



Stalprodukt S.A.

R E P O R T

SUPERVISORY BOARD OF STALPRODUKT S.A.

with its registered office in Bochnia

for 2015

Bochnia, May 2016

Report contents:

- I. Activities and decisions of the Supervisory Board and of the Audit Committee in 2015, along with self-assessment of the Board's activities.
- II. Assessment of the economic and financial standing of Stalprodukt S.A. for the period from 1 January 2015 to 31 December 2015, including the assessment of internal control, risk management and compliance systems and internal audit functions, as well as the assessment of the Management Board's activities.
- III. Assessment of the fulfilment of the Company's disclosure obligations regarding the application of corporate governance rules set out in the WSE Rules and regulations on current and periodic information published by issuers of securities.
- IV. Assessment of sponsorship, charity or another similar policy implemented by the Company.
- V. Report of the Supervisory Board on the results of the assessment of Financial Statements of Stalprodukt S.A. for the period from 1 January to 31 December 2015.
- VI. Report of the Supervisory Board on the results of the assessment of Consolidated Financial Statements of Stalprodukt S.A. Group and the Management Board's Report on the Activities of Stalprodukt S.A. Group for the period between 1 January and 31 December 2015.
- VII. Supervisory Board's report on the results of assessment of the Management Board's Report on the Activities of Stalprodukt S.A. for the period from 1 January 2015 to 31 December 2015.
- VIII. Assessment of the Management Board's proposal for distribution of profit for 2015.

I. Activities and decisions of the Supervisory Board and of the Audit Committee of Stalprodukt S.A along with self-assessment of the Board's activities in 2015.

In the period from 1 January 2015 to 31 December 2015, the Supervisory Board proceeded in accordance with the Commercial Companies Code, Articles of Association, Rules of Procedure of the Supervisory Board of Stalprodukt S.A. as well as in accordance with the corporate governance rules adopted by the Company, as laid down in the Code of Best Practice for WSE Listed Companies, while exercising permanent supervision over the Company's activities in all aspects and, also, considering the issues brought forward and motions filed by the Company's Management Board at the Supervisory Board's meetings.

Composition of the Supervisory Board in the reporting period:

In the period from 1 January 2015 to 31 December 2015, the Supervisory Board of the Company was composed of the following members:

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

Activities specified in the Articles of Association

In the reporting period, the Supervisory Board held six minuted meetings during which 33 resolutions were adopted. At the meetings the Supervisory Board analysed the Company's financial results, assessed the Company's economic and business standing.

At the meeting held on 30 January 2015, the Supervisory Board approved the Stalprodukt S.A. Plan for 2015, as submitted by the Management Board.

In the reporting period, the Supervisory Board pursued its activities in the form of meetings convened by the Chairperson of the Supervisory Board. Members of the Supervisory Board performed their duties collectively.

At the Supervisory Board meetings, Management Board Members provided extensive information regarding the Company's current economic and financial standing, operations, planned activities and significant events that are likely to affect the operations of the Company. The Company's Management Board provided the Supervisory Board with details of all relevant issues related to the operations, associated risks and risk management methods. At each meeting, the Supervisory Board precisely analysed in detail the Company's economic and financial results against the Plan assumptions and the Company's current standing.

At its meetings, the Supervisory Board discussed the control and supervision of the current activities of the Company in all aspects. Acts of supervision and control concerned, among other things, the analysis of the current economic performance of the Company and the interim financial statements. The Supervisory Board was also kept up to date on the progress of implementation of the adopted investment plan.

Throughout the reporting period, the cooperation with the Company's Management Board was running smoothly and did not raise any concern. The Supervisory Board was fully advised on the Company's and the Group's standing and, also, on all other matters discussed by the Supervisory Board.

In 2015, the Supervisory Board discharged, among other things, the following duties:

- analysed the financial results of the Company and fixed the amounts of quarterly bonuses for the Company's Management Board;
- adopted the Stalprodukt S.A. Plan for 2015;
- assessed the Management Board's Report on the Company's Activities and Financial Statements for the financial year from 1 January to 31 December 2014, and the Management Board's proposal for distribution of net profit for the financial year from 1 January to 31 December 2014, and recommended that the Annual General Meeting adopt resolutions in accordance with such proposal;

- assessed Consolidated Financial Statements of Stalprodukt S.A. Group and the Management Board's Report on the Activities of Stalprodukt S.A. for the financial year from 1 January to 31 December 2014 and recommended that the Annual General Meeting adopt a resolution in accordance with such proposal;
- prepared and approved the report on the activities of the Supervisory Board in the period from 1 January to 31 December 2014;
- granted its consent to the acquisition by the Company of shares in Zakłady Górniczo-Hutnicze "Bolesław" S.A. from each owner and eligible employee;
- granted its consent to the acquisition of the right of perpetual usufruct to developed land property located in Krzeczów, Rzezawa commune;
- issued opinions on the resolution of the Management Board concerning the acquisition of own shares;
- adopted resolutions regarding consent to the Company to take certain actions.

Pursuant to Article 28(13) of the Articles of Association of the Company, on 30 June 2015 the Supervisory Board adopted Resolution No. 57/IX/2015 appointing "Accord'ab Biegli Rewidenci Spółka z o.o. with its registered office in Wrocław as an entity authorised to audit the Company's Financial Statements for 2015 and the Group's Consolidated Financial Statements for 2015.

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

Audit Committee

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

In the period from 1 January to 31 December 2015 the Audit Committee of the Supervisory Board of Stalprodukt S.A. discharged its duties in the following composition:

- Maria Sierpińska - Chairperson
- Kazimierz Szydłowski - Member
- Tomasz Ślęzak - Member

Throughout the reporting period, the Audit Committee monitored the process of preparing financial statements, submitted a report on its activities accompanied by a recommendation regarding the assessment of financial statements to the Supervisory Board. It also verified remuneration payable to the auditor or the entity authorised to audit financial statements.

Self-assessment of activities of the Supervisory Board in 2015

In the period from 1 January to 31 December 2015, the Supervisory Board exercised permanent supervision over the Company in accordance with its roles and with full commitment. All members of the Supervisory Board used their best efforts to ensure that their duties to exercise permanent supervision over the activities of the Company are duly performed, using their knowledge and experience in exercising supervision over the Company, as prescribed by applicable laws and the Articles of Association of the Company.

In our opinion, cooperation between the Supervisory Board and the Management Board was running smoothly in every aspect. We highly appreciate the efforts of the Management Board aimed at achieving a high position in the market. Both the President of the Management Board and the Member of the Management Board attended the Board meetings discussing particular issues.

The Supervisory Board appreciates a number of activities performed by the Management Board throughout 2015, while emphasising the Company's development strategy aimed at increasing the efficiency, implementing innovative solutions and creating a positive image of the Company, which the Management Board consistently implemented.

The Supervisory Board evaluates its activities performed throughout 2015 as efficient and in compliance with the best standards.

Given the results and activities achieved and performed throughout 2015, the Supervisory Board moves to the General Meeting of the Company to discharge members of the governing bodies of the Company of their duties in 2015.

II. Assessment of the economic and financial standing of Stalprodukt S.A. for the period from 1 January 2015 to 31 December 2015, including the assessment of internal control, risk management and compliance systems and internal audit functions, as well as the assessment of the Management Board's activities.

Based on the Financial Statements, the Management Board's Report and the Auditor's Opinion and Report, the Supervisory Board assesses the Company's financial standing as good.

In the assessment the following areas were taken into consideration:

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

Structure of assets and their financing sources

In 2015, no significant changes occurred in the structure of assets and their financing sources. The balance sheet value of total assets declined by 3.4%, the value of non-current assets increased only by 0.4%, while the value of current assets dropped by 13.3%. This slightly changed the structure of the Company's assets. The share of non-current assets in total assets was 75%, an increase by 3 percentage points compared to the previous year. Current assets accounted for 25% of the Company's total assets. Such structure of assets is characteristic of the capital-absorbing industries, including the metallurgical industry. The Company had at its disposal assets amounting to PLN 1,871.9 million. The assets financing sources changed slightly as a result of the increase in equity. Equity financed 83% of the Company's assets which, compared to the share of non-current assets (75 %), means that a portion of equity was engaged in the operating activities. Liabilities and provisions for liabilities account for only 17% of total assets financing sources.

Such method of financing the Company's activities affects the rate of return on equity (ROE). In the metallurgical industry a share of equity in liabilities is typically large due to significant burdens on non-current assets and fluctuations in the financial

results caused by changes in the market conditions. The book value per share increased insignificantly from PLN 230.17 in 2014 to PLN 231.17 in 2015.

In the current assets group, inventories decreased by 21.3% and receivables increased slightly by 2.9%, which changed the structure of these assets. The inventories' share in this group of assets dropped from 50.2% in 2014 to 48% in 2015. The receivables' share stood at 40.5% in 2014 and at 45.9% in the audited period. The share of short-term investments in current assets decreased respectively from 7.4% to 4.6% in 2015. Cash decreased from PLN 38.3 million at the beginning of the year to PLN 19.6 million at the end of the year. The Company maintains a year-on-year cash balance and the resources remaining towards the end of the year are allocated to cover on-going expenses related to operating activities and investments in the following year. The liquidity of each item of assets translates to liquidity, determining the Company's capacity to timely settle its liabilities.

Assessment of liquidity and indebtedness level

The Company maintained sufficient liquidity throughout the reporting period and timely paid its liabilities both to personnel, state authorities, banks and suppliers. Liquidity ratios increased in 2015. Current assets were 80% higher than current liabilities falling due within one year of the balance sheet date. This group of liabilities include both spontaneous liabilities to suppliers and public law institutions and liabilities concerning the incurred loans and bank loans. The Company maintained financial liquidity based on its net working capital of PLN 208.1 million. Therefore, it benefited from bank loans to a limited extent; however, the Company had agreements with banks for multi-purpose facilities, which it used from time to time. Liquidity was measured based on the level of the Company's current assets, operating cash and current liabilities, whose payback period is shorter than one financial year.

In the subsequent five years financial liquidity ratios were as follows:

<i>Breakdown</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
<i>Current ratios</i>	<i>2.7</i>	<i>2.1</i>	<i>1.9</i>	<i>1.7</i>	<i>1.8</i>
<i>Quick ratios</i>	<i>1.7</i>	<i>1.2</i>	<i>0.92</i>	<i>0.77</i>	<i>0.91</i>
<i>Short-term investments ratios</i>	<i>0.2</i>	<i>0.2</i>	<i>0.16</i>	<i>0.12</i>	<i>0.05</i>
<i>Cash ratios</i>	<i>0.42</i>	<i>0.85</i>	<i>0.36</i>	<i>0.18</i>	<i>0.73</i>

The current ratio increased from 1.7 in 2014 to 1.8 in 2015 and the quick ratio increased from 0.77 in 2014 to 0.91 in the audited year. The cash ratio significantly increased from 0.18 to 0.73, which means that PLN 1 of current liabilities corresponded to 73 grosz of the generated operating cash. The Company used cash to finance the investments, repay loans and finance lease instalments. It also paid dividend to the shareholders in the total amount of PLN 13.7 million, which accounted for over 50% of the net profit generated in 2014.

The increase in liquidity ratios stands for the improved liquidity and ability of the company to pay its liabilities. Liquidity is affected by the Company's financial policy related to assets and current liabilities. Such policy is reflected in day-based cycles. Average inventory turnover was 69 days in 2015 and 81 days in 2014. Average receivables turnover totalled 55 days in 2015 compared to 60 days in 2014. Current liabilities turnover increased from 65 days in 2014 to 70 days in the audited period. This indicates that the Company has been pursuing an appropriate financial policy which does not threaten its liquidity.

High credit capacity resulting from the generated financial results and the level of generated operating cash, is worth mentioning. Transparent assets and ownership structure allows 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.

The assessment of the financial condition of the Company also took into account the cash flow statement. The cash flow statement shows which areas of activity generated and absorbed cash.

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

	2011	2012	2013	2014	2015
Net cash flows from operating activities	+104,339	+259,218	+106,477	+57,894	+190,484
Net cash flows from investing activities	-51,965	-346,909	- 87,926	- 49,594	-58,295
Net cash flows from financing activities	- 31,623	+96,977	- 33,138	- 7,769	-150,812

Balance sheet change in cash	+20,751	+9,286	- 14,587	+531	-18,623
Closing balance of cash	+43,050	+59,926	+37,749	+38,280	+19,659

Cash appropriated to investing activities to cash generated from operating activities is 30.6%. However, comparing the depreciation level, amounting to PLN 47,064 thousand, and the level of the investment-related expenses, amounting to PLN 58,295 thousand, the Company has provided a simple reproduction of assets. Financing activities absorbed a significant portion of cash generated from operating activities. In 2015, the Company had at its disposal a total of PLN 228,764 thousand (PLN 190,484 thousand generated and PLN 38,280 thousand retained), out of which PLN 58,295 thousand was allocated to investing activities, PLN 150,812 thousand to financing activities and PLN 19,657 thousand remained in the account to be used in 2016. Such operating cash management resulted from the implementation of the development plans of the company and the purposes of current financing of its operating activities.

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

	2011	2012	2013	2014	2015
net profit	122,451	67,785	9,938	27,151	108,661
amortisation/depreciation	41,326	44,740	42,968	44,989	47,064
profit adjustments	3,953	-682	+ 8,333	19,579	17,255
generated operating cash	167,730	111,843	+61,239	91,719	172,980
change in net working capital needs	- 63,391	147,375	45,238	-33,825	+17,504
net cash flows from operating activities	104,339	259,218	106,477	57,894	190,484

In 2015, the company secured cash amounting to PLN 172,980 thousand from net profit, amortisation/depreciation and profit adjustments resulting from operations unrelated to operating activities, i.e. an increase by nearly 90% compared to the previous year. Yet, the amount of PLN 17,504 thousand was used in operating

activities. Therefore, the Company could allocate PLN 190,484 thousand to finance its investments and expenses in the financial area. Cash generated from operating activities was 3.3 times higher compared to the previous year.

Assessment of the Company's profitability

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

In the audited reporting year the return on sales fluctuated as follows:

	2011	2012	2013	2014	2015
- return on sales [%]	8.5	4.9	1.2	3.4	11.4
- operating profit margin [%]	8.3	4.8	1.2	2.9	10.8
- gross profit margin [%]	8.4	5.0	1.3	2.8	9.9
- net profit margin [%]	6.8	4.1	0.8	2.1	8.0

The year 2015 saw a sharp increase of the return on sales, operating profit margin, gross and net profit margins, compared to the previous year. Net profit to sales profit margin stood at 70.9%.

With an increase in revenues from sales of products, goods and materials by 5.7% compared to 2014, the Company increased its sales profit margin by 3.6 times, and the net profit was 4 times higher than in the previous year. It should be stressed that the Company flexibly adjusted product prices to the existing market conditions in order to maintain its market competitive advantage.

In 2015, **the sales of transformer sheets** increased by 9.5% in terms of volume and by 46.5 % in terms of value. Despite very strong competition on the sheet steel market, the Company did very well. Revenue from domestic sales was by 70% and from sales to other counties by 45.5% higher than in 2014. In 2015, domestic sales

accounted for 5.1% of the total sales of sheet steel in terms of volume. Although the transformer sheets market saw an improvement in prices and demand, the risks inherent in this area are significant due to the import of very good quality sheets from Japan and excessive production capacity in several countries producing highest performance steel.

Sales of toroidal cores in 2015 stood at the same level as in the previous year. However, the sales of toroidal cores account for merely 1% of the Company's total revenues.

As regards steel cold formed profiles sales slightly increased by 2% in terms of volume, but declined by 7% in terms of value compared to the previous year. The export sales of cold formed profiles decreased by 15% in terms of volume and by 21 % in terms of value despite the flexible price adjustments and response to the customers' needs. Domestic sales of profiles stood at the same level as in the previous year at 10% growth in sales in terms of volume. This is a very good result when considering the increase in imports of profiles in 2015. Domestic sales account for 73% of total sales.

Sales of **road safety barriers** in 2015 were lower by 40% compared to 2014. While domestic sales decreased, export sales increased. However, export sales account for only 30.7% of total sales of barriers in terms of volume.

The value of sales of road safety barriers was lower by 42% compared to the previous year.

Steel service centres did not manage to maintain the previous year's levels of sales of steel sheets and strips. Only slightly above 35 thousand tons of steel sheets were sold, which accounts for 30% sales value decrease compared 50 thousand tons sold in the previous year. Sales decreased by 35% in terms of value. Such condition was the result of excessive production capacities in the steel service centres and market prices maintained at low levels. In addition, strong competition from steel works-based service centres made the operation of independent steel service centres increasingly difficult.

The Company's financial result was undoubtedly affected by the change in sales due to the diversified profitability levels of each product group.

The share of sales of the electrical sheets segment increased from 37.5% in 2014 to 51% in 2015, which improved the Company's financial result. Sales of steel cold formed profiles and road safety barriers decreased by 10% to 42.8% in the audited year. The Company's return on assets and return on equity increased in 2015.

This is illustrated as follows:

Breakdown	2011	2012	2013	2014	2015
- return on assets (ROA) (%)	7.4	3.5	0.51	1.4	5.7
- return on equity (ROE) (%)	8.9	4.5	0.65	1.77	7.0
- capital multiplier (assets/equity),(multiplication)	1.17	1.29	1.28	1.26	1.23
- asset turnover, (multiplication)	1.08	0.84	0.64	0.66	0.71

Return on equity in 2015 significantly increased compared to the previous year and stood at 7.0% against 1.8% in 2014. This was attributable to a large increase in net profit mainly on sales of the highest HiB grade steel sheets. This improved the Company's market position, which is confirmed by the consumers' interest in such sheets connected with higher requirements in the energy sector.

In addition to ROE, the level of benefits generated for shareholders may also be expressed with the shareholder value, which is illustrated in the table below.

Breakdown	2011	2012	2013	2014	2015
Number of shares (in thousands)	6725	6725	6725	6725	6725
Share price (last quoted in December)	230.00	184.0	183.0	404.50	299.00
MV, PLN thousand	1,546,750	1,237,400	1,230,675	2,720,262	2,010,775
Equity, PLN thousand	1,456,639	1,522,587	1,524,853	1,547,862	1,584,115
MVA, PLN thousand	90,111	-285,187	-294,178	1,172,400	+456,660

The capital market estimated the value of the Company well above its book value. Such valuation is by nearly 23% higher than the book value. At the end of 2015, the

market priced the shares by 26% lower than at the end of December of the previous year.

In the last several years, the Company did not issue any shares or use additional shareholders' capital and its development was mainly financed with retained earnings, net of dividends. Taking into account the dividends paid, it should be noted that in the long-term perspective Stalprodukt has generated a total shareholder return.

Assessment of the Management Board's activities

The Supervisory Board highly appreciates the activities taken by the Company's Management Board in 2015. 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 profit than in the previous year.

The Management Board's major achievements include:

- **Improved financial liquidity** and timely payment of all liabilities to employees, suppliers, state budget and financial institutions. At year end, the Company held cash of PLN 19,657 thousand in its bank account.

In order to disperse risk and reduction of costs of using borrowed capital, the Management Board signed several contracts with banks, diversifying potential providers of short-term loans, primarily to secure supplies and letters of credit.

- **Correct management of receivables** The Management Board uses a number of instruments to manage receivables such as: credit risk assessment of clients, setting credit limits, collateral, monitoring of receivables and potential debt collection, in accordance with the applicable procedures. Overdue receivables accounted for 15.3% of total receivables. Write-downs of receivables accounted for less than 1% of total receivables, which is a very good result, considering the enormous risk of non-recovery of receivables.

- **Correct management of sales and procurement processes** The Management Board ensures diversification of the Company's supply markets in order to reduce the risk of

discontinued supplies of charge materials. It should be emphasized that the Management Board's efforts in securing the Company's position on diversified supply markets, aimed at ensuring timely order processing and maintaining inventories at optimal levels.

The Management Board flexibly responded to the increasingly complex market needs by changing the product mix, improving product quality, ensuring timely delivery, launching new products, changing market prices. The sales network owned by the Company makes it easier to respond to customers' needs.

- **Maintaining a strong capital base** in order to maintain the confidence of investors, creditors and the market and the ability to continue the development of the Company. In 2015, the equity share in total financing sources stood at 83% and was higher by 4 p.p. compared to 2014. The company has a large development potential, both based on its own resources and on vast debt market opportunities.

- **Company's continued development.** The Management Board correctly set out the Company's development objectives in previous years and has pursued them systematically. In the audited financial year, the Company carried out the planned investments financing them from its own resources, i.e. generated net profit and depreciation.

- **Pursuing a reasonable information capital market policy.** The Management Board used great efforts to provide investors with accurate information. At the end of 2015, the capital market valued the Company at 23% above its net book value, despite a significant drop in share prices on the stock exchange market.

Assessment of internal control, risk management and compliance systems and internal audit functions

The Supervisory Board positively assesses the internal control, risk management and compliance systems and internal audit functions. The Supervisory Board believes that the existing internal control and risk management systems which are applied in the Company allow the Company to systematically identify and control the risks associated with the Company's operations. Internal control, risk management and

compliance systems and internal audit function have been structured so as to take into account the risks associated with the Company's operations.

In the opinion of the Supervisory Board, the Company's situation is stable. The Supervisory Board does not see any risks to the operations of the Company.

III. Internal Systems and Functions Assessment of the fulfilment of the Company's disclosure obligations regarding the application of corporate governance rules set out in the WSE Rules and regulations on current and periodic information published by issuers of securities.

The Supervisory Board positively assesses the fulfilment of disclosure obligations regarding the application of corporate governance principles set out in the WSE Rules and regulations on current and periodic information published by issuers of securities.

IV. Assessment of the Company's sponsorship, charity or another similar policy.

In cooperation with non-governmental organisations the Company financially supports various charity campaigns, sponsors cultural, sports or educational events.

The Company primarily supports local initiatives by engaging, among other things, in funding cultural or sports events organised by local governments. It also supports local artists by sponsoring the purchase of their work and handing them over to the Bochnia museum.

Charitable activities consist, among other things, in financing the activities of non-governmental organisations that support individuals in need, as well as in providing support to individuals and families in difficult life situations.

The Supervisory Board assesses the Company's charitable and sponsorship activities as socially useful and contributing to the development of culture, sport and education.

The Supervisory Board positively assesses the activities of the Management Board in this regard.

V. Assessment of Stalprodukt S.A. Financial Statements for the financial year from 1 January to 31 December 2015.

In fulfilling its duties under Article 382(3) of the Commercial Companies Code and Section 28(2) of the Company's Articles of Association, the Supervisory Board assessed the Stalprodukt S.A. Financial Statements for the financial year from 1 January to 31 December 2015, which comprise:

- 1) balance sheet prepared as at 31 December 2015, showing the assets, liabilities and equity totalling PLN 1,871,923 thousand;
- 2) profit and loss account and comprehensive income statement for the period from 1 January 2015 to 31 December 2015, showing comprehensive income and net profit totalling PLN 108,661 thousand;
- 3) statement of changes in equity for the period from 1 January 2015 to 31 December 2015, showing an increase in equity by PLN 6,253 thousand;
- 4) cash flow statement for the period from 1 January 2015 to 31 December 2015, showing a decrease in cash by PLN 18,623 thousand;
- 5) additional information on the adopted accounting principles and other explanatory notes.

The audit of the financial statements of Stalprodukt S.A. was carried out by the entity authorised to audit financial statements, i.e. "Accord'ab" Biegli Rewidenci Spółka z o.o. with its registered office in Wrocław, entered in the register of entities authorised to audit financial statements, maintained by the National Chamber of Statutory Auditors, under number 262, which had been selected by the Supervisory Board to carry out the audit.

The presented Certified Auditor's Opinion clearly suggests that the audited financial statements, in all material respects:

- a) give a true and fair view of the assets and financial standing of the Company as at 31 December 2015, as well as its profit or loss for the financial year from 1 January 2015 to 31 December 2015;
- b) have been prepared in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations of the European Commission and, in all respects not regulated by these standards, in accordance with the Accounting Act and secondary legislation thereto, as well as based on properly maintained accounting records;

- c) comply with applicable laws and the Company's Articles of Association that affect the contents of the financial statements.

Having analysed the Stalprodukt S.A. Financial Statements prepared for the reporting period from 1 January 2015 to 31 December 2015 and having read the Certified Auditor's Opinion and Report, the Audit Committee's recommendations, as well as on the basis of its own, independently conducted analyses, the Supervisory Board assesses that the Stalprodukt S.A. Financial Statements prepared for the reporting period from 1 January to 31 December 2015 as at 31 December 2015 have been prepared correctly, in compliance with applicable laws, in accordance with the accounting books and records and facts and they give a true and fair view of the assets and financial standing of the Company.

VII. Assessment of Consolidated Financial Statements of the Stalprodukt S.A. Group for the reporting period from 1 January to 31 December 2015 and the Management Board's Report on the Activities of the Stalprodukt S.A. Group for 2015.

The Supervisory Board assessed the Management Board's Report on the Activities of the Stalprodukt S.A. Group and Consolidated Financial Statements for the reporting period from 1 January to 31 December 2015, which comprise:

- 1) consolidated balance sheet prepared as at 31 December 2015, showing assets, liabilities and equity totalling PLN 3,305,746 thousand;
- 2) consolidated profit and loss account for the period from 1 January 2015 and 31 December 2015, showing a net profit amounting to PLN 227,234 thousand;
- 3) consolidated statement of comprehensive income for the period from 1 January 2015 to 31 December 2015, showing total comprehensive income of PLN 227,234 thousand,
- 4) consolidated statement of changes in equity, consolidated statement of cash flows for the year, additional information about the accounting policies and other explanatory notes.

Having analysed the Consolidated Financial Statements of the Stalprodukt S.A. Group and the Management Board's Report on the Activities of the Stalprodukt S.A. Group for the reporting period from 1 January 2015 to 31 December 2015, having read the

Certified Auditor's Opinion and Report, as well as the Audit Committee's recommendations, the Supervisory Board assesses that the financial statements concerned contain all the required elements, have been prepared correctly, in compliance with applicable laws, in accordance with the accounting books and records and facts and that they give a true and fair view of the assets and financial standing of the Stalprodukt S.A. Group.

VII. Assessment of Management Board's Report on the Activities of Stalprodukt S.A. for the reporting period from 1 January 2015 to 31 December 2015.

In fulfilling its duties under Article 382(3) of the Commercial Companies Code and Section 28(2) of the Company's Articles of Association, the Supervisory Board assessed the Report of the Management Board on the Activities of Stalprodukt S.A. prepared for the period from 1 January 2015 to 31 December 2015.

At the beginning of the reporting period, the Company's Management Board was composed of:

- Piotr Janeczek President of the Management Board, Chief Executive Officer
- Józef Ryszka Member of the Management Board, Marketing Officer

Having analysed the Management Board's Report on the Activities of Stalprodukt S.A. prepared for 2015, the Supervisory Board assesses that the report concerned has been prepared correctly, contains all the required elements, stands in accordance with the accounting books and records and facts and that they give a fair and true view of the Company's standing in the reporting period. The Management Board duly identifies the threats and risks inherent in the activities pursued and describes the course of events that are likely to affect the Company's activities.

Considering the above, the Supervisory Board highly appreciates the effective work done by the Management Board with enormous involvement in a subsequent year.

The Supervisory Board finds that the Management Board's Report on the Activities of the Company for the financial year from 1 January to 31 December 2015 contains all the information required by law. The financial data presented therein are consistent

with the information contained in the audited financial statements for the period from 1 January 2015 to 31 December 2015.

The Management Board attached a statement on the Company's compliance with the corporate governance rules to the submitted Report.

The completeness and accuracy of the Report of the Management Board on the Activities of the Company for 2015 have been confirmed by the auditor.

As a result of the assessment, the Supervisory Board recommends that the Annual General Meeting adopt resolutions approving the Management Board's Report on the Activities of Stalprodukt S.A. for the reporting period from 1 January 2015 to 31 December 2015 and the Financial Statements of Stalprodukt S.A. for the reporting period from 1 January to 31 December 2015, as well as the consolidated financial statements for the reporting period from 1 January to 31 December 2015 by adopting relevant resolutions.

The Supervisory Board moves that the Annual General Meeting of Stalprodukt S.A.:

- grant discharge to Mr Piotr Janeczek for the fulfilment of duties in 2015 in connection with his service as the President of the Management Board in the period from 1 January to 31 December 2015;
- grant discharge to Mr Józef Ryszka for the fulfilment of duties in 2015 in connection with his service as the Member of the Management Board in the period from 1 January to 31 December 2015.

VIII. Assessment of the Management Board's proposal the distribution of profit for 2015

Acting pursuant to Article 382(3) of the Commercial Companies Code and Section 28(2) of the Company's Articles of Association, having been advised on the Audit Committee's recommendation, the Supervisory Board approves the Management Board's proposal for the distribution of net profit generated by Stalprodukt S.A. in 2015 amounting to **PLN 106,661,809.90** as follows:

- dividend - PLN 16,740,801.00

- bonus for the Management Board - PLN 651,970.86
- bonus for the Supervisory Board - PLN 760,632.67
- reserves - PLN 90,508,405.37

The Supervisory Board is of the opinion that the proposal of the Management Board of Stalprodukt S.A. regarding the profit distribution complies with the Company's strategy and recommends that the Annual General Meeting approve the distribution of net profit for 2015 as proposed above.

Conclusion

The Supervisory Board's own assessments presented in this report and the auditor's opinion allow the Supervisory Board to positively assess the Company's standing in 2015.

All Members of the Supervisory Board diligently discharged their duties with the use of the best of their knowledge and experience pertaining to the positions occupied by them.

This report has been examined and adopted by resolution at the Supervisory Board's meeting held on 23 May 2016 in order to be submitted to the Annual General Meeting of Stalprodukt S.A.

Signatures:

Stanisław Kurnik

Maria Sierpińska

Kazimierz Szydłowski

(SB Chairperson)

(SB Deputy Chairperson)

(SB Secretary)

Janusz Bodek

Tomasz Plaskura

Sanjay Samaddar

(SB Member)

(SB Member)

(SB Member)

Tomasz Ślęzak

(SB Member)