



Stalprodukt S.A.

REPORT

**of SUPERVISORY BOARD
of STALPRODUKT S.A.
based in Bochnia
for 2016**

Bochnia, May 2017

This Report contains:

- I. Activities and decisions taken by the Stalprodukt S.A. Supervisory Board and Audit Committee combined with the Board's self-assessment of its work in 2016.
- II. Assessment of the Stalprodukt S.A.'s economic and financial standing for the period from 1 January 2016 to 31 December 2016 including the internal audit systems, risk management and assessment of the Management Board's work.
- III. Assessment of the Company compliance with the obligatory disclosures concerning the application of the corporate governance rules, defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the issuers of securities.
- IV. Supervisory Board's Report on the Stalprodukt S.A.'s Financial Report assessment results for the period from 1 January to 31 December 2016.
- V. Supervisory Board's Report on the Stalprodukt S.A. Capital Group's Consolidated Financial Report and Management Board's Report on the Activities of the Stalprodukt S.A. Capital Group for the period from 1 January to 31 December 2016.
- VI. Supervisory Board's Report on the results of assessment of the Management Board's Report on the Stalprodukt S.A. Company's activities for the period from 1 January 2016 to 31 December .
- VII. Assessment of the Management Board's motion concerning the distribution of the net profit for the year 2016.
- VIII. Conclusion.

I. Activities and decisions taken by the Stalprodukt S.A. Supervisory Board and Audit Committee combined with the Board's self-assessment of its work in 2016.

In the period from 1 January 2016 to 31 December 2016, the Supervisory Board acted pursuant to the provisions of the Code of Commercial Companies, Company's Articles of Association, Rules of the Stalprodukt S.A. Supervisory Board as well as in accordance with the corporate governance rules accepted by the Company defined in the Code of Best Practice for WSE Listed Companies, exercising constant supervision over the Company's activities in all the areas of its operation, and also considering the issues and motions submitted by the Company's Management Board at the Supervisory Board's meetings.

Supervisory Board's composition in the reported period:

In the period from 1 January 2016 to 20 June 2016 the Supervisory Board discharged its duties being composed of:

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

As of the day of the Stalprodukt S.A. Ordinary General Meeting of Shareholders, approving of the Company's Financial Report for the year 2015, the appointments of the existing Supervisory Board Members expired due to the end of term.

The Stalprodukt S.A. Ordinary General Meeting of Shareholders, which was held on 20 June 2016, appointed the Supervisory Board for another three-year term of office.

From 20 June 2016 roku to 31 December 2016 the Supervisory Board discharged its duties being composed of :

Stanisław Kurnik	-	Chairman of Supervisory Board
Maria Sierpińska	-	Vice-Chairman of Supervisory Board
Kazimierz Szydłowski	-	Secretary of Supervisory Board
Janusz Bodek	-	Member of Supervisory Board
Magdalena Janeczek	-	Member of Supervisory Board
Tomasz Plaskura	-	Member of Supervisory Board
Sanjay Samaddar	-	Member of Supervisory Board

Activities under Articles of Association

During the reporting period, the Supervisory Board carried out its activities following the mode of meetings convened by the Chairman of the Supervisory Board. The Board carried out its activities collectively.

In the period from 1 January 2016 to 31 December 2016, the Supervisory Board held 4 minuted meetings, during which 38 resolutions were adopted.

During each meeting the Supervisory Board analyzed the Company's financial results, assessed the Company's economic and business standing as well as assessed the Company's current status.

During the meetings the Members of the Supervisory Board presented extensive information on the Company's current economic and financial standing, its operations, planned activities and important events likely to influence the Company's operations. The Company's Management Board informed the Supervisory Board in detail about all the important issues related to the pursued activities and on the risks related thereto as well as ways of the appropriate risk management.

Throughout the reporting period the cooperation with the Company's Management Board proceeded satisfactorily not arousing any reservations. The Supervisory Board was receiving exhausting information about the Company's standing and also on all other matters examined by the Supervisory Board.

In 2016 the Supervisory Board, among others:

- analyzed the Company's quarterly reports, as well as defined the level of the quarterly bonuses for the Company's Management,
- assessed the Management Board's Report on the Company's Activities and the Company's Financial Report for the reporting year from 1 January to 31 December 2015, as well as the Management Board's motion concerning the net profit distribution for the reporting year from 1 January to 31 December 2015 and recommended that respective resolutions should be adopted accordingly by the Ordinary General Meeting
- assessed the Stalprodukt S.A Capital Group's Consolidated Financial Report and Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the reporting year from 1 January to 31 December 2015 and recommended that respective resolutions should be adopted accordingly by the Ordinary General Meeting,
- prepared and accepted the Report on the Supervisory Board's Activities in the period from 1 January to 31 December 2015,
- examined and expressed opinion on the matters included in the agenda of the Company's Ordinary General Meeting of Shareholders,
- gave consent to the acquisition and transfer of a land property situated in Bochnia,
- expressed opinion on the resolution of the Company's Ordinary General Meeting of Shareholders regarding the redemption of the Company's own shares purchased by the Company and reduction of the share capital,
- expressed opinion on the resolution of the Company's Management Board regarding the purchase of the Company's own shares with a view to redemption,
- gave consent to the acquisition of shares in the Cynk-Mal S.A. Company based in Legnica,
- approved of the Organizational Rules and Stalprodukt S.A Management Board's Rules,
- adopted resolutions regarding the consent as to particular activities to be undertaken by the Company.

In accordance with par. 28 subpar. 13 of the Company's Articles of Association, on 28 July 2016, by the Resolution No 9/X/2016, the Supervisory Board selected the entity authorized to carry out financial report audits - the Company „Accord'ab” Biegli Rewidenci Spółka z o.o. based in Wrocław, to carry out the audit of the Company's Financial Report for the year 2016 and the Capital Group's Consolidated Financial Report for the year 2016 as well as to carry out the semi-annual reviews.

During its meeting held on 16 December 2016, the Supervisory Board passed the Stalprodukt S.A. Company's Plan for the year 2017 along the investment budget for the year 2017.

All the Supervisory Board's meetings were documented in the minutes recorded during the meetings concerned.

Personnel-Related Issues

At the meeting held on 28 July 2016, the Stalprodukt S.A. Supervisory Board, appointed Mr. Łukasz Paweł Mentel, in accordance with par. 16 subpar. 1, item „b” of the Company's Articles of Association, as Member of the Company's Management Board for a three-year term of office as well as adopted resolutions concerning the employment terms and conditions and conclusion of the employment contract with the appointed Member of the Company's Management Board.

Audit Committee

The Supervisory Board's activities were supported by the Audit Committee as an advisory and opinion-forming body, acting in the structure of the Supervisory Board, appointed from among of its members.

The scope of the Audit Committee's activities is defined in the Rules of Audit Committee passed by the Supervisory Board.

In the period from 1 January to 20 June 2016 the Audit Committee of the Stalprodukt S.A. Supervisory Board discharged its duties being composed of:

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

In the period from 28 July 2016 to 31 December 2016, the Audit Committee of the Stalprodukt S.A. Supervisory Board discharged its duties being composed of:

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

Throughout the reporting period the Audit Committee was monitoring the process of the financial reports preparation and reported the results of their work to the Supervisory Board also submitting their recommendations concerning the assessment of the financial reports.

The Audit Committee actively cooperated with the certified auditor, carrying out the reviews of the semi-annual financial reports, and discussed the results of the annual financial reports.

Within the scope of their work the Audit Committee issued a recommendation concerning the choice of the certified auditor authorized to audit the financial reports.

Supervisory Board's Self-Assessment in 2016

In the period from 1 January to 31 December 2016, the Supervisory Board (in its own opinion) correctly discharged its duties and fulfilled its tasks arising from the Company's Articles of Association and Rules of Supervisory Board as well as from the Code of Commercial Companies, consisting in the constant supervision exercised over the Company's activities.

The Supervisory Board monitored the Company's financial results and condition on an on-going basis.

The Company's Management Board informed the Supervisory Board on the Company's condition as well as on possible threats and risks related to the pursued activities.

Thanks to the appropriate competences enabling the Supervisory Board to fulfill its functions and efficient organization of work, the Supervisory Board effectively fulfilled its tasks defined in the Company's Articles of Association pursuing the Company's interest.

The Supervisory Board assesses its work throughout the year 2016 as effective and performed in accordance with the best standards.

II. Assessment of the Stalprodukt S.A.'s economic and financial standing for the period from 1 January 2016 to 31 December 2016 including the internal audit systems, risk management and assessment of the Management Board's work

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

In the present assessment the following areas were taken into consideration:

- structure of assets and their financing sources,
- level of financial liquidity and debt,
- Company's profitability and factors shaping it.

Structure of assets and their financing sources

In 2016, the Company owned the assets amounting to PLN 1 963 236 thousand.

The structure of the assets is dominated by the fixed assets accounting for 69.2% of the total assets. Their share decreased by 5.8% compared to the previous year. The faster increase of the current assets over the fixed assets resulted from a deliberately pursued financial policy. The inventories increased from PLN 224 thousand to 268 thousand i.e. by 19.5%, whereas the receivables increased by 24.4%. Short-term investments recorded 2.8-fold increase.

The level of cash towards the end of the year stayed almost unchanged amounting to PLN 19 million. In the group of current assets, inventories accounted for 44.3% and receivables for 44.1% The share of short-term investments in the current assets increased from 4.6% in 2015 to 10.1% in 2016.

The equity and debt increase level being reduced, resulted in the altered structure of the assets financing sources. In 2015 the equity itself financed 83% of the Company's assets and in 2016 - 74%. A fraction of equity in the form of the net working capital is engaged in the financing process of the Company's operating activities.

In 2015, liabilities and provisions for liabilities accounted for only 17% of the total assets financing sources. In 2016, their share in the Company's assets financing increased to the level of 26.1%. Such financing of the Company's activities affects the ROE level. It should be added that a large equity share in the liabilities structure is typical for the metallurgical industry due to a substantial burden of fixed assets and financial market fluctuations due to the changing economic conditions. The book value per single share increased from PLN 231.17 in 2015 to PLN 260.15 in 2016, which resulted from the shares number decrease by 1 144 733 items caused by their redemption.

The Company maintains the year-to-year cash balance and the funds remaining towards the end of the year are appropriated for the on-going expences related to the operating activities and for the investments in the following year. The liquidity of the particular elements of current assets is translated into financial liquidity determining the Company's capacity to settle its liabilities on time.

Financial Liquidity and Debt Level Assessment

In 2016, as in the previous years, the Management Board attached great importance to the question of financial liquidity. The Company punctually settled its liabilities both in respect of its employees, the state budget and banks and suppliers. In 2016 the financial liquidity ratios decreased compared to the previous year. This resulted from the increase of short-term liabilities caused by the bank credits maturing for repayment in the analyzed period. The short-term liabilities group embraces both the spontaneous liabilities towards suppliers, public and legal institutions as well as liabilities in respect of the incurred credits and loans.

The financial liquidity measurement was based on the Company's current assets figure, operating cash level and current liabilities whose payback time is shorter than the reporting year.

During five consecutive years the financial liquidity ratios reached the following levels:

<i>Itemization</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	2016
<i>Current Ratios</i>	<i>2.1</i>	<i>1.9</i>	<i>1.7</i>	<i>1.85</i>	1.33
<i>Quick Ratios</i>	<i>1.2</i>	<i>0.92</i>	<i>0.77</i>	<i>0.91</i>	0.72
<i>Short-Term Investments Ratios</i>	<i>0.2</i>	<i>0.16</i>	<i>0.12</i>	<i>0.05</i>	0.13
<i>Cash Ratios</i>	<i>0.85</i>	<i>0.36</i>	<i>0.18</i>	<i>0.73</i>	0.22

The quick ratio decreased from 1.85 in 2015 to 1.33 in 2016. Also the quick ratio went down to from the level of 0.91 in the previous year to 0.72 in the analyzed year. The cash ratio decreased to the level of 0.22, which means a single zloty (1 PLN) of liabilities corresponded to 22 grosze (PLN 0.22) of the generated operating cash. Out of this cash the Company financed its investments, paid back its credits and loans, financial leasing instalments and disbursed the dividend to the Shareholders. The decrease of the financial liquidity ratios did not result in the impaired capacity to on-time settlement of liabilities.

The Company concluded agreements with a few banks for multi-purpose credit lines, which could be flexibly used according to the Company's needs. This allowed for the financial liquidity to be fully secured.

Also the cash flow statement was used to make the assessment of the Company's financial condition. It shows which areas of activity generated funds and which ones absorbed them.

In consecutive years cash flows fluctuated as follows (PLN thousand):

	2012	2013	2014	2015	2016
- net cash flows from operating activities	+259 218	+106 477	+57 894	+190 484	+102 096
- net cash flows from investments	-346 909	- 87 926	- 49 594	-58 295	- 39 200
- net cash flows from financial activities	+96 977	- 33 138	- 7 769	-150 812	- 63 477
- balance sheet change in cash	+9 286	- 14 587	+531	-18 623	- 581
- cash at the end of the year	+59 926	+37 749	+38 280	+19 659	+19 076

The proportion between the funds appropriated for investment activities and the funds generated from the operating activities reached 38.4%. The major part

of the funds generated from the operating activities was absorbed by the financial activities. In 2016, the Company had at its disposal the total of PLN 121 755 thousand (PLN 102 096 thousand of generated funds and PLN 19 659 thousand from the previous year) out of which the amount of PLN 39 200 thousand was appropriated for investments, PLN 63 470 thousand for financial activities, and PLN 19 076 thousand remained on the account to be allocated in 2017.

This way of operating cash allocation resulted from the fulfillment of the Company's development plans and its needs in the financial area.

The Management Board's operating activity policy is reflected in the simplified operating cash structure presented underneath (PLN thousand):

	2012	2013	2014	2015	2016
- net profit	67 785	9 938	27 151	108 661	95 731
- depreciation	44 740	42 968	44 989	47 064	49 912
- profit adjustments	-682	+ 8 333	19 579	17 255	8 772
- generated operating cash	111 843	+61 239	91 719	172 980	154 415
- change in net working capital needs	147 375	45 238	-33 825	+17 504	- 52 319
- net cash flows from operating activities	259 218	106 477	57 894	190 484	102 096

In 2016, the Company generated PLN 154 415 thousand, i.e. 11% less previous year, from the net profit, depreciation and profit adjustments made in respect of the operations unrelated to the operating activities. The amount of PLN 52 319 thousand was appropriated to the financing of operating activities (increase of inventories and receivables).

Therefore the Company could appropriate PLN 102 096 thousand for the financing of investments and expenses in the financial area. The funds generated from operating activities were by 47% lower than in the previous year.

Assessment of Company's Profitability

For the Shareholders the return from capital employed is the main indicator of the Company's financial condition. As in their investment-related decisions they are guided by the rate of return comparing it with the alternative options

for the allocation of available funds. The return on sale is one of the determiners of the capital return. It was calculated at four levels of the Profit and Loss Account.

In the analyzed year the Return on Sales fluctuated as follows at the particular levels of the Profit and Loss Account:

Itemization	2012	2013	2014	2015	2016
<i>Return on Sales, %</i>	4.9	1.2	3.4	11.4	9.4
<i>Operating Margin, %</i>	4.8	1.2	2.9	10.8	9.5
<i>Gross Margin, %</i>	5.0	1.3	2.8	9.9	9.3
<i>Net Margin, %</i>	4.1	0.8	2.1	8.0	7.5

In 2016 a decrease in relation to the previous year was recorded for both the return on sales and operating margin as well as gross and net margins. The net profit accounted for 50.2% in proportion to the profit on sales.

Considering the decrease sales of products, goods and services by 5.8% as compared to 2015, the Company had its profit on sales reduced by 17%, and its net profit was by 12% lower than in the previous year. It should be underlined that the Company flexibly adjusted the prices of its products to the market conditions in order to keep its position on the competitive market.

Electrical sheets are the Company's key export product. Their share in total exports decreased from 77.9% in 2015 to 73.8% in the analyzed year. In 2016 the sales of electrical sheets decreased 15.4% compared to 2015. This resulted from fierce market competition.

The sales achieved on the domestic market were by 29.5% higher and on foreign markets by 17.5% lower than in the previous year. In 2016, the domestic sales accounted for only 6.9% of the total sales of the electrical sheets in terms of value. On the transformer sheets market enormous threats could be observed in connection with the imports of high quality steel sheets and excessive production capacity observed in a few countries producing sheets with the highest parameters.

In 2016, the sales of **toroidal cores** reached a level similar to the previous year's one. However, the sales of toroidal cores account for only 0.8% of the Company's total sales.

Cold formed profiles are the basic product on the domestic market. In 2016, their sales were by 3.1% higher than in the previous year. Their domestic sales accounted for 72.3% of the total sales and was by PLN 20 million higher compared to the previous year's sales. This is a very good result, considering the increase of 2016 profile imports by 23.9% in relation to the previous year and very strong market competition. The domestic sales account for 73% of the total sales of profiles. However, the value of their export sales decreased by 2.6% despite the flexible price policy and the Company's responding to the recipient's needs.

The sales of **road barriers** in 2016 was lower by 15.3% compared to the previous year, considering that the barrier sales grew higher in the exports than in the domestic sales. However, the export sales account for only 34% of their total sales.

In 2016, the sales of **hot- and cold-rolled steel sheets and strips** treated in steel service centers remained at the previous year's level. Such a condition resulted from the steel centers' production overcapacity and low prices maintained on the market. Moreover, the strong competition from the service centers run by big steel works made things more difficult to independent centers.

The changed sales structure caused by the varying profitability levels in particular product groups, undoubtedly, had an impact on the Company's financial result.

In 2016, the Return on Assets (ROA) and Return on Equity (ROE) were insignificantly decreased. These ratios were calculated as the proportion of net profit to annual average value of assets and equity.

This is reflected by the following data:

<i>Itemization</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
<i>Return on Assets (ROA), %</i>	<i>3.5</i>	<i>0.51</i>	<i>1.4</i>	<i>5.7</i>	<i>5.0</i>
<i>Return on Equity (ROE), %</i>	<i>4.5</i>	<i>0.65</i>	<i>1.77</i>	<i>7.0</i>	<i>6.4</i>
<i>Capital multiplier (Assets/Equity), (multiplexing)</i>	<i>1.29</i>	<i>1.28</i>	<i>1.26</i>	<i>1.23</i>	<i>1.35</i>
<i>Rotation of Assets, (multiplexing)</i>	<i>0.84</i>	<i>0.64</i>	<i>0.66</i>	<i>0.71</i>	<i>0.67</i>

In 2016, the Return on Equity decreased and reached the level of 6.4%. This was due to the decrease of net profit and changes in equity resulting from the redemption of some shares. Also the Return on Assets was lower.

Apart from the Return on Equity, the level of benefits generated for the Shareholders could also be expressed with the Shareholder Value, which is reflected in the table underneath:

Itemization	2012	2013	2014	2015	2016
<i>Number of shares, thousands of items</i>	6725	6725	6725	6725	5580
<i>Share price (last quotation in December)</i>	184,0	183,0	404,50	299,00	525
<i>MV PLN thousand</i>	1237 400	1 230675	2 720 262	2 010 775	2 929 500
<i>Equity, PLN thousand</i>	1 522 587	1 524 853	1 547 862	1 554 115	1 451 688
<i>MVA, PLN thousand</i>	- 285 187	- 294 178	1 172 400	+456 660	1 477 812

The capital market valued the Company much above its book value. This valuation is 100% higher than the book value. At the end of 2016 the shares were valued on the market by 76% higher than at the end of December in the previous year. The Shareholders appreciate the Company's position on the electrical sheets market in connection with the increasingly higher power-related requirements.

During the recent several years, the Company has not issued any shares, has not used up any extra shareholding capital, and its development was mainly financed from the profits retained after the disbursement of dividends. Considering the disbursed dividends, it is worth underlining that in the long-term perspective Stalprodukt generated a satisfactory rate of capital return for the Company's Shareholders.

Assessment of Management Board's Work

The Supervisory Board highly appreciates the Management Board's work in 2016. The steel market conditions are still very difficult due to the production overcapacity especially affecting the transformer sheets area, their oversupply on the market and excessive imports. Under such conditions, the Company generated the financial result lower than the previous year's one, but fully allowing for the repayment of credits and financing of the Company's development.

Among the Management Board's main achievements there are:

Taking care of the transparent condition of assets and financial condition allowing the Company to use various forms of financing available on the market. The Company's high credit capacity results from the generated financial results and amount of generated operating cash. Preserving the capital-cash balance, both in the short-term and long-term perspective, remains the object of the Management Board's constant concern. In order to achieve risk dispersion and reduction of borrowed capital costs the Management Board signed a few agreements with banks, diversifying the potential providers of short-term credits, mainly to secure supplies and letters of credit.

Company's development is continued through modernization projects and development projects expanding the production capacity. This helps the Company to preserve its flexibility on the highly competitive market under the conditions of production overcapacity and in the presence of imported metallurgical products. The imports into the European Union averaged 25% of the apparent consumption of metallurgical products, in Poland these imports exceeded 60%. In 2016, the imports of cold formed profiles increased by 23.9% in relation to the previous year. The Company enjoys a huge development potential based both on its own resources and possible wide use of the debt market.

Correct management of supply and sales processes. The Management Board takes care of diversifying the Company's supply markets in order to reduce the risk from disrupted supplies of charge material. One should stress the Management Board's efforts aimed at the maintenance of diversified supply markets enabling on-time fulfillment of orders and storage of inventories at the optimal level.

The Management Board flexibly responded to the increasingly complex market needs through the changes introduced into the product range, improved quality of the products, looking after on-time deliveries, launching new products, changing the market prices. The Company's own distribution network facilitates the flexible response to the recipients' needs.

Correct management of receivables, The Management Board uses a number of tools to manage receivables correctly, among others: assessment of customers crediting risk, defining the credit limits, hedging, receivables monitoring and potential debt recovery, in accordance with the applicable procedures. In 2016, overdue receivables amounting to PLN 26.6 million accounted for 10.5% of trade receivables. In 2015, it was 15.3%. The adjustment write-offs to receivables amounting to PLN 2.3 million accounted for only 0.9% of the receivables, which, considering the significant risk from non-recovery, is a very good result.

Pursuing a rational information policy for the capital market. The Management Board tried to deliver accurate information to investors. At the end of 2016, the Company's goodwill was valued by the market 100% higher than its net book value was and 76% higher than at the end of December in the previous year.

Evaluation of internal audit and risk management systems.

In the assessment of the Supervisory Board the present internal audit system and risk management system applicable in the Company allow for systematic identification and control of risk related to the character and profile of the Company's activities.

The internal audit and risk management systems were developed in the Company to considering the risks related to the activities pursued by the Company.

III. Assessment of the Company's compliance with the obligatory disclosures concerning the application of the corporate governance rules, defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the issuers of securities

The Supervisory Board positively assesses the manner in which the disclosure obligations were fulfilled concerning the application of the corporate governance rules defined in the Stock Exchange Market Rules and in provisions on current and periodic information disclosed by the issuers of securities.

IV. Supervisory Board's Report on the Stalprodukt S.A.'s Financial Report assessment results for the fiscal year from 1 January to 31 December 2016.

Executing the tasks arising from art. 382 par. 3 of the Code of Commercial Companies and par. 28 subpar. 2 of the Company's Articles, the Supervisory Board assessed the

Financial Report of the Stalprodukt S.A. Company for the reporting year from 1 January to 31 December 2016 , consisting of:

- 1) Balance Sheet drawn up as of 31 December 2016 with the assets and liabilities amounting to PLN 1 963 236 thousand,
- 2) Profit and Loss Account and Comprehensive Income Statement for the period from 1 January 2016 to 31 December 2016, showing the comprehensive income and net profit amounting to PLN 95 731 thousand,
- 3) Statement of Changes in Equity for the period from 1 January 2016 to 31 December 2016 showing a decrease in equity amounting to PLN 102 427 thousand,
- 4) Cash Flow Statement for the period from 1 January 2016 to 31 December 2016 showing a decrease in cash amounting to PLN 581 thousand,
- 5) Additional Information on the adopted accounting principles and other explanatory information.

The Stalprodukt S.A. Financial Report was audited by the company „Accord’ab” Biegli Rewidenci Spółka z o.o authorized to audit financial reports, based in Wrocław, recorded on the list of companies authorized to audit financial reports kept by the National Council of Certified Auditors as No 262, which was selected by the Supervisory Board to carry out the audit.

It is evident from the presented Independent Certified Auditor's Opinion that the audited financial report:

- reflects accurately and clearly the Company's assets and financial status as of 31 December 2016, as well as its financial result for the reporting year 1 January 2016 to 31 December 2016, in accordance with the International Financial Reporting Standards, which were approved of by the European Union,
- was prepared in all essential aspects in line with the International Financial Reporting Standards approved of by the European Union,
- stands in accordance in all essential aspects, as to its form and content, with the Regulation of the Minister of Finance as of 19 February 2009 regarding current and

periodic information disclosed by the issuers of securities and conditions for recognition as equivalent of information whose disclosure is required under the laws of a non-member state (Journal of Laws 2014, item 133 with subsequent amendments), hereinafter referred to as Regulation on current and periodic information as well as with provisions of the Company's Articles of Association affecting its content,

- it was prepared, in all essential aspects, on the basis of correctly kept accounting books in accordance with the principles provided for in the Accountancy Act.

After the analysis of the Stalprodukt S.A. Financial Report prepared for the reporting year covering the period from 1 January 2016 to 31 December 2016 and after getting familiar with the Certified Auditor's Opinion and Report, by the recommendation from the Audit Committee as well as on the basis of its own analyses, the Supervisory Board states that in their assessment the Stalprodukt S.A. Financial Report prepared for the reporting year covering the period from 1 January to 31 December 2016 – as of the day 31 December 2016 – was drawn up correctly, in accordance with the applicable legal provisions, stands in accordance with the relevant books and documents as well as with the factual circumstances and it accurately and clearly presents the information essential for 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 to 31 December 2016 and Management Board's Report on the Stalprodukt S.A. Capital Group's Activities for the year 2016.

The Supervisory Board assessed Management Board's Report on the Stalprodukt S.A. Capital Group's Activities and Consolidated Financial Report for the reporting year from 1 January to 31 December 2016, consisting of:

- 1) Consolidated Balance Sheet drawn up as of 31 December 2016, which shows the assets and liabilities amounting to PLN 3 718 971 thousand,
- 2) Consolidated Profit and Loss Account for the period from 1 January 2016 to 31 December 2016 showing a net profit amounting to PLN 345 254 thousand,

- 3) Consolidated Statement of Comprehensive Income for the period from 1 January 2016 to 31 December 2016 showing the total comprehensive income amounting to PLN 345 254 thousand,
- 4) Statement of Changes in Consolidated Equity for the period from 1 January 2016 to 31 December 2016 showing the decrease in equity amounting to PLN 113 149 thousand,
- 5) Consolidated Cash Flow Statement for the period from 1 January 2016 to 31 December 2016 showing the increase of cash amounting to PLN 18 517 thousand,
- 6) Additional information on the adopted accounting principles (policy) and other explanatory information.

After the analysis of 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 2016 to 31 December 2016, after getting familiar with the Certified Auditor's Opinion and Report, by recommendation of the Audit Committee, the Supervisory Board assesses that the reports concerned contain all the required elements, were prepared correctly in accordance with the applicable legal provisions, stand in accordance with the relevant books and documents as well as with the factual circumstances and they accurately and clearly present the information essential for the assessment of Stalprodukt S.A. Capital Group's assets and financial standing.

VI. Assessment of Stalprodukt S.A. Management Board's Report for the period from 1 January 2016 to 31 December 2016 .

Fulfilling its tasks arising from art. 382, par. 3 of the Code of Commercial Companies and par. 28, subpar. 2 of the Company's Articles, the Supervisory Board assessed the Management Board's Report on the Stalprodukt S.A. Activities prepared for the period from 1 January 2016 to 31 December 2016.

Throughout the reporting period the Company's Management Board consisted of:

- in the period from 1 January 2016 to 28 July 2016

- Piotr Janeczek - President of the Board Chief Executive Officer

- Józef Ryszka - Member of the Board Marketing Director
- in the period from 28 July 2016 to 31 December 2016:
 - Piotr Janeczek - President of the Board Chief Executive Officer
 - Józef Ryszka - Member of the Board Marketing Director
 - Łukasz Mentel - Member of the Board Financial Director

After the analysis of the Management Board's Report on the Stalprodukt S.A. Company's Activities prepared for the year 2016, the Supervisory Board states that in their opinion the report concerned was drawn up correctly, contains all the required elements, stands in accordance with the relevant books and documents as well as with the factual circumstances and it accurately and clearly presents the Company's standing in the reporting period. The Company's Management Board duly indicates the threats and risks to the pursued activities and describes the course of events having a major impact on the Company's activities.

The sales results, the positive financial result as well as the balance sheet structure, which are reflected in the economic ratios, allow the Supervisory Board to highly appreciate the Management Board's activities throughout the year 2016.

The Supervisory Board states that the Management Board's Report on the Company's Activities for the reporting year covering the period from 1 January to 31 December 2016 contains all the information required by the legal provisions. The financial data presented in the Management Board's Report stand in accordance with the information contained in the audited Financial Report prepared for the period from 1 January 2016 to 31 December 2016.

The Company's Management Board enclosed their corporate governance statement in the submitted Report.

The completeness of the Management Board's Report on the Company's Activities for the year 2016 and its consistence in respect of the information disclosed therein was confirmed by a certified auditor.

As a result of the assessment, guided by the positive Certified Auditor's Opinion, the Supervisory Board recommends that the Ordinary General Meeting should approve of

the Management Board's Report on the Stalprodukt S.A. Company's Activities for the period from 1 January 2016 to 31 December 2016 and Stalprodukt S.A.'s Financial Report for the reporting year from 1 January to 31 December 2016 as well as the Consolidated Financial Report for the reporting year from 1 January 2016 to 31 December 201, adopting respective resolutions.

The Supervisory Board applies to the Stalprodukt S.A Ordinary General Meeting to grant:

a vote of absolute approval to Mr. Piotr Janeczek for discharging his duties in the year 2016 related to his function as the President of the Company's Management Board exercised in the period from 1 January to 31 December 2016,

a vote of absolute approval to Mr. Józef Ryszka for discharging his duties in the year 2016 related to his function of the Member of the Company's Management Board exercised in the period from 1 January to 31 December 2016,

a vote of absolute approval to Mr. Łukasz Mentel for discharging his duties in the year 2016 related to his function of the Member of the Company's Management Board in the year 2016 exercised in the period from 28 July to 31 December 2016 .

VII. Assessment of the Management Board's motion concerning the distribution of the net profit for the year 2016.

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, the Supervisory Board, having got familiar with the Audit Committee, approves of the Company's Management Board's motion concerning the distribution of the net profit generated by Stalprodukt S.A. in 2016 amounting to: **PLN 95.731.129,62**

As follows:

- dividend - PLN 16,740,801.00
- bonus for the Management Board - PLN 287,193.39
- bonus for the Supervisory Board - PLN 335,058.95

- Reserve Capital - PLN 78,368,076.28

The Supervisory Board expresses its opinion that the motion submitted by the Stalprodukt S.A. Management Board, concerning the distribution of net profit for the year 2016, stands in accordance with the Company's policy and recommends that the Ordinary General Meeting should adopt a resolution on the distribution of net profit for the year 2016 in accordance with the suggestion included in the Company's Management Board's motion.

VIII. Conclusion.

The present Report presents the main directions of the Stalprodukt S.A. Supervisory Board's activities in the year 2016.

The individual opinions as well as the Certified Auditor's Opinion presented herein allow the Supervisory Board to give a positive assessment to the Company's standing in the year 2016.

In the assessment of the Supervisory Board, the Company's Management Board exercised due diligence for the Company to achieve the best possible results therefore the Supervisory Board highly appreciated the activities and work performed by the Company's Management Board in the entire year 2016.

All the Members of the Supervisory Board exercised due diligence discharging their duties, making use of their best knowledge with involvement and experience within the scope of their functions.

The present Report was examined and adopted by way of a resolution at the meeting of the Supervisory Board on 19 May 2017 with a view to be submitted to the Ordinary General Meeting of Shareholders of Stalprodukt S.A.

Signatures:

Stanisław Kurnik

Maria Sierpińska

Kazimierz Szydłowski

(Chairman of Supervisory Board)

(Vice-Chairman of Supervisory Board)

(Secretary of Supervisory Board)

Janusz Bodek

Magdalena Janeczek

Tomasz Plaskura

(Member of Supervisory Board)

(Member of Supervisory Board)

(Member of Supervisory Board)

Sanjay Samaddar

(Member of Supervisory Board)