	- 69 340	- 63 391	147 375	45 238	-33 825
- net cash flow from operating activities	108 918	104 339	259 218	106 477	57 894

In 2014, the Company secured the amount of PLN 91,719 thousand from the net profit, depreciation and profit adjustments, resulting from the operations unrelated to the operating activities, i.e. the amount exceeding by nearly 50% the previous year's figure. Yet, the amount of PLN 33,825 thousand was engaged in the operating activities, mainly in the growth of inventories and repayment of the short-term liabilities. Thus, the Company could only appropriate PLN 57,894 thousand to the financing of its investments and expenses in the financial area, which was, however, much less than in the previous year.

Assessment of Company's Profitability

For shareholders ROCE - the rate of the capital employed - is the basic determiner of financial standing as shareholders base their investment-related decisions on ROCE, comparing it to the alternative management-related opportunities. One of the ROCE determiners is ROS – the return on sales. It was calculated at four levels of the profit and loss account.

In the analyzed reporting year the return on sales fluctuated as follows at particular levels:

	2010	2011	2012	2013	2014
- return on sales [%]	11.6	8.5	4.9	1.2	3.4
- operating profit margin [%]	11.3	8.3	4.8	1.2	2.9
- gross profit margin [%]	11.5	8.4	5.0	1.3	2.8
- net profit margin [%]	9.3	6.8	4.1	0.8	2.1

The year 2014 saw a sharp increase of the return on sales, operating profit margin as well as gross and net profit margins, compared to the previous year.

In proportion to the sales profit margin, the net profit accounted for 63.4%. Considering the insignificant increase of the sales of products, goods and materials by, merely, 2.1% compared to 2013, the Company increased its sales profit margin by 37.6%, and the net profit was by over 173% higher than in the previous year. It should be stressed that the Company flexibly adjusted the product prices to the existing market conditions in order to keep the market competitive advantage.

In 2014, the sales of transformer sheets increased by 22 % over 2013 in terms of volume and by 19% in terms of value. Despite very strong competition on the sheet steel market, the Company did very well. The power of market competition is largely determined by the excessive production capacity. The production capacity in Japan exceeds the domestic sheet steel consumption 11 times and the Russian production capacity is six times higher than the domestic output. This leads to a systematic reduction of sheet steel prices and to an excessive market supply.

One should also note a slight increase of the toroidal cores sales accompanied by the 1% decrease of their sales value in relation to the previous year. However, the sales of the toroidal cores account for merely 1% of the Company's total sales.

In the area of steel cold formed profiles, the Company achieved a sales increase, by 8 % in terms of volume and by 4 % in terms of value, compared to the previous year. It is a very good result, considering a very dynamic increase of the profiles imports in 2014, by as much as 24% in relation to 2013. The export sales of cold formed profiles decreased by 4% despite the flexible price adjustments and response to the customers' needs. The Company did not manage to maintain the previous year's export sales levels. The profiles export sales value dropped by 4% in terms of volume compared to the previous year.

The Company achieved good results in the sales of the road safety barriers. In 2014, a 7%-sales volume increase and 5% sales value increase were recorded.

Steel service centers did not manage to maintain the previous year's sales levels in respect of steel sheets and strips. Only slightly above 50 thousand tons of steel sheets were sold at the value of PLN 108 million, which accounts for a 26% sales volume decrease and 29% sales value decrease. Such a condition resulted from the excessive production capacities referring to the steel service centers and the maintained low market prices. Moreover, strong competition from the steel works-based service centers made the operation of the independent steel service centers increasingly difficult.

The Company's financial result was, undoubtedly, affected by the change in the sales structure, due to the diversified rentability levels of particular product groups. The sales share of the Electrical Sheets Segment increased from 31% to almost 36% accompanied by the decreasing sales of cold formed profiles from 62.6% to 58.8%. The Company's return on assets [ROA] and return on equity [ROE] increased in 2014.

This is illustrated with the below-quoted data:

Itemization	2010	2011	2012	2013	2014
- return on assets(ROA) , %	9.5	7.4	3.5	0.51	1.4
- return on equity (ROE),%	11.0	8.9	4.55	0.65	1.77
- capital multiplier (assets/equity), (multiplication)	1.18	1.17	1.29	1.28	1.26
- rotation of assets, (multiplication)	1.02	1.08	0.84	0.64	0.66

In 2014, the rate of return on equity stood at a relatively low level, however, a much higher one than in the previous year, reaching 1.8% compared to 0.65% in 2013. It should be noted that the Company is starting to recover good financial results and enjoys good prospects for the sales of the highest grade HiB steel sheets. This will improve its market position, which is confirmed by the increasing recipients' interest in such sheets connected with the growing requirements in the power sector.

In addition to ROE, the level of benefits generated in favour of the shareholders can also be expressed with the shareholder value, which is illustrated with the breakdown below.

Itemization	2010	2011	2012	2013	2014
Number of shares (thousand items)	6725	6725	6725	6725	6725
Share Prices (last quotation in December)	276.10	230.00	184.0	183.0	404.50
MV PLN thousand	1 856 772	1 546 750	1 237 400	1 230 675	2 720 262
Equity, PLN thousand	1 359 661	1 456 639	1 522 587	1 524 853	1 547 862
MVA, PLN thousand	497 111	90 111	- 285 187	- 294 178	1 172 400

The capital market valued the Company significantly above its book value. This valuation is by 76% higher than the book value. At the end of 2013, these shares were valued by the capital market by 19.3% below their book value, 2012 alike.

During the recent several years, the Company has not issued any shares, has not used any additional shareholders' capitals and its development has mostly been financed

from the retained funds, following the dividend disbursement. Considering the dividends disbursed, it should be noted that in the long-term perspective Stalprodukt has generated a total shareholder return.

III. ASSESSMENT OF THE MANAGEMENT BOARD'S DISCHARGE OF DUTIES

The Supervisory Board highly appreciates the work of the Company's Management Board in 2014. The steel market conditions are still difficult due to the excessive production capacity, especially in the area of transformer steel sheets, their excessive market supply and the excessive, uncontrolled imports of profiles. Under such conditions the Company generated a higher financial result than in the previous year.

The Management Board's achievements embrace, in particular:

Maintaining a strong capital base in order to keep the investors', creditors' and market's confidence and capacity for the Company's further development. In 2014, the equity share in the total financing sources stood at 79%, while the proportion of the net debt to equity reached only 5.36%. The Company enjoys an enormous development potential, both based on its own resources and on vast debt market opportunities.

Maintaining financial liquidity at a high level, which is confirmed by the financial liquidity ratios and on-time settlements of all the Company's liabilities, both towards the employees, suppliers, state budget and financial institutions. Towards the end of the year, the Company secured PLN 38,280 thousand of cash in its bank account. Due to the necessity to ensure on-time settlements of the liabilities arising both from the operating activities and investment-related expenses, the Company deposited its temporarily disposable financial resources safely in short-term deposit accounts, ensuring the possibility of their flexible use and on-time settlement of liabilities. Aiming at the dispersal of risk and reduction of costs for the use of external capital, the Management Board signed a few agreements with banks, diversifying the potential short-term credits providers, mainly to secure the supplies and letters of credit.

Correct management of receivables. The Management Board used a number of instruments to manage receivables, among others: assessment of the customers' credit capacity, determination of credit limits, security measures, monitoring of receivables and potential debt collection, in accordance with the applicable procedures. Outstanding receivables, decreased significantly compared to the previous year. The write-offs to receivables accounted for almost 1% of the total receivables, which is a very good result, considering the enormous risk from the possible non-recovery of the receivables.

Correct management of sales and procurement processes.

The Management Board cares for the diversification of the Company's charge supplier markets in order to limit the risk from the discontinued supplies of charge materials. One should underline the Management Board's efforts concerned with securing the Company's position on diversified supply markets, aimed at ensuring on-time order processing and maintaining the inventories at optimal levels .

The Management Board flexibly responded to the increasingly complex market needs, through the changes in the product range, quality improvements, care for timely deliveries, launching new products, changes of market prices. The company-owned sales network makes responding to the recipients' needs easier.

Company's Continued Development. The Company carried out the planned investments (increase of transformer sheets output, new production lines for profiles) financing them from its own resources – the generated net profit and depreciation. The Management Board continued to carry out the investment projects concerned with the state-of-the-art HiB technology in the Transformer Sheets Segment in order to provide the highest-quality sheets and technological parameters anticipated by the market. This certifies to the correctly demarcated direction of the product development.

Pursuing a rational information capital market policy. The Management Board went to great efforts to provide the investors with accurate information. Towards the end of 2014, the capital market valued the Company at 76% above its net book value. The share prices from the last quotation in December in 2014 were by 121% higher than the ones from the last December quotation in 2013, which means that, considering the dividend received, the investments into Stalprodukt shares yielded an exceptionally high capital return.

IV. Assessment of the Stalprodukt S.A. Financial Report for the Reporting Year from 1 January to 31 December 2014.

Fulfilling the tasks under art. 382 par. 3 of the Code of Commercial Companies and par. § 28, subpar. 2 of the Company's Articles of Association, the Supervisory Board made the assessment of the Stalprodukt S.A. Financial Report in respect of the reporting year from 1 January to 31 December 2014 , including:

- 1) balance sheet drawn up as of 31 December 2014 showing the assets, liabilities and equity totalling PLN 1 937 924 thousand,
- 2) profit and loss account and comprehensive income statement for the period from 1 January 2014 to 31 December 2014, showing the comprehensive income and net profit totalling PLN 27 151 thousand,
- 3) statement of changes in equity for the period from 1 January 2014 to 31 December 2014, showing the equity increase amounting to PLN 23 009 thousand,
- 4) cash flow statement for the period from 1 January 2014 to 31 December 2014 showing a cash decrease amounting to PLN 531 thousand,
- 5) additional information on the adopted accounting principles and other explanatory information.

The audit of the Stalprodukt SA Financial Report was carried out by the entity entitled to carry out financial report audits – the company: „Accord’ab” Biegli Rewidenci

Spółka z o.o. [limited liability company] based in Wrocław, recorded as 262 in the register of the entities entitled to audit financial reports, kept by the National Chamber of Statutory Auditors, which had been selected by the Supervisory Board to carry out the audit.

It is evident from the presented Certified Auditor's Opinion that the audited Financial Report, in all essential aspects:

- a. presents accurately and clearly all the information essential for the assessment of the assets and financial standing of the audited Company as of 31 December 2014, as well as its financial results for the reporting year from 1 January 2014 to 31 December 2014 in compliance with the International Financial Reporting Standards approved by the European Union,
- b. is compliant, in respect of its form and content, with the legal provisions applicable to the Company and with the Company's Articles of Association,
- c. has been prepared on the basis of correctly kept books of accounts and in compliance with the required accounting principles (policy)

Having analyzed the Stalprodukt S.A. Financial Report, drawn up for the reporting period from 1 January 2014 to 31 December 2014 and having been advised on the Certified Auditor's Opinion and Report, Audit Committee's recommendations, as well as on the basis of its own, independently conducted analyses, the Supervisory Board finds that in its opinion the Stalprodukt S.A. Financial Report, drawn up for the reporting period from 1 January to 31 December 2014 – as of 31 December 2014 – has been prepared correctly, in compliance with the applicable law provisions, in accordance with the books of accounts and documents as well as with the factual status and it accurately and clearly presents all the information essential to the assessment of the Company's assets and financial standing.

V. Assessment of the Stalprodukt S.A. Capital Group's Consolidated Financial Report for the Reporting Year from 1 January 2014 to 31 December 2014 and

Management Board's Report on the Activities of the Stalprodukt Capital Group for the Year 2014.

The Supervisory Board assessed the Management Board's Report on the Stalprodukt S.A. Capital Group's Activities and the Consolidated Financial Report for the reporting year from 1 January to 31 December 2014, including:

- 1) consolidated balance sheet drawn up as of 31 December 2014 with the assets, liabilities and equity totalling PLN 3 144 555 thousand,
- 2) consolidated profit and loss account for the period from 1 January 2014 to 31 December 2014 showing a net profit amounting to PLN 101 392 thousand,
- 3) consolidated comprehensive income statement for the period from 1 January 2014 do 31 December 2014, showing the total comprehensive income amounting to PLN 101 392 thousand,
- 4) consolidated changes in equity, consolidated cash flow statement for the year concerned and additional information sheet on the adopted accounting policy as well as other explanatory information.

Having analyzed the Stalprodukt S.A. Capital Group's Consolidated Financial Report as well as Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the period from 1 January 2014 to 31 December 2014, having been advised on the Certified Auditor's Opinion and Report, by the Audit Committee's recommendation, the Supervisory Board assesses that the reports concerned contain all the required elements, have been drawn up correctly in compliance with the applicable law provisions, in accordance with the books of accounts, documents and factual status and accurately and clearly present the information essential to the assessment of the Stalprodukt S.A Capital Group's assets and financial standing.

VI. Assessment of the Management Board's Report on the Stalprodukt S.A. Company's Activities for the Period from 1 January 2014 to 31 December 2014

Fulfilling the tasks pursuant to art. 382 par. 3 of the Code of Commercial Companies and par. 28, subpar. 2 of the Company's Articles of Association, the Supervisory Board assessed the Management Board's Report on Stalprodukt S.A. Company's Activities drawn up in respect of the period from 1 January 2014 to 31 December 2014.

In the reporting period the Company's Management Board was composed of:

- from 1 January 2014 r. to 31 December 2014:
 - Piotr Janeczek - President of the Board, Chief Executive Officer
 - Józef Ryszka - Member of the Board, Marketing Director

Having analyzed the Management Board's Report on the Stalprodukt S.A. Company's Activities drawn upon in respect of the period from 1 January to 31 December 2014, the Supervisory Board finds that, in its assessment, the report concerned has been drawn up correctly, contains all the required elements, stands in accordance with the books of account, documents and the factual status and it accurately and clearly presents the Company's standing in the reporting period. The Management Board duly points to the threats and risks facing the pursued activities and describes the course of events likely to affect the Company's activities.

In the assessment of the Supervisory Board, the actions undertaken by the Company's Management Board, embracing, among others, investments into the production-related technological solutions, guarantee the implementation of the optimal development policy and further strengthening of the Company's future market position, its potential and expansion to foreign markets.

The Supervisory Board ascertains that the Management Board's Report on the Company's Activities for the reporting year embracing the period from 1 January to 31 December 2014 contains all the information required by the legal

regulations. The financial data presented in the Management Board's Report on the Company's Activities stand in accordance with the information contained in the audited Financial Report drawn up for the period from 1 January 2014 to 31 December 2014.

The Management Board attached a Statement on the Company's Compliance with the Corporate Governance Rules to the submitted Report on the Company's Activities.

Considering the assessment made, the Supervisory Board favorably evaluates the Management Board's Report on the Company's Activities for the period from 1 January 2014 to 31 December 2014 as complete and highly appreciates the activities of the Management Board in the entire reporting period.

The completeness of the Management Board's Report on the Company's Activities for the year 2014 and the information disclosed therein have been confirmed as consistent by the certified auditor.

As a result of the present assessment, the Supervisory Board recommends that the Ordinary General Meeting of Shareholders should adopt resolutions approving the Management Board's Report on the Stalprodukt S.A. Company's Activities in respect of the period from 1 January to 31 December 2014 and the Stalprodukt S.A. Financial Report for the reporting year from 1 January to 31 December 2014 as well as the Consolidated Financial Report and the Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the reporting year from 1 January to 31 December 2014 by passing the appropriate resolutions.

The Supervisory Board motions with the Stalprodukt S.A Ordinary General Meeting of Shareholders to grant:

- Mr. Piotr Janeczek the vote of absolute approval for the discharge of his duties in 2014 in connection with his acting as the President of the Management Board in the period from 1 January to 31 December 2014,

- Mr. Józef Ryszka the vote of absolute approval for the discharge of his duties in 2014 in connection with his acting as the Member of the Management Board in the period from 1 January to 31 December 2014.

VII. Assessment of the Management Board's Motion Regarding the Net Profit Distribution for the Year 2014.

Acting pursuant to art. 382 par. 3 of the Code of Commercial Companies and par. 28 subpar. 2 of the Company's Articles of Association, having been advised on the Audit Committee's recommendation, the Supervisory Board, positively assessed the Management Board's motion regarding the distribution of net profit achieved by Stalprodukt S.A. in 2014 amounting to **PLN 27,150,861.72** as follows:

- dividend - PLN 13,310,534.00
- bonus for
the Management Board - PLN 162,905.17
- bonus for the Supervisory Board - PLN 190,056.03
- reserve capital - PLN 13,487,366.52

The Supervisory Board expressed an opinion that the motion filed by the Stalprodukt S.A. Management Board regarding the profit distribution stands in accordance with the Company's policy and its objectives.

The Supervisory Board recommends that The General Meeting should adopt a resolution regarding the net profit distribution for the year 2014 in the wording presented by the Company's Management Board.

Conclusion:

The Supervisory Board's own assessments presented herein as well as the opinion expressed by the certified auditor allow the Supervisory Board to evaluate the Company's 2014 standing positively. However, in the Supervisory Board's opinion, the assessments as well as the analysis of the achieved results and development plans

should be considered, also, in the aspect of the risks and threats, indicated by the Supervisory Board and the Management Board in its report.

All the Supervisory Board's Members discharged their duties with due diligence, applying with involvement the best of their knowledge and experience pertaining to the occupied positions.

This report has been examined and adopted by way of the resolution at the Supervisory Board's meeting held on 28 May 2015 to be submitted to the Stalprodukt S.A. Ordinary General Meeting of Shareholders

Signatures:

Stanisław Kurnik

Maria Sierpińska

Kazimierz Szydłowski

(Chairman of the Supervisory Board)

(Vice-Chairman of the Supervisory Board)

(Secretary of the Supervisory Board)

Janusz Bodek

Tomasz Plaskura

Sanjay Samaddar

(Member of the Supervisory Board)

(Member of the Supervisory Board)

(Member of the Supervisory Board)

Tomasz Ślęzak

(Member of the Supervisory Board)