Report of the Management Board on the activities of Stalprodukt S.A. Capital Group for the period from 01.01.2015 to 31.12.2015

Bochnia 2016

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1. Introduction

The Stalprodukt S.A. Capital Group embraces the Parent Company and 10 Subsidiary Companies involved in the below-mentioned segments of activity:

- **Stalprodukt-Centrostal Kraków sp. z o.o. -** wholesale and retail trade of metal products
- **Stalprodukt-Wamech sp. z o.o. -** production of steel constructions, spare parts and rendering alteration services
- **Stalprodukt-Serwis sp. z o.o. -** alteration services
- **Stalprodukt-Zamość sp. z o.o. -** production of construction woodwork
- **Stalprodukt-MB sp. z o.o. -** road construction and maintenance, erection of road safety barriers
- **STP Elbud sp. z o.o. –** production of steel constructions and galvanizing services
- **Stalprodukt-Ochrona sp. z o.o.** - personal and property security services
- **Cynk-Mal S.A. -** production of galvanized hoop iron and wire
- **ZGH "Bolesław" S.**A. - excavation of non-ferrous metal ores and zinc and lead production
- **Anew Institute sp. z o.o. -** designing renewable energy sources

The Level of Parent Company's Shareholding in Subsidiary Companies is as follows:

- in Cynk-Mal – 51 %
- in ZGH "Bolesław" – 94.45 %
- in other companies – 100 % shares each.

Additionally, in 2014 ZGH "Bolesław" had shareholdings in the following subsidiary companies (in brackets, ZGH' shareholding in share capital of those companies):

- Zinc Smelter - Huta Cynku "Miasteczko Śląskie" S.A. (92,73 %) – production of rectified zinc, lead and cadmium,
- Bolesław Recykling Sp. z o.o. (100 %) – zinc-bearing materials processing and recycling services as well as production and sales of non-ferrous metal concentrates,
- Bol-Therm Sp. z o.o. (100 %) – power supply-, laboratory-, mechanics and construction-related services, transport-equipment and forwarding services, production of dolomite aggregates, zinc products and zinc alloys,
- Gradir Montenegro d.o.o. (99,56 %) – zinc ores mining and concentrate production,
- Agencja Ochrony Osób i Mienia "Karo" Sp. z o.o. (100 %) – bodyguard and property security services.

Furtermore, Boloil company had 99.71 % in share capital of Przedsiębiorstwo Robót Drogowych Olkusz Sp. z o.o.

F&R Finanse Sp. z o.o. was established in 2014 and registered under entry no. KRS 0000506742. Bolesław Recycling Sp. z o.o. has taken over 49 % of shares in the newly created entity.
F&R Finanse runs a business activity in the area of financial services and financial advisory.

2. Sale of basic products, markets. Sources of supply for materials

2.1 Electrical Sheets Segment

a) Transformer sheets and strips

In 2015 the transformer sheet sales volumes were by 10 percent higher than in 2014. And thanks to the clearly marked and long-awaited increase of the prices, the sales value increased by 46 percent.
The domestic market results were by 70 percent higher than in the analogical period of 2014. In 2015, the domestic sales accounted for 5 percent of the transformer sheets total sales.

The imports of transformer sheets to Poland, in the 11-month period of 2015, increased by an almost one-fourth compared to the analogical period of 2014 and reached the level of 20 thousand tons.
The main sources of transformer sheet imports (according to the country of origin) in 2015 were:
- wide coils: Japan (72 percent),
- strips: Japan (60 percent), Italy (16 percent) and the Czech Republic (13 percent).

Table 1. Sales of Transformer Sheets and Strips - Breakdown

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Domestic Sales	3 355	4 949	48	17 405	29 615	70
Exports	84 665	91 455	8	428 643	623 690	46
Total	**88 010**	**96 404**	**10**	**446 048**	**653 305**	**46**

Competitive Conditions

The first half of 2015 was a period of dynamically increasing prices and demand on the market of electrical grain-oriented sheets (GOES market). The upward trend had already started in the previous year when all the global producers – along with the Asian leaders – realized that the very low level of prices, maintained for a long period of time, was harmful all the transformer sheets producers. Many producers, actually, operated at an almost break-even level. In the previous year the price increase was further dynamized.

The above described state of affairs was underlied by many factors, among others, the EcoDesign-Tier 1 Directive, which forced the producers of distribution transformers to apply electrical sheets of higher grades (so called HGOs), i.e. low loss sheets. In connection with the above, most of these producers, still using conventional (CGO) sheets in their production process, were made to secure their stocks by purchasing high volumes of CGOs in the first half of the year.

The EU industry invests millions of Euros to increase the production output of the GOES sheets characterized with low core loss. The entire GOES production segment constitutes an important part of the EU industry and is of a key significance for the balanced fulfillment of the EcoDesign effectiveness goals.

In order to be able to continue their low-loss investments, the EU industries expected assurances that Europe would protect its market against the illegal commercial practises. For this precise reason, in August 2014, in response to the petition filed by the Eurofer European Steel Association, in the name of the producers representing over 25 percent of the EU electrical GOES sheets output, anti-dumping proceedings were initiated, referring to the flat products made from electrical grain-oriented silicon steel, originating from the People's Republic of China, Japan, Republic of Korea, Russian Federation and United States of America. The complaint included evidence confirming dumping practices and major damages arising therefrom, which were recognized as sufficient grounds for the initiation of the proceedings. On 13 May 2015 an executive (EU) Commission Regulation No 2015/763 as of 12 May 2015 was published, imposing a provisional anti-dumping duty.

However, on 29 October 2015, another executive EU Commission Regulation (UE) 2015/1953 was issued, imposing final anti-dumping duties for the import of selected flat rolled products processed from silicon electrical grain-oriented steel, originating from the People’s Republic of China, Japan, republic of Korea, Russian Federation and United States of America.
These protective measures are based on the duties, ranging from 21.5 to 39 percent, and minimum prices defined for the groups of products characterized with specific loss levels, as follows:

Product Category	**Minimum Import Price (EUR/t)**
Products characterized with the maximum magnetic loss not exceeding 0.9 W/kg	2 043
Products characterized with the magnetic loss exceeding 0.9 W/kg, but not exceeding 1.05 W/kg	1 873
Products characterized with the maximum magnetic loss exceeding 1.05 W/kg	1 536

According to the information coming from Asia, in spite of the imposed duties, Japanese manufacturers will still be selling their products to Europe. The loyalty of the EU customers to Japanese material results from its exquisite quality and limited availability of its replacements on the EU market.

Then, on 23 July, the Chinese Ministry of Commerce informed that in response to the petition filed by the biggest Chinese producers (Wuhan and Baosteel), it decided to initiate anti-dumping proceedings concerning the GOES imports. The parties to the proceedings will be: Japan, South Korea and EU countries. These are the third substantial proceedings, concerning the products in question, initiated during the recent two years (the first action was initiated in in 2013 upon the petition of American companies and the second one was filed the European Commission in the previous year). The Chinese ministry treated the entire year 2014 as the period examined in the proceedings. According to the representatives of the ”Middle Kingdom”, irrespective of the fact that the imports to their country have significantly decreased in the recent months, in the proceeding-covered period the above countries were sending their materials at clearly mark-down prices.

The intense dynamics of the events occurring on the global GOES markets strongly testifies to the fact that in spite of the improved prices and demand, large overproduction and only partial utilization of the available production capacity as well as bad geographical balance of supply, are still the greatest

problems of the GOES industry.
The regions characterized with the greatest overproduction are trying to locate their surpluses on external markets, and the markets, which are mostly exposed to such practises, are trying to introduce various protective measures, to secure themselves against the excessive imports and dumping practices and, also, against the inflow of steel sheets characterized with very low magnetic parameters (II class, waste).
Czwarty kwartał roku to jak zawsze czas gorących negocjacji na dostawy materiału w pierwszej połowie kolejnego roku. Wyniki negocjacji świadczą wyraźnie o podtrzymaniu pozytywnej tendencji cenowej w zakresie materiału w gatunkach wysokich HGO, natomiast w przypadku blach CGO sytuacja wygląda już nieco gorzej. Według informacji rynkowych cena blach w gatunkach konwencjonalnych CGO, kształtowała się w czwartym kwartale średnio na poziomie 2 000 $/CFR, natomiast blach w gatunkach wyższych HGO w okolicach 3 000 $/CFR. Zatem różnica między produktami oscylowała wokół 1 000 $. Według źródeł rynkowych taka różnica jest umiarkowana, jednak w przypadku dostawców blach HGO pojawiły się obawy o to czy w przypadku zwiększenia się tej różnicy producenci transformatorów nie zaczną realizować projektów w oparciu o gatunki CGO.
Everything indicates that the trend will be reversed for the European recipients.

According to the market sources, the demand for electrical grain-oriented (GOES) sheets in the EU region is estimated at 300 000 tons per year and it seems that this level will be maintained in 2016. However, the recipients' grade-related preferences are being significantly changed. Until recently the market used to absorb 200 000 tons of CGO sheets, and 100 000 tons of HGO ones, whereas in the recent period these proportions have been reversed and, at present, the HGO sheets are most popular on the market. This has mainly been caused by the introduction of the EcoDesign Directive, and has, consequently, induced the preferences for the sheets characterized with low loss and noise levels.

In the 3rd quarter, information started to emerge on decelerating and even decreasing CGO prices in China, (32-48$/t). Everything indicates that this change will become a fact and will originate a new trend for low steel grades. Even the US Allegheny Technologies' resignation from the production of CGO grades, announced in December, and signals coming in the 4th quarter from one of the Chinese manufacturers on one-line production stoppage (100 thou. tons) will most probably not stop the decline of prices.

b) Toroidal cores

The sales of toroidal cores have almost reached an identical level as they did in 2014, i.e. slightly above 1000 tons. Slight volume, value and price differences did not affect the product group's position in the product total sales structure – the cores' share still accounts for 1% of the sales proceeds.

Despite the loss of a big recipient from Italy and reduced number of orders from the regular recipients, the sales value achieved in 2015 stood at the level similar to the one generated in 2014. This was possible thanks to the new customers being attracted and to the order volumes being increased by a few strategic customers.

Table 2. Comparative breakdown of sales of transformer cores

Itemization	**Volume (tons)**			**Net Value (PLN thousand)**		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Domestic Sales	393	418	6	4 484	4 730	5
Exports	663	646	-2	5 861	5 968	2
Total	**1 056**	**1 064**	**1**	**10 345**	**10 698**	**3**

Competitive Conditions

The major transformer producers, having free access to either strips or ready toroidal cores from many sources, are still practicing the purchase policy developed over the recent years: they usually base their production on 2-3 suppliers (domestic and foreign ones) and they choose the purchase sources depending on the economic conditions.

The competitors in the Czech Republic, Turkey or China are still pursuing their aggressive sales policies, offering cheaper products, longer terms of payment and supplying the cores using their own transport.

2.2 Profiles Segment

a) Cold formed profiles and tubes

In 2015, almost 235 thousand tons of profiles and tubes were sold. Such a result accounts for a slight increase in relation to the sales generated in 2014. Better results were achieved in the domestic sales segment, which, currently, account for 73 percent of the total sales.

Basing the judgements on the data provided by the CIBEH Center of IT Services, CAAC Customs Service Information Center and Polish Metallugical Chamber of Industry and Commerce, the Group estimates its actual share in the apparent consumption of cold formed profiles on the domestic market at the level of approx. 30 percent.

The above presented sales results had been achieved considering the undermentioned economic conditions (on the basis of the data published by the Polish Metallugical Chamber of Industry and Commerce in the period from January – December 2015).

- **decrease of the Polish cold formed profiles output by 9 percent -** to the level of 470 thousand tons,
- **decrease of the tubes apparent consumption by 8 percent** in the period January – November 2015 (to the level of 930 thousand tons), also including the decrease of the apparent consumption of cold formed profiles by 8 percent (to the level of 486 thousand tons),
- **increase of the profiles imports by 8 percent** (the level of imports in the period January – November increased to 169 thousand tons), and at present the main import directions are: for the profiles with the wall thickness below 2 mm: the Ukraine (28 %), the Czech Republic (24 %) and Italy/Belarus (13 % each), whereas for the profiles with the wall thickness above 2 mm Italy

(31 %) and the Ukraine (12 %). Round tubes with the diameter up to 168.3 mm were mainly imported to Poland from Italy (56 %), the tubes with diameters from 168.3 mm to 406 mm from Italy (34 %), Germany (15 %) and Romania (11 %),

- **increase of the profiles exports by 8 percent** (116 thousand tons in the period January – November 2015).

Considering the export sales of profiles and tubes, the Group recorded a 15-percent decrease of sales volumes in relation to 2014. The exports percentage share in the total sales of cold formed profiles has, currently, reached 28 percent.

Table 3. Comparative breakdown of sales of cold formed profiles

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Domestic Sales	148 161	172 062	16	355 988	376 948	6
Exports	73 433	62 257	-15	180 448	143 446	-21
Total	**221 594**	**234 319**	**6**	**536 436**	**520 394**	**-3**

Sales to Commercial Companies
Almost 80 percent of the domestic sales were carried out through the distribution company, i.e. Stalprodukt-Centrostal Kraków Sp. z o.o.

Cold Formed Profiles Market Condition

The year 2015 was very difficult for the Tubes Segment. The EU tubes sector recorded a decrease at the level of 5.6 percent, which is equivalent to the biggest decrease among the EU steel consumer sectors.

In the third quarter of 2015, the EU steel tubes output decreased by as much as 10.6 percent. Nobody had previously expected such adverse market conditions (in the first quarter a decrease by 3 percent was recorded, in the second quarter - by 4.4 percent, and in the fourth quarter -by approx. 5 percent).

The tubes output decreased in almost all EU countries, and in Germany, France, Great Britain and Sweden double-digit decreases were recorded. The worst conditions were recorded in France, where a few negative structural and demand-forming conditions were piled up.
The basic factor, which caused the decrease of demand for tubes in the EU, were the limited investments channelled into the crude oil and gas sector, due to low crude oil prices. A massive crude oil supply removed the urgent need for the expansion of the oil pipeline system. At the same time, some suppliers from the outside of Europe were invited to perform the projects initiated in 2015, e.g. in Turkey,

The market of small-sized welded tubes is continuously being unpredictable. Both the big supply potential, and the strong price pressure from the non-EU countries related thereto, make the customers adopt a conservative attitude in purchases. Such a trend is particularly observable in the segment of structural tubes, i.e. the closed profiles.

Also on the market of seamless tubes the competition was fierce in 2015.

The prospects for 2016 and 2017 are moderately positive. The predicted general upward trend in the EU production and construction sectors should be translated into a higher level of demand for the small-sized welded and seamless tubes. The demand for tube products from the motor industry will still be on the rise and the economic recovery in the construction sector should stimulate the increase of demand for steel profiles and products classified among the structural tubes.

The welded tubes market conditions are still uncertain. The deepening decline of crude oil prices will block the launching of pipeline projects. Despite the fact that the Russian demand for large-sized tubes is predicted to strengthen in the years to come, time will show to what degree EU manufacturers will be able to benefit from this.

Eurofer predicts an increase of the tubes output in the EU by 2.1 percent in 2016 and by another 2.9 percent in 2017. One, should, however, remember that the 2015 decline stands for the return to extremely reduced production levels.

b) Safety road barriers

The road barriers sales results were significantly lower in 2015 than in 2014 – a 42-percent sales value decrease and a slightly lower sales volume decrease were recorded.

The conditions were even worse on the domestic market, where the recorded decrease exceeded 50 percent. The 2015 decrease of sales had been predicted a long time before. It is generally connected with the cycle of road investments, within the framework of which, the supply and installation of barriers come in the last phase of the road construction projects.

Yet, the situation was completely reversed in the export sales. Considering the relatively low 2014 starting levels, increases were achieved, both in terms of the sales volume and value, by as much as two thirds.

Table 4. Comparative breakdown of sales of safety road barriers

Itemization	**Volume (tons)**			**Net Value (PLN thousand)**		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Domestic Sales	23 486	10 859	-54	105 588	49 945	-53
Exports	2 812	4 818	71	10 631	17 509	65
Total	**26 298**	**15 677**	**-40**	**116 219**	**67 454**	**-42**

Competitive Conditions
Due to the significant decrease of demand for road barriers, in 2015 all the Stalprodukt's biggest competitors and also barrier installation companies experienced difficulties connected with the lack of

orders. Consequently, throughout the year 2015, significant price decreases could be observed on the barriers market.
Aspiring towards the minimum risks from the changing prices and offering complete bills of quantities for the construction works, provoked the emergence of a new formula of market activities, i.e. the formation of consortiums.
In the 3rd quarter a decision was taken to form a Consortium with the Saferoad company. The goal of the Consortium was to place a comprehensive offer for our road and bridge barriers to secure the completion of 12 contracts performed by the Strabag company. The negotiations were concluded with a Letter of Intent, signed at the beginning of November, between Strabag and the Saferoad/Stalprodukt Consortium. The estimated value of the order is approx. net PLN 53 million, including the Stalprodukt's share of about 50 percent of the above amount. The contract performance period covers the years 2016 – 2018.

In 2015, Stalprodukt developed a few completely new and innovative products, thanks to which the Company could conclude some contracts providing for the completion dates in the years 2016 and 2017. Among such contracts the following can be enumerated: road barriers StalPro Rail (L1W3VI3Aov / L2W4VI4A), bridge barriers with anti-glare and anti-shock screens, and also two ASIA bridge systems – the first such systems on the market – for which Stalprodukt received a certificate in the 1st half of 2016.

c) Products of steel service centers

In 2015, slightly above 35 thousand tons of sheets were sold for PLN 70 million, which stands for relatively high decreases of sales volumes and value in relation to the previous year.

Table 5. Sales of products of metal sheet service centres

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Domestic Sales	43 639	31 180	-29	92 702	60 689	-35
Exports	6 821	4 151	-39	15 422	9 505	-38
Total	**50 460**	**35 331**	**-30**	**108 124**	**70 194**	**-35**

Competitive Conditions

The Eurometal distributors' association disclosed that during the initial nine months of 2015, supplies to the customers of steel service centers (SSC) in Europe increased by 6 percent. The increase of demand mainly originated from the motor and machine engineering industries.
The most intense dynamics was recorded by the steel service centers, dealing in flat products, in Italy, Spain and Central Europe. The growth rates recorded for these regions significantly exceeded the level of 6 percent. Italy and Spain recorded even double-digit results.

The negligible rate of return still remains to be the greatest problem of the flat products processors. Low profit margins impede the development of almost all steel service centers. At the present moment, SSCs are far from their full workload. There is massive competition on the market and the imports only deepen the problem of the already existing large-scale overproduction. Unfortunately, the expansion of the existing production capacities was still taking place in the previous year. Among others, in the second quarter of the previous year, ArcelorMittal Distribution Solutions Poland launched a new cut-to-length line in Krakow. This line was transferred from Krakow to Ostrava. Before the transfer of the Czech line, the capacity of the Krakow SSC had already reached the level of 600 thousand tons per year. Under such conditions it is difficult to be optimistic about the improvement in this production segment.

2.3 Zinc Segment

The Zinc Segment covers the object of activities of ZGH "Bolesław" S.A. and its subsidiaries, i.e. excavation of zinc-lead ores and production of zinc and lead as well as related activities.

The included sales breakdowns cover the most important products processed by the companies belonging to the Group, whose activities are related to the Zinc Segment.

a) Zinc and Zinc Alloys

Z1 zinc is mainly used to protect surfaces from corrosion through hot dip and electrolytic galvanizing. Zinc alloys are processed in continuous casting lines or high pressure casting lines and are applied in motor industry as well as in construction and household appliances industry.
Thanks to the higher lead content, Z5 zinc is used in the production of brass and bronze as well as, in galvanizing plants, as a cheaper replacement of, or supplement to Z1 zinc.

In 2015, zinc and zinc products sales volume exceeded the 2014 figures by 11.2 percent, including the domestic sales volume increase by 18 percent, and exports by 2.6 percent. The significantly higher zinc sales volume in 2015 resulted from the expansion of the zinc rectification department at the "Miasteczko Śląskie" Zinc Works and the increased output of the highest quality Z1 zinc, accompanied by the reduction of the Z5 zinc production.
The increased zinc products sales volume, as compared to the 2014 figures, as well as the increase of the zinc prices expressed in PLN resulted in the increase of these products by 20.2 percent in 2015.

Table 6. Comparative breakdown of sales of zinc and zinc alloys

Itemization	**Volume (tons)**			**Net Value (PLN thousand)**		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Domestic Sales	80 839	95 413	18	599 128	761 848	27
Exports	63 634	65 300	3	464 761	516 955	11
Total	**144 473**	**160 713**	**11**	**1 063 889**	**1 278 804**	**20**

b) Lead

Refined lead is mainly used in the production of accumulators and traction batteries as well as in the production of lead oxides, used in the processing of paints and varnishes and, in the minimal degree, also lead alloys. Refined lead is also used as a raw material in the production of steel sheets, wires, munitions and cables.

Table 7. Comparative breakdown of sales of refined lead

Itemization	**Volume (tons)**			**Net Value (PLN thousand)**		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Domestic Sales	10 971	5 908	-46	77 218	43 116	-44
Exports	2 929	7 269	148	21 077	51 331	144
Total	**13 900**	**13 177**	**-5**	**98 296**	**94 447**	**-4**

Considering the refined lead sales in 2015, a sales 4-percent decrease was recorded in relation to the previous year, having been caused by the 5-percent decrease of the volume. The reason underlying the volume decrease was the output related to the lower lead content in the purchased charge materials. The 1.7-percent increase of the lead market prices only slightly levelled the decrease of the sales volumes.

c) Flotation Galena

The flotation galena produced at ZGH “Bolesław” (approx. 82 percent of the output) and at Gradir Montenegro (approx. 17 percent) is a concentrate containing approx. 62 percent of lead. The size of the output is dependent on the zinc-lead ore's mining output and the ore's lead content. In connection with the fact that the “Olkusz-Pomorzany” mine's ore resources are being exhausted, the production output and sales volume is gradually decreasing. Practically, the entire galena output is exported.

Table 8. Comparative breakdown of sales of flotation galena

Itemization	**Volume (tons)**			**Net Value (PLN thousand)**		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Domestic Sales	14	9	-32	48	30	-37
Exports	25 845	19 678	-24	87 236	64 454	-26
Total	**25 859**	**19 687**	**-24**	**87 284**	**64 484**	**-26**

d) Dore Metal

The Dore metal produced by the "Miasteczko Śląskie" Zinc Works is a kind of precious usable waste, formed during the lead refinement process, intended exclusively for further processing. At the same time it is a metal alloy with a high silver-content. Its output depends on the charge material's metal content. In 2015, its sales volume increased by 10 percent in relation to 2014, and its sale value increased by 11 percent. Silver prices decreased slightly, i.e. by 1.6 percent, on the Polish market.

Table 9. Comparative breakdown of sales of Dore metal

Itemization	**Volume (tons)**			**Net Value (PLN thousand)**		
	2014	**2015**	**2015/2014 (percent)**	**2014**	**2015**	**2015/2014 (percent)**
Exports	23,3	25,6	10	45 002	50 004	11
Total	**23,3**	**25,6**	**10**	**45 002**	**50 004**	**11**

e) Other ZGH "Bolesław" Group's products

Among the other products, whose sales are classified as Zinc Segment's sales, the following products should be listed:

- **sulphuric acid**
  Sulphuric acid is a byproduct originating from the zinc production technology. It has a great significance in various branches of industry. It is used, among others, in the production processes of other acids, dyes, synthetic fibres, explosives and fertilizers.

- **dolomite**
  Dolomite is produced by the Boloil S.A. Company. It is formed as a result of mechanical processing and upgrading of the dolomite stone, obtained during the zinc and lead ore mining and processing activities pursued by ZGH "Bolesław". This material is used in construction as well as in road and railway building.

- **Zn-Pb-Ag concentrate**
  The Zn-Pb-Ag concentrate has been produced by ZGH "Bolesław" S.A. since 2012. It is formed during the flotation process of the muds originating from the hydrometallurgy of zinc.

Analyzing the territorial sales structure for all het ZGH Group's products, it should be claimed that the export sales in 2015 reached 45%, alike 2014 (46%).

Note:
The sales value differences regarding the products belonging to the Zinc Segment, occurring between the present Management Board's Report on the Capital Group's Activities and the Consolidated Financial Report, result from the adjustments in respect of the hedging transactions included in the Financial Report.

2.4 Other Activities

The Segment of Other Activities embraces the sales of products, goods and services pursued by such entities as: STP Elbud Sp. z o.o., Cynk-Mal S.A., Stalprodukt-Zamość, Stalprodukt-Serwis, Stalprodukt-Wamech or Stalprodukt-MB.

Group's Overall Product-Based Sales Structure

It is worthwhile to note the increase (by over 5 p.p.) of the Electrical Sheets Segment's sales share in the Group's total sales structure and a slight increase (0.8 p.p.) of the Zinc Segment' sales share. p.p.). At the same time the Profiles Segment's sales share decreased by 5.6 p.p.

Assortment	**2014**		**2015**	
	value (in thousand zl)	**share (%)**	**value (in thousand zl)**	**share (%)**
Electrical Sheets Segment	456 393	15,9	664 003	21,2
Profiles Segment	760 779	26,6	658 042	21,0
Zinc Segment	1 422 538	49,8	1 585 032	50,6
Other activities	218 827	7,7	224 616	7,2
Total	**2 858 537**	**100,0**	**3 131 693**	**100,0**

Purchase of feedstock
In 2014 the main suppliers of feedstock for Stalprodukt, with the value of supplies exceeding 10% of revenues from sale, was ArcelorMittal FCE Poland sp. z o.o. - share in revenues – 18.02 %

ArcelorMittal Flat Carbon Europe is a part of the concern ArcelorMittal Poland S.A.

3. Assessment of economic and financial situation

In 2015, the Stalprodukt Capital Group's total income reached the level of PLN 3 171.8 million. This accounts for the increase by 9.3 percent in relation to 2014. The generated operating profit amounted to PLN 291.6 million, whereas net profit amounted to PLN 227.2 million (in 2014, the operating profit amounted to PLN 143.4 million, and the net profit – PLN 101.4 million).
In the reporting period, EBITDA reached the level of PLN 434.8 million (compared to PLN 278.9 million in 2014).

In 2015 the return on sales reached the following levels (percent):

Itemization	**2014**	**2015**
Return on Sales	5.4	10.7
Operating Margin	5.0	9.3
Gross Profit Margin	4.7	9.2
Net Profit Margin	3.6	7.3

The return on assets and return on equity represent the following values (percent):

Itemization	2014	2015
Return on Assets	3.2	6.9
Return on Equity	5.5	11.1

The financial liquidity, viewed from a static perspective, is illustrated with the undermentioned ratios:

Itemization	2014	2015
Current Ratio	2.3	2.5
Quick Ratio	1.2	1.6

In 2015, the operating cash flow amounted to PLN 420.2 million.

Compared to 2014, in the reporting period the assets of the Stalprodukt S.A. Capital Group increased by PLN 161.2 million, i.e. by 5.1 percent. The fixed assets increased by 49.3 PLN million over the previous year and amount to PLN 1 983.1 million.
In the period under discussion the value of the current assets was increased by PLN 111.8 million.
In 2015, the Company's equity was increased up to PLN 2 049,9 million (from PLN 1 846.6 million in 2014) and accounts for 62 percent of the balance sheet total.
As of 31.12.2015, the long-term liabilities of the Stalprodukt S.A. Capital Group amounted to PLN 397,6 million, including the long-term credits and loans which accounted for PLN 84,3 million. Compared to 2014, the long-term liabilities decreased by PLN 17.8 million.

In the long-term liabilities position, the entered amount of PLN 296.1 million is connected with the recognition of the risk related to the take-over of ZGH “Bolesław” S.A., i.e. the liquidation costs of the “Olkusz-Pomorzany” mine, liability for the mining damages, possible non-recovery of the financial means engaged in the Gradir Montenegro company, retirement severance payments disbursed to the employees of the mining division, claims related to the coal allowances, guarantees and sureties.

The short-term credits and loans amounted to PLN 91.1 million towards the end of 2015. The net working capital was increased from PLN 587.6 million in 2014 to PLN 787.8 million towards the end of 2015.

The return on equity in the Stalprodukt S.A Capital Group reached the level of 11.1 percent in the analyzed period, and the cash, measured as of 31.12.2015, amounted to PLN 267.6 million.

Assessment of results and financial situation

Considering the achieved results, the year 2015 was much better for the Stalprodukt S.A Capital Group than the year 2014. The Group recorded an increase of sales by 9.6 percent. At the same time the achieved results were improved at all the levels of the balance sheet structure: the sales profits increased by 117 percent in relation to the previous year, the operating profit - by 103 percent, and net profit - by 124 percent.

The increase of the consolidated sales and the improved return on sales resulted from the activities of two segments, i.e. the Electrical Sheets Segment and Zinc Segment.

The increase of the results achieved in the Electrical Sheets Segment was primarily connected with the growth of the sales volume and value. Following the period of the record-low prices in 2014, a significant improvement was experienced in the Segment throughout the entire 2015 and especially in the second half of the year. This resulted in the Segment's improved final result by PLN 125.2 million in relation to 2014, which accounts for an increase by 253 percent. Throughout the entire 2015 increased sales volumes were recorded, totaling 9.4 percent.

In the Profiles Segment the market conditions were very close to the ones occurring in 2014. In 2015, due to the considerable price pressure and adverse market environment, the decrease of the sales volumes reached the level of 4.6 percent in relation to 2014. The Segment's sales dropped by as much as 13.5 percent, whereas the final result by 36.1 percent.

In the Zinc Segment an increase of sales by 11.4 percent was recorded in relation to 2014, while the Segment's final result was increased by 41.1 percent. This, first of all, resulted from the increase of the average zinc price in 2015 and strengthened position of the American dollar.

In the year 2015, the financial standing of the Capital Group was improved, which is reflected by the economic and financial ratios, characterizing economic activities. All the above presented ratios were improved in relation to the year 2014. Stalprodukt-Centrostal Kraków Sp. z o.o. is suffering from financial activities in connection with the downward trend affecting the market of the steel finished products. Among the ZGH “Bolesław” S.A's subsidiaries, Gradir Montenegro d.o.o. is experiencing the greatest financial problems.

The Capital Group did not experience any payment backlogs, consistently pursuing the adopted risk management policy. The Company is not threatened either by the changing currency exchange rates thanks to the generally applied natural hedging instruments. At the same time, ZGH “Bolesław” S.A. and its subsidiaries pursue an active hedging policy. In accordance with this policy, hedging the company against the decreases of zinc, lead and silver prices as well as USD exchange rates, the subsidiaries identify and assess, on an on-going basis, the impact of the risks arising from the metal price changes and exchange rates fluctuation, on the financial result, cash flow and balance sheet.
In 2015, some slight changes took place in the formation of the assets and their financing sources. There was both the increase of assets by PLN 49.3 million, i.e. by 2.6 percent, and current assets by PLN 111.8 million, i.e. 9.2 percent. In the current assets section, a decrease of inventories was recorded by 19.6 percent and increase of short-term receivables, respectively by 11.4 percent.
The Group's assets were increased by PLN 161.2 million, i.e. by 5.1 percent. The increase of the assets was accompanied by the growth of the financing sources in the equity position by 11 percent and a decrease of provisions and liabilities by 3.2 percent.
In the analyzed period also a decrease of short-term trade liabilities was recorded by 20.6 percent (PLN 63.3 million).
The equity accounts for 62.0 percent of the liabilities, and payables by 38.0 percent. The book value per share was also increased from PLN 274.59 to PLN 304.82 (by 11.0 percent).

Throughout the reporting period the Parent Company and the majority of the Capital Group's companies maintained good financial liquidity, which is confirmed by the liquidity ratios and on-time settlement of all liabilities, both in respect of the employees and suppliers and towards the government and financial institutions. Only such companies as: Cynk-Mal S.A., Stalprodukt-Centrostal Kraków Sp. z o.o. and Gradir Montenegro d.o.o. experienced temporary liquidity problems.

The Capital Group is not excessively indebted and only sporadically benefits from current credits. In the assessment of the financing banks, the Stalprodukt Group is continuously enjoying good credit capacity and the results achieved and transparent assets and property status allow the Group to acquire multi-form financing for its activities.

In the reporting period the Parent Company as well as its subsidiaries renewed its agreements with banks for multi-purpose credit lines, with a view to securing the Group's financing sources.

The Management Board does not predict any worsening of the Group's financial standing in 2016. In order to maintain the good financial standing and liquidity the Group's companies are being restructured and further undertakings are pursued, aimed especially at the expansion to new supply and sales markets, rational management of inventories, receivables and costs reduction.
The management of financial resources should be regarded as correct, which is confirmed by the good economic ratios and maintained financial liquidity and credit capacity, as well as on-time settlement of the incurred liabilities.

4. Assessment of Factors and Untypical Events Affecting the Profit Resulting from the Company’s Activities in the Reporting Year, Specifying the Degree of Influence Exerted by These Factors or Untypical Events on the Achieved Result

- The increase of the profits, generated by the Group in 2015, mainly resulted from the very good sales results achieved by the Electrical Sheets Segment. The increase of the sales volumes by 10.0 percent compared to 2014 and the dynamic increase of average prices (by 33.7 %) resulted in an almost 46-percent increase of the Segment’s sales proceeds. In effect, also the Segment’s operating profit improved significantly, i.e. from 49.4 million to the level of 174.7 million, which stands for an increase by 253.3 %.

  The improved economic conditions were also supported by the advantageous legal solutions, i.e. the introduction of provisional anti-dumping duties for the imports of transformer sheets to the EU market, which was aimed at protecting the market from excessive imports.
  Not without significance were also the provisions of the EcoDesign Directive, taking effect on 1 July 2015, which facilitated the sales of the Company’s sheets, especially in the 1st half of the previous year, due to the transformer producers’ necessity to accumulate larger volumes of conventional sheets.

- Another operating segment which recorded a significant improvement over 2014 and exerted a positive influence on the Stalprodukt Group’s results was the Zinc Segment. In spite of the significant, almost 11-percent decrease of the exchange market prices of zinc, being the Segment’s staple product, a significant increase of the USD/PLN exchange rate resulted in the increase of the average PLN price by 6.0 percent. Another factor facilitating the improvement of the Segment’s results was the increase of zinc products sales volumes by 11.2 percent. In effect, the Zinc Segment’s sales increased by 11.4 percent over 2014, and the Segment’s result increased by PLN 73.4 million, i.e. by 41.1 percent
- The Profiles Segment recorded poorer sales results, both in terms of the volumes and value, which adversely affected the Segment’s and the entire Group’s results although the impact concerned

was relatively slight. The sales decreased by 13.5 %, combined with the decrease of average prices by 9.6 %. As a result, the Segment's result decreased by PLN 13.3 million, i.e. by 36.1 %.

In the previous year this Segment was subject to a very strong price pressure, whose symptoms were significant decreases of average prices in almost all of the Segment's product groups. In this respect, the previous annual period brought a continuation of the adverse trends typical for the preceding years. The main reason behind this condition was a disadvantageous situation on the procurement market. Fierce competition among steel producers and high overproduction caused steel companies to fight between each other mainly with price reductions in respect of such products as hot- or cold-rolled sheets which are used for further processing. This induced a strong pressure on the decrease of prices for such finished products as: tubes and cold-formed profiles processed by the Company.

Steel Market

According to the data published by Worldsteel, the previous year's global steel production output reached 1,623 billion tons of steel, which stands for a year-over-year decrease by 2.8 percent. The EU production output decreased by 1.8 percent, down to 166.2 million tons. Whereas Poland was listed among the few countries, which produced more steel than in the previous year. According to the data published by the Polish Steel Association in Katowice, Polish steel output in 2015 reached the level of 9.2 million tons of crude steel, and a year earlier – 8.6 million tons.

The main problems that the European steel industry is coping with are:

a) growing costs of the EU irrational climate policy, which, in fact, disables the European manufacturers' from competing under fair rules with the producers from the outside of the EU, in particular from the Commonwealth of Independent States and the Far East (China, Korea);
b) the import of steel products to the EU territory, resulting directly from the above mentioned climate policy and burdens related thereto, largely subsidized by the state. This mostly concerns the imports from China.

There are serious fears that this condition may even get further aggravated as a result of the expected recognition of China as a market economy state, which will undermine market protection against the imports of steel manufactured in the government-subsidized conditions aimed at enhancing its exports.

The adverse impact of the EU climate policy and excessive market openness is visible in a growing number of European countries; for example last year in Great Britain a decision was taken to close several production plants, which stands for a total liquidation of six thousand jobs.

Zinc and Lead Market Conditions

In 2015 the London Metal Exchange zinc and lead prices showed a several-percent decrease in relation to 2014. In 2015 the zinc average price amounted to 1928 USD/t. Compared to the 2014 average price, amounting to 2164 USD/t, in 2015 the zinc price decreased by 10.9 %. The 2015 average lead price amounted to 1784 USD/t and was lower by 14.9 % from the 2014 lead price amounting to 2096 USD/t.

The year 2015 was an extremely turbulent one for the metal market. The initial metal price increases were followed by their abrupt decrease, coming close to the break-even level for many world mining projects. The initial increase of the prices in the 2nd quarter of 2015 mainly resulted from the impact of the activities pursued by funds which lifted the zinc price to approx. 2400 USD/t (the May average price amounted to 2290 USD/t). Subsequently, due to numerous overlapping factors, a drastic decrease of the prices followed, reaching the level of approx. 1500 USD/t towards the end of the year. The decreases of metal prices, which affected the entire mining market, had mainly been caused by the China's slowing economy, which was reflected in very poor economic ratios. This was combined with the bursting of the China's speculative bubble and FED announcements on the necessary increase of interest rates in the USA, which was translated to the strengthening of the American dollar. Low metal prices brought about gigantic problems to the majority of the world's biggest mining companies. The capitalization of some companies has decreased by over 80-90% during the two recent years. The conditions in the Zinc Segment, observed against the background of other companies, were entirely different.

In the case of the Zinc Segment, the lower prices of metals produced in 2015 were compensated by the higher year-over-year USD/PLN exchange rate. In 2014, the average USD exchange rate amounted to PLN 3.15, whereas in 2015 the average USD exchange rate amounted to PLN 3.77. This was translated to the price of the sold metals, causing the zinc price to rise by 6,0 % and lead price - by 1.7% over 2014. On the other hand, the price of the sold silver dropped by 1.6 % in relation to 2014.

5. Information on reached and material for the Group agreements

In the reporting period the Company did not conclude any material agreements under art. 5, par. 1, subpar. 3 of the Regulation of the Minister of Finance as of 19 February 2009 regarding current and periodic disclosures.

6. Organizational and capital relationships with other entities

Stalprodukt holds shares in 10 subsidiaries, including 51% in the company Cynk-Mal S.A., 94.45 % in Zakłady Górniczo-Hutnicze "Bolesław" S.A. and 100% in the other companies.

7. Related party transactions

Transactions with related parties in 2015 include:
- sales of products and goods for the companies belonging to Stalprodukt Capital Group,
- provision of services for Stalprodukt S.A. by the subsidiary companies.

These are typical and routine transactions, provided in a continuous manner, concluded at arm's length within the Group and resulting from current operations.
No other significant transactions with related parties took place.

8. Information on Incurred and Terminated Credit and Loan Agreements

An agreement was concluded with the Bank PKO BP S.A. based in Warsaw concerning a multi-purpose credit limit of up to PLN 150 000, to be used for overdraft in the current account (up to PLN 80 000 thousand) and to serve the letters of credit and guarantee issue purposes (up to PLN 40 000 thousand). Within the credit limit, the Capital Group's companies such as: Stalprodukt-Centrostal Kraków Sp. z o.o. and STP Elbud Sp. z o.o. may use their sublimits amounting to: PLN 20 000

thousand and PLN 10 000 thousand respectively. The term of the agreement is pending until 12.08.2017.
A Credit Line Agreement, amounting to the total of PLN 75 000 thousand, was extended with the Bank Pekao in Warsaw for another term pending until 30.09.2016, the same to be used for the purposes of overdraft in the current account (up to PLN 42 000 thousand) and issuance of letter of credits and guarantees (up to PLN 10 000 thousand). Within the credit limit concerned, the Capital Group's companies such as: STP Elbud Sp. z o.o. and Cynk-Mal S.A. may use their sublimits amounting to: PLN 13 000 thousand and 19 332 thousand respectively. The Multi-Purpose Credit Line Agreement with BGŻ BNP Paribas S.A. based in Warsaw was extended for another annual term, aimed to be used for the purposes of overdraft in the current account, issuance of guarantees and letters of credit within a limit of up to PLN 50 000 thousand. The Agreement is binding until 12.01.2017. Also the credit limit at Bank Handlowy in Warsaw S.A. was extended for the revolving credit line serving the purposes of guarantees and letters of credit with a revolving limit of up to PLN 65 000 thousand. The line covers the amount of PLN 40 000 thousand to serve the purposes of overdraft in the current account, issuance of guarantees and letters of credit with deadlines of up to 18 months and PLN 25 000 thousand serving long-term guarantees with deadlines of up to 6 years. The Agreement is binding until 08.07.2016.
On 15.10.2015, STP Elbud Sp. z o.o. incurred an investment credit at Bank Pekao S.A. amounting to PLN 13 000 thousand, whose repayment deadline falls on 31.12.2020.

In the reporting period ZGH "Bolesław" S.A. practically did not benefit from any credit limits in open accounts.

The compiled credit lines of ZGH "Bolesław" S.A.:

- In April 2006 the Company concluded an agreement for credit in an open account with ING Bank Śląski S.A. amounting to USD 10 000 thousand. According to the amendment (annex agreement) dated 31.08.2012, the deadline for the use of the granted credit is moved forward by the ongoing 12 months, unless the parties state otherwise, however not longer than until 31 October 2022.
- In March 2011, a credit agreement was concluded with BankPolska Kasa Opieki S.A. for an open account credit in the form of a credit line amounting to PLN 30 000 thousand. By the Amendment (Annex Agreement) No 8 dating from September 2015, the credit repayment period was extended until 30 September 2016. At the same time the validity term of the applied-for guarantees and letters of credit was extended until 30 September 2017.
- The open account credit line in BGŻ BNP Paribas Bank Polska S.A amounting to PLN 15 000 thousand was extended until 11 January 2017.
- By the Amendment (Annex Agreement) No 12 dated 25 August 2015, a credit limit within the credit line granted for the purposes of guarantees and letters of credit by Deutsche Bank Polska S.A, was increased up to the amount of EUR 2 750 thousand, whereas the term of the credit agreement was extended until 28 June 2016.

In 2015 the zinc works Huta Cynku "Miasteczko Śląskie" held open three-currency credit lines in the following banks:

- GETIN NOBLE BANK S.A. - credit agreement for a working capital revolving multi-currency credit as of 23 01.2015 r., expiry date 22.01.2017 r. – amount PLN 5 000 thousand,
- Credit Agricole Bank Polska S.A. – credit agreement for a current account multi-currency credit dated 07.12.2012 with subsequent amendments, expiry date 30.10.2016 – amount PLN 15 000 thousand,

- PKO BP SA. – credit agreement for a multi-purpose credit limit dated 23.04.2015 , expiry date 22.04.2016 – amount PLN 10 000 thousand,
- Bank Pekao SA. – credit agreement for current account multi-currency credit dated 28.11.2013 with subsequent amendments, expiry date 30.09.2016 – amount PLN 15 000 thousand,
- ING Bank Śląski S.A. – credit agreement for a current account multi-currency credit dated 24.06.2009 with subsequent amendments, the deadline for the use of the granted credit is moved forward by the successive 12 months, unless the parties state otherwise, however not longer than until 31 October 2026 – amount PLN 30 000 thousand.

Moreover, on 11.12.2013 the zinc works Huta Cynku ”Miasteczko Śląskie” S.A. concluded an agreement for extra-funding in the form of a loan with the National Fund for |Environmental Protection and Water Management in Warsaw amounting to PLN 36 950 thousand. The loan was intended to finance the investment project named „Expansion of Zinc Waste Recycling Installation in Huta Cynku ”Miasteczko Śląskie” S.A.with Three Additional Redistillation Columns”. The repayment will take place from March 2017, the final deadline for repayment is 30.06.2025.

Since 2004 Bolesław Recycling Sp. z o.o. has been using a loan from the National Fund for Environmental Protection and Water Management in Warsaw, intended as an extra funding for an investment project: ”Modernization of Zinc Oxide Works”. Throughout 2014 the Company was continuing to repay this loan. Towards the end of 2015, the nominal debt in respect of this loan amounted to PLN 2 380 thousand.
In 2011, the National Fund for Environmental Protection and Water Management granted the Company a preferential tax-oriented loan to develop the „Expansion of Rolldown Furnaces Line in Bolesław Recycling Sp. z o.o.”. The amount of the loan granted pursuant to the Loan Agreement dated 15 June 2011 is PLN 28 081 thousand. As of 31.12.2015 the debt respect of this loan amounted to PLN 17 082 thousand.

The Gradir Montenegro company benefits from the loans granted by ZGH ”Bolesław”. As of 31.12.2015 the loans amount to PLN 93.6 million.

9. Information on Granted and Received Loans, Sureties and Guarantees

On 15.10.2015, the Stalprodukt S.A. Company granted an aval in respect of a blank bill of exchange issued by STP Elbud Sp. z o.o. for the bank Pekao S.A. based in Warsaw. The bill of exchange secures the investment credit granted to STP Elbud Sp. z o. o. amounting to PLN 13 000 thousand, with the repayment deadline falling on 31.12.2020. As of the balance sheet day, the Group had some off-balance sheet contingent liabilities in respect of the guaranteed good workmanship, concerning the production and mounting of road safety barriers. As of 31.12.2015 the total amount of the resulting unexpired guarantees amounts to PLN 12 969 thousand.

According to the status recorded on 31.12.2015, ZGH ”Bolesław” S.A. holds the following granted sureties :

- In June 2011, ZGH granted surety to the subsidiary company Bolesław Recycling Sp. z o.o. up to the amount of PLN 29 332.5 thousand to secure the liability in respect of the loan granted by the National Fund for Environmental Protection and Water Management;
- On 9 December 2015, ZGH granted an irrevocable surety to the subsidiary company Boltech Sp. z o.o. securing the debtor’s liabilities in respect of the loan No

P/114/15/21 granted by the Voivodeship Fund for Environmental Protection and water management in Krakow up to the amount of PLN 4.837.8 thousand, until 31.03.2023;
- On 9 December 2015, ZGH granted an irrevocable surety to the subsidiary company Boltech Sp. z o.o. securing the debtor's liabilities in respect of the loan No P/115/15/21 granted by the Voivodeship Fund for Environmental Protection and Water Management in Krakow up to the amount of PLN 908.8 thousand, until 31.03.2021;
- On 9 December 2015, ZGH granted an irrevocable surety to the subsidiary company Boltech Sp. z o.o. securing the debtor's liabilities in respect of the loan No P/116/15/21 granted by the Voivodeship Fund for Environmental Protection and Water Management in Krakow up to the amount of PLN 1,126.9 thousand, until 31.03.2021.

According to the status recorded on 31.12.2015, ZGH "Bolesław" S.A. holds guarantees granted to contractors amounting to PLN 3 607 thousand and USD 350 thousand.

10. Information on the use of the Group's revenues from issuances

In the reporting period, the Parent Company did not issue securities.

11. Explanation of differences between the financial results disclosed in the annual report and previously published forecasts of results for the given year

The Group does not publish financial forecasts.

12. Assessment of financial management

The Group has high liquidity, occasionally use the working capital credits, and invests free cash in short-term deposits, which are safe and ensure the availability.
Management of financial resources should be considered correct, as evidenced by achieving good results and economic ratios, maintaining financial liquidity and creditworthiness, as well as the timely performance of assumed obligations.

13. Assessment of the feasibility of investment plans

The previous wide investment plan for the organic development of the Parent Company (increased production of transformer sheets, new production lines for profiles, equipment for service centres) was implemented in full from its own generated resources.
The revaluation write-downs and planned financial results do not indicate any risks likely to threaten further investment plans.

14. Information on employment, remuneration and training

In 2015, there were employed 131 people by the Company Stalprodukt S.A. At the same time, the employment relationship was terminated by mutual agreement or otherwise by 77 employees.
As at 31.12.2015 the employment of Capital Group amounted to 5,964 people, including:
- 1,568 people in the Parent Company,
- 4,396 people in subsidiary companies.

15. Investment Activities and Technological Development

In the reporting period the Group carried out investments regarding: the development of its products and perfecting its technological processes, building works and projects oriented towards environmental protection and work safety.

1. Investment Projects Regarding the Expansion of the Products Range

- Completed modernization of the ACW 3 slitting line at the P2 Department.
- Contract signed for the design and construction of a step-butt core winding machine at the BU Department.
- A new nitrogen compressor bought and put to operation at the BP Department.
- A new winding machine for arch-type barriers bought for the P2 Department.
- A new saw bought for Line 7 at the P2 Department and put to operation.
- An order placed for the design and construction of a new hydrogen compression and loading plant.
- Contracts signed for the supply of two processing lines for the production of precision small- and medium-sized profiles of diameters ranging from Ø10 to Ø76,1, processed from cold-rolled steel strip and cold-rolled strip subsequently galvanized and sprayed on the weld line. The launching of the lines is planned in 2016.

2. Investments in Construction

- Completed construction of a new engine plant.
- Obtained building permit for the foundations of two softened water tanks.
- Completed construction of a new parking lot for passenger cars at the STP Elbud Spółka z o.o. facility in Kraków.
- Construction of a five-star hotel started at Kopernika Street in Kraków. The start-up of the hotel operation is planned for the beginning of 2018.

3. Undertakings Affecting Environment and Work Safety (EHS).

- Completed construction of a new clarifier and two-chamber water retention tank at the TE Power and Environmental Protection Department.
- Emergency lighting installed at the BP Department.
- To guarantee compliance with the IED Directive a new natural gas-powered water boiler was put into operation and a new bag filter was added to the existing installation dedusting the combustion gases coming from four boilers OR-10 .
- A natural gas detection system was installed at the BP Department.

4. Other Investment Tasks.

- Started investment task related to the monitoring of the process data.
- New facilities were adapted and extra server room was put to operation in the WL1362 building.
- The compatibility of the lines safety systems is successively being assessed at all Departments.
- A new crane was installed for the Forming Line No 8 at the P4 Department.

- Works were underway to put the M1 wind power plant with a vertical axis turbine into operation (200 kW).
- Construction works were continued to complete the B-1 1.5 kW wind power plant with a vertical axis turbine. This project was co-financed from the funds provided by the National Centre for Research and Development and the European Union, and is carried out jointly with the Anew Institute Spółka z o.o. and the AGH University of Science and Technology in Kraków.

Investments in Zinc Segment:

In 2015 the investment project was continued referred as „Expansion of Zinc Waste Recycling Installation at the Zinc Works - Huta Cynku „Miasteczko Śląskie" S.A. with Three Additional Redistillation Columns". This investment project will enable the production of the highest quality zinc (with gradual elimination of GOB zinc). The 75%-share of the investment project was financed with a preferential loan, granted by the National Fund for Environmental Protection and Water Management.

Moreover, in 2015, in the company's metallurgical part mainly some reconstruction and modernization projects were carried out, whereas in the mining part the undertaken tasks were concerned with the expansion of the raw material supply base, exploratory drillings and changed source of technological water supply in the context of the "Olkusz-Pomorzany" mine's liquidation.
In the Boltech company some new investments were carried out to modernize the boiler plant in connection with the new standards for gas and dust emissions applicable since 2016 as well as investments related to the launching of dolomite stone production based on the Ujków deposit.

Regarding the new investment undertakings, the Capital Group is planning to carry out a project ensuring the increase of zinc production output up to 180 thousand and investment activities aimed at the expansion and modernization of the metallurgical production potential. They should improve the most important production parameters, including the increase of pure metal recovery from the recycled waste, and will reduce the unit costs of zinc production.

The modernization of the production processes and increase of the production output guarantees the development of the Capital Group and its maintained high position among zinc manufacturers.

16. Characteristics of External and Internal Factors Essential for Group's Development and Description of Activity Development Prospects

<u>External and Internal Factors Essential for Group's Development</u>

The Market Research Institute prepared a forecast for the years 2016 – 2017. Selected elements thereof are presented below.

- Forecast Level of Economic Development

The prognoses gross GDP growth rate will reach the level of 3.6 percent in 2016, which means that it will be the same as in the previous year. According to the Institute's forecast, the market conditions will be more advantageous in the first half of the year, when the GDP growth will reach 3.9 percent in the first quarter and 3.6 per cent in the second quarter. In the second half of the year a slowdown to the level of 3.3 percent should be expected in the fourth quarter. In 2017, market conditions will continue to deteriorate – the prognoses GDP growth rate will reach 3.1 percent.

In 2016, the added value in industry will increase by 5.5 percent according to the forecast issued by the Institute for Market Economy Research. At the same time the construction sector will score a similar result, with the added value increase by 5.6 percent. In the market services sector, contributing the biggest share to the GDP formation, the increase of the added value in 2016 will reach the level of 3.5 percent. The deterioration of market conditions in 2017 will be particularly visible in industry, where the added value will increase by 4.2 percent and in market services – the growth forecast for this sector is only 3.0 percent. In the construction sector the growth will also be lower than in 2016 (5.1 percent), but the difference will be smaller compared to the current year, as the market conditions in construction will be supported by the investment projects carried out in road and railroad industry.

- Demand

The domestic demand growth rate will reach 3.4 percent in 2016, which is the same as in 2015. According to the Institute's forecast, individual consumption will grow by 3.0 percent. At the same time, the value of gross fixed capital formation will increase by 6.0 percent. European funds appropriated for the financing of infrastructural projects will act as the investments' supporting factor. Whereas, in the enterprises sector aversion to risk and reduction of investment outlays are expected. In 2017, the domestic demand will grow much more slowly (2.7 percent) – primarily because of the slower growth rate of individual consumption (2.5 percent). The gross fixed capital formation will also grow more slowly (5.3 percent), but in this case the difference in relation to the previous year will be less significant.

- Inflation

According to the forecast issued by the Institute for Market Economy Research, as early as in the first quarter of 2016, deflation will maintain in the Polish economy. Throughout this period the prices will sink by 0.3 on average. In the quarters to follow a long-awaited increase of consumer prices will come, althouth it will only be slight (0.5 percent). Throughout the year 2016, the annual average inflation level will equal 0.7 percent, whereas its December level will reach 1.8 percent.
In 2017, an accelerated increase of prices is expected in Poland, although as late as towards the end of the year the monthly inflation will slightly exceed the inflation goal of the central bank. Next year the average inflation level will reach 2.2 percent. The increase of prices in the years 2016-2017 will result, in its essential part, from the new fiscal charges introduced by the government in the commercial and bank sectors.

Market forecasts

The EU economy entered the year 2016 with solid foundations, which bodes well both for the foundations and for the market conditions in the quarters to come. What is more, the conditions will be hospitable to investments which will become the main growth drivers after the period, during which growth was mainly based on individual consumption. Eurofer forecasts the EU GDP growth at the level of 2 % in 2016 and 1.9 % in 2017.
What should be regarded as the key intracommunity issue is the lack of an effective solution to the refugee problem and the risk of political and economic instability related thereto. The lack of coordination of the EU policies in the migration-related area combined with the risk of social unrest at

the domestic level may finally threaten the Schengen treaty. This, in turn, may seriously impair the EU economic growth.
Also "Brexit" (GB's exit from the EU) and general weakening of the Euro zone reforms can be listed among other internal dangers potentially threatening the EU economic stability.

At the same time the following can be listed among the key external threats to the global economic growth in 2016 and 2017: poor economic results in a number of big emerging markets, primarily China, tightening of the US monetary policy (earlier than expected) and increased volatility of the global capital flow. The slowdown of the Chinese economy remains to be an especially important problem.

Real Steel Consumption
It is estimated that in 2015, the total EU steel consumption increased by 1.1.%.
The prospects for 2016 and 2017 are moderately favourable. It is expected that the general activities undertaken by the steel-using sectors will be maintained at a stable, though unspectacular level.
Nevertheless, it is predicted that the steel consumption's impact on demand will stay in the negative for the time being. As a result, the EU steel consumption is to increase by 1.4% in 2016 and by 2.1% in 2017.

Apparent Steel Consumption
In the EU perspective for the years 2016 and 2017 further gradual improvement of steel demand is predicted. The main factor behind this improvement is the expected continued strengthening of the final users and, consequently, the increase of real steel consumption. The continuation of careful management of inventories should reduce the impact of seasonal factors affecting the apparent steel consumption. Yet, the imports pressure, resulting from a significant steel overproduction true for certain regions, still remains to be the greatest problem regarding the present conditions on the EU metallurgical market.

Imports
In the years 2016-2017, the overproduction coming from third countries will determine the import volumes more than the EU market demand – whose forecasts are rather modest. China will still play a key role in stabilizing the global balance between the supply and demand. The key question is whether China will be able to adjust their production output and efficiency properly to fit the lower demand level in a relatively short period.

Exports
The exports perspective for the years 2016 and 2017 still remains rather insecure. The international competition is going to be fierce and it will stay so for as long as several emerging economies will experience economic difficulties, which will, consequently, transfer the pressure onto steel demand. Without some indispensable adjustments to the production output, the oversupply will have to be somehow located on the international steel markets.

Group's Development Prospects in 2016

The marketing objectives and plans for 2016 contain, both the market aspects, industry-focused and macroeconomic forecasts, but also our company's internal conditions.

Electrical Sheets Segment

The sheet steel market conditions are quite difficult to forecast at present – on the one hand Asian manufacturers have started to reduce the prices, the anti-dumping proceedings have been concluded in the EU and some HGO - sheets shortages are being recorded. Nonetheless, it should be expected that the introduction of minimum import prices by the EU Commission will lead to the decrease of sheet steel prices down to the minimum level in a shorter or longer perspective. For this reason 2015 sales level will be impossible to maintain.

In 2016 the Parent Company is planning to increase its sales share of laser-treated sheets and will try to effectively manage the production capacity of a new product, i.e. the HGO sheets. Considering the present market conditions, altered structure of orders, considerable increase of sheet steel demand, allowing for the construction of higher capacity transformers and much higher sell out bonuses, the development of the HGO-sheets-based offer is becoming a priority issue for the Parent Company.

Profiles Segment

In 2016, the Group predicts slight sales value and volume increases for tubes and profiles to be achieved over the sales value and volumes recorded in 2015.

The forecasts issued for the sectors which are Europe’s main steel consumers suggest increases not exceeding 2%. Such a level of development will not have a significant impact on the investment demand. The economic growth rate of our target markets for the exports of profiles, i.e. Germany, Czechs and the Baltic States, will affect the market absorption level, yet under the overcapacity conditions and facing intensified cheap imports, we have to take aggravated competitive struggle into account.
From the point of view of particular industries, the most important issue of all will be the maintenance of the products’ high quality level and strengthening of the institutional customers’ sales share in particular segments: scaffoldings, rollers, tubes, foundation tubes, furniture.

However, the Parent Company predicts a significant increase of the road barriers’ sales in 2016. The adopted assumptions are to a high degree dependent on the road projects implementation cycle, which usually lasts from 18 to 36 months. In 2015 only a few big road projects, within the framework of which road barriers are going to be supplied and installed, are planned to be completed. As late as in the 2nd half of 2015 the construction works reached the stage enabling the installation of barriers start-up within the investments projects whose implementation will be continued in 2016. While the sales value in the 1st half of 2016 will depend on the given weather conditions, then, in the 2nd half of 2016 the 2013 and 2014 sales volume levels should return.

Zinc Segment

According to the forecasts developed by the International Lead and Zinc Study Group, the global zinc demand will increase in 2016 by 3.3% to the level of 14.4 million tons (against the 2015 increase by 0.7 %). The increase concerned is to be mainly caused by the growing zinc consumption in China, satisfying the needs of the galvanized sheets production.

In the case of lead a global increase of lead consumption is predicted to reach the level of 2.6 (11.1 million tons). In 2015 a significant consumption decrease of this metal was recorded (by 8.3 %).

17. Description of Essential Risks and Threats Defining the Group's Exposure Degree

a) Macroeconomic Environment

- The Group's, and especially the Profiles Segment's, performance results are strongly dependent on the general economic conditions, and, in particular, on the development of such branches as construction and industry. The market trends affecting these branches are well reflected by the GDP growth rate index. The relatively high level of the index for Poland, compared to other EU countries, (approx. 3.7 in 2015) and also favourable forecasts predicting the maintenance of the economic growth rate at a similar level in 2016, allow for our optimism as to the expected level of demand for the Group's products and potential of the sales increase.

- The development of Polish economy should also be supported with the EU funds therefore the Group has high hopes of the new EU Perspective for the years 2014-2020. The 82.5 mld Euro that Poland is supposed to receive, will surely have positive impact on the market conditions and will contribute to the increase of demand for the products processed by Stalprodukt. The development of road infrastructure will be particularly advantageous for the Profiles Segment, and thus for the road barriers product group, which is facing very good prospects for improved results in the years to come (in the Group's opinion the improvement of results in this product group should take place as early as in 2016).

- The Group also operates on export (mostly EU) markets, which generate up to 50% of the total sales. Therefore the market conditions present in the EU countries have a significant influence on the level of the achieved sales and profits.
  In accordance with the forecasts prepared by the European Commission, the GDP prognozed for 2016 is to reach approx. 1.9%, which means no change will take place in relation to 2015 (approx. 1.9 %).

- **Demand for Steel Products in Europe**

  The demand for steel products on the EU markets is an essential growth factor affecting the sales of the Group's products. In 2015 the increase of the EU apparent steel consumption reached approx. 2.3 %. The forecasts developed by EUROFER are less advantageous with the planned level of increase standing at 1.1 %.

- **Charge Materials Supply Market Conditions**
  The high overproduction of steel caused an enormous price pressure on the supply markets. Without any improvement in this respect, i.e. increase of prices for such materials as hot- and cold-rolled sheets, one cannot expect an increase of prices for finished products, and, consequently, the improvement of the generated profit margins. In the case of the Group this mainly concerns the Profiles Segment.

- **High Competition between Producers of Cold-Formed Profiles and Companies Running Steel Service Centers**

The fierce competition between the producers of profiles and companies running steel service centers is an essential risk factor for the sales targets planned by the Group. Unfortunately, the already existing overproduction (particularly in steel service centers) does not discourage companies from new investments.

Another risk important for the Group is the planned state support for the consolidation (around the Węglokoks state company) of a group of businesses dealing, among others, in the production of cold-formed profiles. Such decisions not only violate fair competition, but are incomprehensible considering the massive overproduction already existing on the market concerned.

- **Consequences of EcoDesign Directive.**

  This Directive, whose 1st stage took effect in July 2015, will force transformer producers even stronger to apply the highest grades of steel sheets, i.e. the ones characterized with the lowest core loss levels. If the Parent Company did not adjust its product offer to the new market requirements, it might face the risk from the loss of the EU market share and necessity to look for recipients on other markets. Another consequence would be the Parent Company's lost opportunity to offer its products for sale at prices considerably higher than the ones quted for conventional sheets, which, at the same time, stands for lower profit margins.

- **Consequences of Measures Introduced for Market Protection of Transformer Sheet Producers in 2015**

  The solution introduced by the European Commission in May 2015, i.e. the provisional anti-dumping duties for the imports of transformer sheets from the outside of the EU territory, allowed for the improvement of the market conditions in favour of the EU sheet steel producers, as the imports declined and the EU market prices considerably increased.

  Unfortunately, the definitive market protection measures introduced in October 2015, primarily including the minimum import prices, are not an optimal solution, as they cause the producers from such countries as Russia, China or Korea to lower their prices to the minimum prices level, which may again lead to a significant increase of the import levels from these directions and aggravated competition on the EU market. Unfortunately, the imports offered at prices lower than the minimum ones cannot be excluded either, as the duty applicable in such cases, will only be levied on the difference between the given minimum price and the real price. Under the conditions of massive overproduction still existing on the global sheet steel market, such a strategy may arouse interest of these producers who already have expanded production capacities at their disposal and the opportunity to dispose of extra volumes (even at less advantageous prices), will allow them to improve the use of their production capacities.

b) Risks Related to Zinc Segment’s Activities

Among the most important risks there are:

- high sensitivity of the pursued activities to metal prices. A massive decrease of metal prices combined with the strengthening of the Polish zloty is the most important risk,

- a short-term perspective for the company-owned supply base resulting from the approaching liquidation of the ”Olkusz-Pomorzany” mine. Necessity to provide a new raw material base for the Bukowno zinc works,
- high share of energy costs in the manufacturing costs and difficulties affecting the introduction of systemic solutions in this respect,
- fluctuating prices of zinc concentrates and limited access to raw materials resulting from the increased global demand accompanying the closures of big zinc mines.

The depletion of resources, decrease of zinc content in the excavated ore, resulting in the continuous reduction of the company’s own concentrates, imposes the necessity to work out a raw material policy which will guarantee charge material for zinc production after the activities of the “Olkusz-Pomorzany” zinc mine have been wound up. That is why the organization of a raw material base and raw material safety related thereto is a strategic area of the Group’s interest. The activities undertaken to this end are focused on:

- new mining projects, mainly in a close vicinity of the deposits currently exploited by ZGH ”Bolesław”,
- obtaining qualified sulfide concentrate from the postflotation tailings deposited in settling ponds. In 2015 the implementation of an investment project was initiated, referred to as ”Construction of a Postflotation Waste Recycling Plant”. The new line should provide approx. 20 thousand tons of blende concentrate per year.
- expansion of the steelmaking dusts supply base, aimed at ballasting the newly constructed line for the deep dechlorination, defluoridation and leaching of raw zinc oxides arising from the recycling of steelmaking dusts. At present, such oxides account for approx. 30% of charge in the Bolesław zinc works, and their planned target share is supposed to increase to as much as 40%,
- arranging the most advantageous rules governing the Group’s concentrate purchases and signing long-term commercial contracts, providing systematic deliveries.

For the electrolytic process it will be crucial to provide electrical energy prices at the European level. Considering that energy consumption costs account for as much as 40% in the concentrate-to-zinc processing costs, the price of electrical energy has a significant impact on the profits generated by the Group. The to-date positive effects of the activities pursued over the years, resulted in the introduction of statutory provisions regarding “green” and excise certificates, thanks to which the Zinc Segment considerably reduced its power consumption costs. Nevertheless, considering the EU climate policy, concerning the potential increase of the prices for CO2 emission allowances, the actions aimed at, among others: reduction of energy costs through the introduction of related compensations for the energy-intensive companies and introduction of reliefs in the form of red, yellow and purple certificates, are still to be taken.

f) Risks Related to Financial Instruments

Other risks, arising from financial instruments i.e. interest rate risk, liquidity-related risk, credit-related risk and currency-related risk were described in detail in the Additional and Explanatory Information Sheet in item 7 – Financial Instruments and Risk Management Assessment.

18. Changes in the basic principles applied by the Issuer to manage the Company and its Group

In the reporting period, there were no changes in the basic principles of management of the Company and the Group.

19. Any and all agreements between the Issuer and its management, providing for compensation in the event of resignation or dismissal from a position held without a valid reason or if their withdrawal of dismissal is due to the merger by acquisition of the Issuer

Benefits due to the Members of the Parent Company's Management Board in connection with the termination of their employment are set forth in individual employment contracts entered into with the Management Board Members.

Pursuant to the above contracts, where the Management Board Member becomes dismissed from its functions during the term of office, the Company shall be obliged to pay compensation to the Member, depending on the functions it fulfilled within the Management Board, amounting to its 6- or 12-month average remuneration.

The employment contracts also contain non-competition clause binding after termination of employment. Pursuant to these provisions, a Management Board Member is obliged to refrain from activity competitive to the Company for a period of 12 months after the termination of the employment relationship.

Depending on the functions fulfilled within the Management Board, a Member shall be entitled to compensation in the amount of 100% or 75% of the average remuneration (for the first 6 months) and 50% of the average remuneration for the subsequent 6 months.

20. The value of remuneration, bonuses or benefits paid, payable or potentially payable, for each manager and supervisor

1. Value of the remuneration of the Management Board (in PLN):

	Base pay	**Bonus for the results***	**Royalties from the profit for 2014**	**Remuneration for holding positions in the statutory bodies of the subsidiaries**	**Total**
Piotr Janeczek	864 750	1 139 572	108 603	209 311	**2 322 236**
Józef Ryszka	442 550	502 898	54 302	38 363	**1 038 113**
Total	**1 307 300**	**1 642 470**	**162 905**	**247 674**	**3 360 349**

2. Value of the remuneration of the Supervisory Board Members (in PLN):

	Allowance	Royalties from the profit for 2014	Remuneration for holding positions in the statutory bodies of the subsidiaries	Total
Stanislaw Kurnik	84 812	27 151		**111 963**
Kazimierz Szydłowski	72 699	27 151	35 026	**134 876**
Janusz Bodek	66 638	27 151	43 570	**137 359**
Maria Sierpińska	72 699	27 151		**99 850**
Augustine Kochuparampil	0,00	0,00		**0,00**
Tomasz Plaskura	66 638	27 151		**93 789**
Tomasz Ślęzak	66 638	27 151		**93 789**
Total	**430 124**	**162 906**	**78 596**	**671 626**

21. List of Management Board Members and Supervisory Board Members holding shares of Stalprodukt

1. Management:

- Piotr Janeczek - holds 114,865 shares of the Company Stalprodukt S.A. of face value - PLN 229,730
- Józef Ryszka - holds 504 shares of the Company Stalprodukt S.A. of face value - PLN 1,008

2. Supervisory Board Members:

- Stanisław Kurnik - holds 2,900 shares of the Company Stalprodukt S.A. of face value - PLN 5,800
- Maria Sierpińska - holds 11,880 shares of the Company Stalprodukt S.A. of face value - PLN 23,760
- Kazimierz Szydłowski - holds 7,012 shares of the Company Stalprodukt S.A. of face value - PLN 14,024
- Janusz Bodek - holds 62,640 shares of the Company Stalprodukt S.A. of face value - PLN 125,280

The above information is consistent with the knowledge possessed by the Parent Company at the date of the report.

22. Information on the agreements known to the Group (including those entered into after the balance sheet date), which could result in future changes in the proportion of shares held by the existing shareholders

According to the Group there were no agreements reached, which may result in future changes in the proportion of shares held by the existing shareholders in the reporting period, as well as, in the period after the balance sheet date.

23. List of the proceedings pending before the court, competent arbitration authority or public administration

The Group is not a party to the proceedings pending before the court, the objects of which are the liabilities or receivables of the Issuer or its subsidiary of values equivalent to at least 10% of the equity of the Parent Company.

24. Information about the control system over the employee share schemes

The Capital Group has no control systems over the employee share schemes.

25. Information on the body authorized to audit financial statements

- The Stalprodukt Company reached an agreement for a semi-annual review and complete audits of financial statements (separate and consolidated) for the year 2015 with an audit company „Accord'ab" Biegli Rewidenci sp. z o.o., with a registered office in Wrocław, ul. Grabiszyńskiej 241. The agreement was executed on 6.07.2015.
- The net remuneration under the agreement amounts to PLN 58,000.

Statement on the application of corporate governance principles in the Company

Pursuant to § 29 par. 5 of the Rules of the Warsaw Stock Exchange S.A., adopted by Resolution No. 20/1287/2011 of the Supervisory Board of the Warsaw Stock Exchange on 19 October 2011, the Management Board of Stalprodukt S.A. presents a report on the application by the Company in 2015 of corporate governance principles contained in the document "Good practices in companies quoted on the Warsaw Stock Exchange".

a) indication of

- corporate governance principles governing the Issuer and places where the text thereof is publicly available

The Company is subject to the corporate governance principles, contained in the document "Best Practices of WSE Listed Companies. The contents of this document is available on the Company's website (www.stalprodukt.com.pl), under tabs "Investor Relations" and "Corporate Governance".

- corporate governance principles, on the application of which the Issuer may have decided voluntarily, and the place where the text thereof is publicly available, or

The Company decided no to apply other corporate governance principles than those referred to above.

- all relevant information about the principles of corporate governance applied by the Issuer that go beyond the requirements under national law, together with the information on the principles of corporate governance applied by the Issuer.

The Company applies no principles of corporate governance beyond the requirements under national law.

b) information on the extent to which the Issuer waived the provisions of the corporate governance principles, referred to in point a, first and second indents, the indication of these provisions and clarification of the reasons for this waiver,

- The Company neither broadcast the General Meeting via the Internet, nor registered its course and made it public on its website.

  The Management Boards intends to register General Meetings in the future, as well as broadcast them via the Internet.

- The Company did not follow the principle according to which at least two Supervisory Board Members should meet the criteria of independence from the Company.

  The Management Board of the Company questioned the application of this principle, regarding it as hitting the ownership rights of shareholders. The fundamental right arising from the fact of possessing a particular parcel of shares means that shareholders may solely take decisions with respect to the election of authorities, i.e. the Supervisory Board, which in turn appoints the Management Board.

The Management Board of the Company still cannot declare to adopt the application of this principle.

c) a description of the main features of internal control and risk management systems, in relation to the process of preparing financial statements and consolidated financial statements, applied in the Issuer's Company,

Financial statements are drawn up by the Head of the Department of Accounting and Taxes based on financial data gathered from the financial and accounting system IFS, subject to the arrangements specified in the accounting principles (policy) adopted by the Company.

From 1 January 2005, Stalprodukt S.A. has drawn up the financial statements in accordance with the International Accounting Standards and the International Financial Reporting Standards, as adopted by the European Union, and in matters not regulated by these Standards, as required under the Polish Accounting Act.

Content-related supervision over the preparatory process of financial statements and periodic reports of the Company, is entrusted to the Management Board Member - Finance Director, who preliminarily checks the financial statements and then submits them the Management Board for final verification.

The Management Board Office, reporting to the CEO, assumes the responsibility for organization of the work associated with the preparation of annual and interim financial statements. The Management Board Office also provides the internal control. This way, the supervision over the preparatory process of financial statements is more effective.

d) the shareholders holding, directly or indirectly, significant blocks of shares, together with the number of shares held by those shareholders, their percentage of the share capital, the number of votes resulting therefrom, and their percentage in the total number of votes at the General Meeting (the information is consistent with the possessed the Company's knowledge at the 31.12.2015),

1. ArcelorMittal Poland S.A. holding 1,914,376 shares, representing 28.47% of the share capital, and 5,064,680 votes, representing 28.26% of the total votes at the AGM,
2. STP Investment S.A. holding 1,949,985 shares, representing 29.00 % of the share capital, and 5,891,241 votes, representing 32.87 % of the total votes at the AGM,
3. Stalprodukt Profil S.A. holding 609,217 shares, representing 9.06 % of the share capital, and 976,109 votes, representing 5.45 % of the total votes at the AGM.

e) indication of the holders of any securities with special control rights, together with a description of those rights,

There are no securities that would grant special control rights.

f) indication of any restrictions on voting rights, such as restriction of voting rights to be exercised by shareholders holding a specified part or number of votes, deadlines for exercising voting rights or provisions according to which, in cooperation with the Company, the financial rights attached to securities are separated from held securities,

In March 2007, Stalprodukt S.A. acquired 69,733 own shares for their redemption. On 31.12.2014, these shares were not redeemed yet (lack of a relevant resolution of AGM). These shares were locked in the Company's brokerage account, and the resulting right to vote at the AGM Stalprodukt are not exercised.

g) indication of any restrictions on the transfer of ownership of securities of the Issuer,

The shares series A, B and E, issued by the Company, are registered voting shares. Pursuant to § 12 par. 1 of the Statutes of Stalprodukt S.A.: *disposition of registered shares requires the written consent of the Management Board. The decision of the Management Board on the approval or lack thereof must be delivered within 7 days from the date of the application in this case. If there is no consent, the Management Board shall appoint the purchaser within 7 days. The Purchaser shall buy the shares for cash, in the Company's registered office, within 7 days.*

The remaining shares of the Company - Series C, D, F and G - are bearer shares, listed on the Stock Exchange in Warsaw. There are no limitations in respect of these shares.

h) description of the rules specifying the appointment and dismissal of managers and their rights, in particular the right to decide on the issuance or redemption of shares,

The Management Board of the Company operates under the provisions of the Commercial Companies Code and the Company's Statues. According to the Statutes, the Management Board is composed of two to four persons, appointed for a period of three years by the Supervisory Board: The Chairman of the Management Board is appointed by the Supervisory Board from among candidates nominated by the Supervisory Board Members, the remaining Members of the Management Board are appointed by the Supervisory Board at the request of the Chairman of the Management Board. The Supervisory Board dismisses the Management Board Members - with the exception of Chairman of the Management Board. The Chairman and Management Board Members may also be appointed from outside the group of shareholders. The Chairman of the Supervisory Board or any other representative of the Supervisory Board, nominated from among its Members, acting on behalf of the Company, enters into the employment contract with the Management Board Chairman and Members.

The Management Board represents the Company in relations with the authorities, third parties, in and out of court. Power to make declarations of will and sign on behalf of the Company is granted to the Chairman of the Management Board, acting solely, two Members of the Management Board, acting jointly, or one Member of the Management Board acting together with a commercial proxy.

The Management Board is responsible for dealing with the current affairs of the Company. The detailed mode of the Management Board operations, as well as the matters requiring resolution of the Management Board and the matters that may be settled on behalf of the Management Board by its individual Members, are defined in the Rules of Procedure of the Management Board.

These Rules of Procedure are set by the Management Board at the request of the Management Board Chairman and then approved by the Supervisory Board.

i) description of the rules to be followed while changing the Statutes or Articles of Association of the Issuer,

The General Meeting adopts amendments to the Company's Statutes. Resolutions of the General Meeting on the amendment of the Statutes are adopted with a majority of three fourths of the votes cast.

j) mode of operation and key powers of the General Meeting, and a description of shareholders' rights and their exercise, in particular the rules arising from the Rules of Procedure of the General Meeting, if such Rules were adopted, unless the information in this regard arises directly from the law,

The General Meeting of Shareholders of the Company operates in compliance with the provisions of the Commercial Companies Code and Company's Statutes. The mode of procedure of the General Meeting and its key powers are defined in the Rules of the General Meeting of Shareholders of Stalprodukt S.A., adopted by Resolution No. XXVI/16/2010 AGM of 25.06.2010

According to the Statutes of the Company:

1. The General Meeting may be ordinary or extraordinary.
2. The Ordinary General Meeting is convened by the Management Board of the Company within six months after the end of each financial year.
3. The Extraordinary General Meeting is convened by the Management Board of the Company on its own initiative or at the request of a Shareholder or Shareholders representing at least one twentieth of the share capital. The request to convene the Extraordinary General Meeting shall be submitted by a Shareholder or Shareholders to the Management Board in writing or in an electronic form.
4. The Meeting, referred to in paragraph 3, adopts the decisive resolution whether the costs of convening and holding the Meetings are to be borne by the Company. The Shareholders, at the request of whom the Meeting was convened, may apply to the court of registration for an exemption from the obligation to cover the costs imposed by resolution of the Meeting.
5. The Supervisory Board may convene the Annual General Meeting if the Management Board of the Company fails to convene it within the period specified in the provisions of the Commercial Companies Code, or within two weeks from the date of filing the relevant request by the Supervisory Board, and the Extraordinary General Meeting, if the Board deems its conveyance necessary.
6. The Shareholders representing at least half the share capital or at least half of the total votes in the Company may convene the Extraordinary General Meeting. The Shareholders appoint the Chairman of the Meeting.

The General Meeting may only pass resolutions on matters covered on the agenda. Agenda is determined by the Management Board of the Company. A Shareholder or Shareholders representing at least one twentieth of the share capital may request that certain matters be included on the agenda of the next General Meeting. The request shall be submitted to the Management Board no later than twenty one days before the scheduled Meeting. The request should include a justification or a draft resolution on the proposed agenda item. The request may be submitted in an electronic form.
A Shareholder or Shareholders representing at least one twentieth of the share capital may report to the Company, before the General Meeting and in writing or by means of electronic communication, draft resolutions concerning matters on the agenda of the General Meeting or matters that are to be included on the agenda. The Company shall immediately make the draft resolutions available on the website.
Each of the Shareholders may report draft resolutions on matters on the agenda during the General

Meeting.

The General Meeting may pass resolutions irrespective of the number of Shareholders and shares represented at the General Meeting, with the exception that adopting a resolution on capital increase involving the subscription for new shares through private subscription or open subscription by the designated recipient, requires the presence of Shareholders representing at least one-third share capital.
If the General Meeting, convened for the purpose of adopting such resolution, did not take place due to lack of quorum, another General Meeting may be convened, during which a resolution may be adopted regardless of the number of Shareholders present.
Shareholders may participate in the General Meeting of Shareholders in person or by proxy.
Power of attorney to attend the General Meeting and exercise voting rights shall be granted in writing or in an electronic form to be valid. Granting power of attorney in an electronic form does not require a secure electronic signature verified by a valid qualified certificate. The Rules of Procedure of the General Meeting specifies how granting of power of attorney should be notified.

Resolutions of the General Meeting are adopted by a majority of votes cast, except that the resolution on the change of the Company's objects requires a majority of two thirds of the votes cast, while the resolution amending the Statutes, changing the share capital and concerning the merger or liquidation of the Company, requires a majority of three fourths of the votes cast.

The voting is open. A secret ballot is used for elections, to decide upon motions to dismiss Members of governing bodies or the liquidators of the Company, or to hold them responsible. Moreover, voting is secret if at least one of the persons entitled to vote submitted a request to such effect.

According to § 36 of the Company's Statutes, the General Meeting has the right to:
- dismiss the Chairman of the Management Board;
- examine and approve the annual financial statements of the Company, the annual report the Management Board on the Company's operations and the consolidated financial statements of the Group;
- decide on the profit distribution or loss coverage;
- grant vote of acceptance to the managing bodies of the Company confirming the discharge of their duties;
- amend the Company's Statutes;
- reduce or increase the share capital of the Company;
- changing the object of the Company's activities;
- merge or transform the Company;
- liquidate the Company, appoint liquidators and determine the distribution of assets after the liquidation of the Company;
- issue bonds;
- issue a decision on claims for damages suffered during the establishment of the Company and its management or supervision;
- decide on the use of capital reserve and on the creation and allocation of supplementary reserve;
- determine the royalty ratio for the Management Board and method of its payment;
- other powers, which pursuant to the provisions of the Commercial Companies Code, are the exclusive rights of the Shareholders' Meeting, except for giving consent to the acquisition and disposal of real property, perpetual usufruct or interest in real property, which were entrusted to the Supervisory Board

k) the composition and changes that occurred during the last financial year, and the mode of operation of the governing, supervising or administering bodies of the Issuer and their committees.

Composition of the Management Board:

In 2015, the Management Board of Stalprodukt was composed of:

Piotr Janeczek – President of the Management Board
Józef Ryszka - Member of the Management Board

Composition of the Supervisory Board

In 2015, the Supervisory Board was composed of:

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

Audit Committee

In 2015, the Audit Committee was composed of:
1) Maria Sierpińska - Chairman
2) Kazimierz Szydłowski
3) Tomasz Ślęzak.

....	....
Piotr Janeczek	Józef Ryszka
President of the Management Board - CEO	Management Board Member - Marketing Director