

**Report of the Management Board on the activities  
of Stalprodukt S.A. Capital Group  
for the period from 01.01.2016 to 31.12.2016**

**Bochnia 2017**

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**Statement on the application of corporate governance principles in the Parent Company**

## 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 ZGH “Bolesław” – 94.56 %
- in other companies – 100 % shares each.

**Additionally, in 2016 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. (92,77 %) – 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.

On 7 December 2016 the Extraordinary General Meeting of Shareholders of the F&R Finance Sp. z o.o. Company adopted a resolution on the increase of capital. On 22 December 2016, the capital increase was recorded in the National Court Register, as a result of which the Company Bolesław Recycling Sp. z o.o. reduced its share in the entity concerned from 49% to 19.68%.

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

### 2.1 Electrical Sheets Segment

#### a) Transformer sheets and strips

In 2016 the transformer sheet sales volumes were by 14.5 percent lower than in 2015. And thanks to the clearly marked and long-awaited increase of the prices, the sales value increased by 46 percent. After a short period of growing prices in 2015, starting from the second half of 2016 onwards, the decrease of prices and demand present on the transformer sheets market was strongly felt again.

The result achieved on the domestic market was by 29.5 per cent higher than in the analogical period of 2015. In 2016 the domestic sales accounted for 6.9 per cent of the total sales of transformer sheets. According our own estimates, such a result translates into the Stalprodukt's approximate 23-per cent share in the domestic apparent consumption of transformer sheets.

The imports of transformer sheets to Poland, during the 11 months of 2016, decreased by approximately 15 per cent compared to the analogical period in 2015 and reached the level of 17 thousand tons.

The main transformer sheets Poland-bound import directions in 2016 (according to country of origin) were:

- in respect of wide coils: Germany, Japan and France,
- in respect of steel strips: Japan and Italy.

**Table 1. Sales of Transformer Sheets and Strips - Breakdown**

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2015	2016	2016/2015 (%)	2015	2016	2016/2015 (%)
Domestic Sales	4 949	5 318	7,5	29 615	38 340	29,5
Exports	91 455	77 136	-15,7	623 690	514 509	-17,5
<b>Total</b>	<b>96 404</b>	<b>82 454</b>	<b>-14,5</b>	<b>653 305</b>	<b>552 849</b>	<b>-15,4</b>

#### Competitive Conditions

Among the most important events of 2016 one should include the definitive withdrawal of the American manufacturer Allegheny Technologies (ATI) from the production of electrical grain-oriented (GOES) sheets and information on the suspended production of conventional grades of electrical (CGO) sheets by Wuhan Iron & Steel – the biggest manufacturer in China.

The consolidation processes among the grain-oriented sheets producers are also worth mentioning. In the first half of 2016, we were informed about the merger of two Chinese manufacturers of steel sheets. As a result of the merger of Wuhan Iron & Steel and Baosteel the biggest Chinese steel concern, and the second biggest world's concern after ArcelorMittal was formed. The new concern's

production capacity is estimated to be in excess of 70 million tons, and the sales value – at 16.3 billion dollars. The combined share of the two companies in the Chinese electrical sheets market reached as much as 80 per cent.

Mergers of grain-oriented electrical sheets producers are also possible on the European market. The British department of the Indian TATA Steel concern (TATA Steel UK Limited), which also embraces electrical sheets and transformer cores production plants, is a potential object of take-over, whereas ThyssenKrupp, which is the biggest European producer of grain-oriented sheets, is interested in the take-over.

The transformer sheets market has been an object of protection measures taken for a few years, aimed at preventing excessive imports. After the antidumping duties introduced by the European Commission in 2015, similar actions were taken on the Chinese market in 2016. In April, the Chinese Ministry of Commerce, responding to the petition filed by Wuhan Iron & Steel (Wugang) (production capacity 600 thousand tons of GOES) and Baosteel (production capacity 300 thousand tons of GOES), decided to impose provisional duties on the imports of grain-oriented electrical sheets from Japan, Korea and EU countries. The level of provisional duties is as follows: Japan 45.7% - Nippon Steel & Sumitomo Metal, 39.0% - JFE Steel, Korea – 14.5% POSCO and 46.3% EU member states. On 23 July 2016, Chinese authorities imposed definitive duties, at the level fluctuating from 37.3 per cent to 47.3 per cent.

#### **b) Toroidal cores**

The sales of transformer cores decreased by 5.4 per cent in terms of the sales volume and by 4.7 per cent in terms of the value. A bigger decrease (by 12.0 per cent), which had primarily resulted from the declining purchases by the Stalprodukt main domestic recipients, was recorded for the domestic sales.

Stalprodukt customers were affected by the declining demand for the transformers produced with the cores offered both on the domestic and foreign markets. The absence or reduction of orders could primarily be observed on the German, Russian and Scandinavian markets.

**Table 2. Comparative breakdown of sales of transformer cores**

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2015	2016	2016/2015 (%)	2015	2016	2016/2015 (%)
Domestic Sales	418	368	-12,0%	4 730	4 143	-12,4%
Exports	646	639	-1,1%	5 968	6 051	1,4%
<b>Total</b>	<b>1 064</b>	<b>1 007</b>	<b>-5,4%</b>	<b>10 698</b>	<b>10 194</b>	<b>-4,7%</b>

#### **Competitive Conditions**

Stalprodukt competitors have an easy access to cheap charge materials, which, consequently, provides basics for them to apply aggressive price policies in respect of the finished product. Customers' needs are growing not only in respect of the magnetic properties (highest grades of HGO cores), but also in respect of smaller dimensions and lower weight levels of the finished products.

## **2.2 Profiles Segment**

### **a) Cold formed profiles and tubes**

In 2016 the sales of profiles and tubes reached the level of almost 229 thousand tons. This result accounts for an over-2-per cent decrease in relation to the sales achieved in 2015. Better results were achieved in domestic sales which currently account for 74.1 per cent of the total sales.

As for the export sales of profiles and tubes, a decrease of sales volumes by 4.6 per cent and decrease of sales value by 2.6 per cent were recorded in relation to the year 2015. The exports percentage share in the total sales of cold formed profiles currently equals 25.1 per cent in terms of the sales volume and 27.7 per cent in terms of the sales value.

On the basis of the data released by CAAC and HIPH (Metallurgical Chamber of Industry and Commerce), Stalprodukt estimates its present cold formed profiles apparent consumption at the level of approximately 30 per cent.

The results presented above were achieved, considering the below provided market conditions (on the basis of data provided by HIPH for the period from January to December 2016):

- decrease of cold formed profiles production volume in Poland by 6.2 per cent – to the level of 441 thousand tons,
- increase of tubes apparent consumption by 13.3 per cent in the period from January to December 2016 (to the level of 1 144 thousand tons), including the increase of closed cold formed profiles apparent consumption by 1.7 per cent (to the level of 536 thousand tons),
- increase of closed cold formed profiles imports by 23.9 per cent. The level of imports in the period from January to December - 222 thousand tons,
- increase of closed cold formed profile exports by 4 per cent (128 thousand tons in the period from January to December 2016).

**Table 3. Comparative breakdown of sales of cold formed profiles**

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2015	2016	2016/2015 (%)	2015	2016	2016/2015 (%)
Domestic Sales	172 062	169 444	-1,5%	376 948	373 037	-1,0%
Exports	62 257	59 370	-4,6%	143 446	139 663	-2,6%
<b>Total</b>	<b>234 319</b>	<b>228 814</b>	<b>-2,3%</b>	<b>520 394</b>	<b>512 700</b>	<b>-1,5%</b>

#### **Sales to Commercial Companies**

76 per cent of domestic sales were rendered by the distribution company Stalprodukt-Centrostal Kraków Sp. z o.o.

## **Cold Formed Profiles Market Condition**

In the 3<sup>rd</sup> quarter of 2016, the production of steel tubes in the EU increased year-to-year by 1.6 % and this stood for a market recovery after a long-lasting downward trend. The increase of production activity was particularly clear in Germany and France (respectively by 8.3 % and 11.5 % year-to-year).

The production prospects in the EU tube segment for the years 2017 and 2018 suggest the continuation of moderate growth. It is expected that activities concerned with gas pipeline projects will remain dynamic across wider areas in Europe. According to the International Energy Agency, natural gas will be the world's fastest developing fossil fuel. The fast depletion of the European gas resources means that the EU is becoming increasingly dependent on the imports. A competitive gas market and diversified structure of natural gas supplies, LNG, should protect the EU from future increases of energy prices. Nordstream 2, Southern Gas Corridor and Eastring are the key projects in this context.

Improved activity of the motor industry, construction, in the sectors of metal products and mechanical engineering will be of key importance to the production of the small-sized welded and seamless tubes. It is expected that the EU tube production output will increase by 1.4 % both in 2017 and in 2018.

In the first quarter of 2016 the Ministry of Energy informed that by the end of 2016, at the latest, a new entity will have been formed under the business name of Śląskie Huty Stali/*Silesian Steel Works*. Yet, there were some shifts in the schedule and, at present, the registration of the company will take place in the first quarter of 2017. The ŚHS will be formed from Huta Pokój/ *Peace Steel Works* in Ruda Śląska, Huta Łabędy/ *Łabędy Steel Works* in Gliwice and Walcownia Blach Grubych Batory/ *Batory Thick Sheets Rolling Plant* in Chorzów. Huta Łabędy belongs to the Katowice-based Węglokoks (companies of the State Treasury), which also holds a majority stake of Huta Pokój.

It should be noted that the above mentioned companies and other Silesian companies, such as e.g Ferrum S.A., cooperate at the operational level. Therefore, Stalprodukt is made to compete with the entities concerned under strict market rules, but also with the ones supported by the State Treasury.

The capital structure changes in the above mentioned companies are also followed by big investments in the machinery park (Huta Łabędy launched a new tube production line), and Huta Ferrum increased its production capacity by 300 per cent thanks to the modernization of the SAWH helically submerged arc-welding line.

In the first half of the year, also our foreign competitors underwent some important changes : the Voestalpine company launched a new production line for specialized sections used in motor industry, and ThyssenKrupp opened a warehousing and service center in Nowe Marzy, capable of storing 17 thousand tons of black steel, stainless steel and aluminum products.

### **b) Safety road barriers**

The road barriers sales result achieved in 2016 was by almost 15 per cent better than in 2015, when an over-40-per cent decrease of sales value was recorded in relation to the preceding period.

The domestic market conditions were only slightly improved by 3 per cent (considering the low base result from the previous year when the recorded year-to-year decrease from 2014 to 2015 exceeded 50 per cent). Considering the advancement level of the construction projects which will be carried out by Stalprodukt in 2017, one may assume, at a high level of probability, that in 2017 the domestic sales volume will exceed 15 thousand tons.

The sales to export markets are subject to a decidedly reversed trend. The Company has recorded another period of increases and consistent diversification of directions. In 2016 the sales value was increased by 51.2 per cent and the sales volume by 48.4 per cent.

Due to the cyclical character of the carried out road investment projects, also the ones run by the Stalprodukt's foreign partners, in 2017 the sales of about 6 thousand tons should be expected. Further diversification of sales directions will only be possible after the development of several new products.

Table 4. Comparative breakdown of sales of safety road barriers

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2015	2016	2016/2015 (%)	2015	2016	2016/2015 (%)
Domestic Sales	10 859	12 435	14,5	49 945	51 294	2,7
Exports	4 818	7 151	48,4	17 509	26 481	51,2
<b>Total</b>	<b>15 677</b>	<b>19 586</b>	24,9	<b>67 454</b>	<b>77 775</b>	15,3

#### Competitive Conditions

The present portfolio of orders accepted for fulfilment by Stalprodukt S.A. for the years 2017 – 2018 provides for 8 thousand tons. The prospects concerned with the number of projects to be carried out in the years 2017 – 2018 is very promising. It should be underlined that practically all big contracts (freeways, expressways, beltways belonging to the national roads), which are to be completed in 2017, had already been concluded in the 3<sup>rd</sup> quarter of 2016. At present, the contracts negotiated are the ones to be completed in 2018 and 2019. The factor that will still affect the acquisition of new projects by Stalprodukt will be the import-duty proceedings concerning the imports from the outside of the EU, including the ones from the Ukraine.

The strongest competitor of Stalprodukt on the domestic and European market still is the Saferoad company, which, in the 4<sup>th</sup> quarter of 2016, launched the sales of several new road barrier systems with N2 and H1 containment levels, whose weights are significantly lower (approx. 15 – 25%) than the ones offered by the remaining competitors, including Stalprodukt.

#### c) Products of steel service centers

In 2016, 36.3 thousand tons of steel sheets were sold for PLN 70.5 million, which stands for a level similar to the previous year's level both in terms of the sales volume and value.



**Table 5. Sales of products of metal sheet service centres**

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2015	2016	2016/2015 (%)	2015	2016	2016/2015 (%)
Domestic Sales	31 180	31 396	0,7%	60 662	59 846	-1,3%
Exports	4 151	4 861	17,1%	9 505	10 686	12,4%
<b>Total</b>	<b>35 331</b>	<b>36 257</b>	<b>2,6%</b>	<b>70 167</b>	<b>70 532</b>	<b>0,5%</b>

#### Competitive Conditions

The year 2016 was a good year for the steel service centers in Europe, and according to Eurometal, the shipments increased year-to-year by average 2 %.

The level of inventories increased as well. Eurometal published that the December stocks reached the level marked by 108 index (where 100 is interpreted as average stock level for 2015). Therefore the December 2016 index stands for a 7% increase compared to the 101 index recorded in December 2015. The higher stock levels were connected with the growing prices and the general feeling that the market will continue to be strengthened in the first quarter of 2017.

The outlook was much less favorable for the so-called multi-product steel wholesalers, not specializing in specific products, which recorded the year-to-year increase of shipments by merely 0.3% in relation to 2016. Considering that profiles, thick sheets and strips recorded a higher than average increase.

According to common opinions, the domestic flat product processing market reached maturity. No drive for the expansion of production capacities can be observed any more, which was characteristic of the preceding years. At present, companies focus on the improvement of quality and expansion of their services range. This is all aimed at achieving increasingly higher profits. Throughout the year 2015 and the initial months of 2016, the demand for flat products in Poland was maintained at a good level. The prices were growing as well.

### **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 sales breakdowns cover the staple products (zinc, lead, silver) produced by these companies belonging to the Group, whose activities are related to this segment of activity.

#### **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.

Poland is a net-exporter of Z5 zinc, whereas in the case of Z1 zinc Poland suffers from a deficit which is covered by the imports. The ZGH "Bolesław" Capital Group is the biggest domestic zinc producer.

In 2016 the sales volume of zinc and zinc products was by 1.2 per cent lower than in 2015, including the domestic sales volume lower by 8.5 per cent, and exports higher by 9.3 per cent.

The decreasing sales volume of zinc products, as compared to 2015, was compensated with the increase of their cash PLN prices by 14 per cent. Thus, in 2016 the sales of these products were by over 11 per cent higher than the ones achieved in 2015.

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

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2016	2015	2016/2015	2016	2015	2016/2015
Domestic Sales	87 312	95 413	-8,5%	789 416	761 848	3,6%
Exports	71 400	65 300	9,3%	631 024	516 955	22,1%
<b>Total</b>	<b>158 712</b>	<b>160 713</b>	<b>-1,2%</b>	<b>1 420 440</b>	<b>1 278 804</b>	<b>11,1%</b>

#### **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.

In 2016 the volume of refined lead reached a level similar to the previous year's one. The increase of PLN prices by 10 per cent over 2016, increased the sales revenues by 9.4 per cent in relation to 2015.

**Table 7. Comparative breakdown of sales of refined lead**

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2016	2015	2016/2015	2016	2015	2016/2015
Domestic Sales	6 529	5 908	10,5%	53 298	43 116	23,6%
Exports	6 551	7 269	-9,9%	50 073	51 331	-2,5%
<b>Total</b>	<b>13 080</b>	<b>13 177</b>	<b>-0,7%</b>	<b>103 371</b>	<b>94 447</b>	<b>9,4%</b>

### c) Flotation Galena

The flotation galena produced by ZGH “Bolesław” (approximately 75 per cent production volume in Zinc Segment) and in “Gradir Montenegro” in Montenegro (approx. 25 per cent production volume) is a concentrate containing approximately 62 per cent of lead. The production volume is dependent on the lead ore excavation volume and lead content in the ore. In connection with the depletion of the ore deposits in the ”Olkusz-Pomorzany” mine, the domestic production volume and sales are systematically decreasing, while the production volume and sales of the concentrates from “Gradir Montenegro” are increasing.

The increase of the galena sales volume by 3.4 percent and increase of lead prices in 2016 resulted in the increase of the galena concentrates sales by 8.3 per cent compared to the previous year. The entire galena volume was exported.

**Table 8. Comparative breakdown of sales of flotation galena**

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2016	2015	2016/2015	2016	2015	2016/2015
Domestic Sales	0	9		0	30	
Exports	20 356	19 678	3,4%	69 847	64 454	8,4%
<b>Total</b>	<b>20 356</b>	<b>19 687</b>	<b>3,4%</b>	<b>69 847</b>	<b>64 484</b>	<b>8,3%</b>

### d) Dore Metal

Dore metal produced by the Huta Cynku “Miasteczko Śląskie” S.A. is high-value waste material obtained during lead refinement process, suitable only for further processing. It is an alloy of high silver content.

Its production volume is always dependent on the content of the metals concerned in the charge material. In 2016, as compared to 2015, its sales volume decreased by 6.1 per cent, but the sales value increased by 6.1 per cent due to the 14-per cent increase of silver prices on the Polish market.

**Table 9. Comparative breakdown of sales of Dore metal**

Itemization	Volume (tons)			Net Value (PLN thousand)		
	2016	2015	2016/2015	2016	2015	2016/2015
Exports	24	26	-6,1%	53 067	50 004	6,1%
<b>Total</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>	

#### **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 by-product 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. Both domestic and foreign contractors are the recipients of the acid.
- **Dolomite aggregate**  
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. The main recipients of aggregate are road construction contractors, producers of mineral and bituminous surfaces and producers of precasts.
- **Services concerned with the disposal of zinciferrous materials**  
The steel works Huta Cynku "Miasteczko Śląskie" and the "Bolesław Recycling" company are involved in the disposal of zinciferrous materials. The latter concentrates on two basic waste streams. One comprises the waste materials originating from zinc hydrometallurgy, while the other embraces steelmaking dusts arising from the steel production process in electrical arc furnaces.

**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. In 2016 the total Segment's sales amounted to PLN 217.1 million, which accounts for a decrease by 3.4 per cent in relation to 2015.

#### **Group's Overall Product-Based Sales Structure**

In 2016 the Zinc Segment's share grew in the Stalprodukt Group's total sales from 50.6 per cent to 54.1 per cent (i.e. by 3.5 percentage points), accompanied by the decrease of the Electrical Sheets Segment's share from 21.2 per cent to 17.9 per cent (i.e. by 3.3 percentage points).

CONSOLIDATED FINANCIAL STATEMENT OF STALPRODUKT S.A. CAPITAL GROUP FOR YEAR 2016  
REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES GROUP

Assortment	2015		2016	
	value (PLN thousand)	share (%)	value (PLN thousand)	share (%)
Electrical Sheets Segment	664 003	21,2	563 042	17,9
Profiles Segment	658 042	21,0	661 025	21,1
Zinc Segment	1 585 032	50,6	1 699 793	54,1
Other activities	224 616	7,2	217 075	6,9
Total	<b>3 131 693</b>	<b>100,0</b>	<b>3 140 935</b>	<b>100,0</b>

### Purchase of feedstock

In 2016 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 – 14.5 %

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

### 3. Assessment of economic and financial situation

In 2016 the Stalprodukt Group's total revenue derived from all of its activities reached the level of PLN 3 171.8 million. This result accounts for an increase by 1.2 per cent in relation to 2015. The generated operating profit amounted to PLN 412.9 million, while the net profit reached the level of PLN 345.3 million (in 2015 the operating profit amounted to PLN 291.6 million, and net profit – 227.2 million). In the period concerned the EBITDA ratio reached the level of PLN 553.4 million (against PLN 434.8 million achieved in 2015).

In 2016 the return on sales fluctuated as follows at particular levels (per cent).

Itemization	2016	2015
Return on Sales	13.6	10.7
Operating Margin	13.1	9.3
Gross Profit Margin	13.5	9.2
Net Profit Margin	11.0	7.3

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

Itemization	2016	2015
Return on Assets	10.8	6.9
Return on Equity	17.8	11.1

CONSOLIDATED FINANCIAL STATEMENT OF STALPRODUKT S.A. CAPITAL GROUP FOR YEAR 2016  
REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES GROUP

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

Itemization	2016	2015
Current Ratio	1.8	2.5
Quick Ratio	1.1	1.6

In 2016 the operating cash flow amounted to PLN 266.9 million. Compared to 2015, the assets of the Stalprodukt S.A. Capital Group were increased by the amount of PLN 413.2 million, i.e. by 12.5 per cent. The fixed assets increased by PLN 66.3 million in relation to the previous year and amount to PLN 2 049.4 million. In the reporting period concerned, the value of current assets increased by PLN 346.9 million. The equity decreased from PLN 2 049.9 million in 2015 down to PLN 1 936.8 million in the previous year and accounts for 52 per cent of the balance sheet total.

As of 31 December 2016 the long-term liabilities of the Stalprodukt S.A. Capital Group amounted to PLN 502.1 million, including the long-term credits and loans amounting to PLN 102.6 million. Compared to 2015, the long-term liabilities increased by PLN 18.4 million.

The amount of PLN 296,1 million, recorded in the long-term liabilities (payables) section, is related to the recognition of risk regarding the take-over of the ZGH "Bolesław" S.A. company, i.e. liquidation costs of the "Olkusz-Pomorzany" mine, liability for mining damages, potential non-recovery of cash engaged in the Gradir Montenegro company, severance payments to the employees of the mining division, claims related to the coal allowance as well as granted guarantees and sureties.

Towards the end of 2015 the short-term credits and loans amounted to PLN 229.1 million. The working capital was decreased from PLN 787.8 million in 2015 to PLN 731.6 million at the end of 2016.

In the analyzed period the Return on Equity in the Stalprodukt S.A. Capital Group reached the level of 17.8 per cent, and the cash status as of 31.12.2016 was PLN 286.2 million.

### Assessment of results and financial situation

Considering the achieved results, the year 2016 was much better for the Stalprodukt Group than 2015. The Group recorded a slight (0.3 per cent) increase of sales, accompanied by a significant improvement of both the profit on sales (increase by 27 per cent) and operating profit (increase by 42 per cent) as well as net profit (increase by 52 per cent).

The significant improvement of the rate of return was, primarily, related to the Zinc Segment's activities, whereas the decrease of the achieved results was mainly attributable to the decrease of the sales volume and value in the Electrical Sheets Segment. In 2016, and in the second half of the year in particular, this Segment recorded a significant decrease in prices compared to 2015. The downward trend was clearly marked in this period making the Company achieve lower sales levels, both in terms of the volume and value, compared to 2015. Throughout the entire year 2016, the Segment's sales volume decreases were being recorded to reach the level of 14.4 per cent, while the sales value decrease reached the level of 15.2 per cent. This caused the Segment's result decrease by PLN 55.5 million in relation to 2015, which accounts for a decrease by 32 per cent.

In the Profiles Segment the market conditions were very close to the ones present in 2015. However, the Segment's results were successfully improved by maintaining the 2015 sales volume levels and 0.5-

per cent sales increase. The Profiles Segment recorded results improved by almost PLN 21 million, which accounts for the increase by 88.8 per cent.

The Zinc Segment saw an almost 7.2-per cent increase of sales in relation to 2015, while the Segment's net result was increased by 47 per cent. The improvement, primarily, resulted from the increase of average zinc prices in 2016 and strengthening of the American dollar.

In 2016 the Capital Group's financial standing was improved, which is reflected in the economic and financial ratios, characterizing economic activities. All the above presented ratios were improved in relation to 2015.

The Capital Group did not experience any payment backlogs, consistently pursuing its risk management policy. The Parent Company is not threatened either with any fluctuating currency exchange rates thanks to the mostly applied natural hedging systems. In the meantime ZGH "Bolesław" S.A. and the subsidiary companies pursue an extremely active hedging policy. In line with the adopted hedging policy, protecting the companies against the decrease of zinc, lead and silver prices as well as fluctuation of the US dollar exchange rate, the subsidiary companies continually identify and assess the impact of the risk related to the changes of metal prices and currency exchange rates on the financial result, cash flow and balance.

In 2016 some slight changes affected the assets and their financing sources. These were both concerned with the increase of the fixed assets by PLN 66.3 million, i.e. by 3.3 per cent, and current assets by PLN 346.9 million, i.e. by 26.2 per cent. In the current assets' section a 30-per cent increase of inventories was recorded and, respectively, increase of short-term receivables by 35.7 per cent. The Group's assets were increased by PLN 413.2 million, i.e. by 12.5 per cent. The increase of the assets was accompanied by the 42-per cent increase of their financing sources in the reserves and liabilities (payables) position. In the analyzed period also the short-term trade liabilities (payables) were increased by PLN 92.9 million, i.e. by 38 per cent.

The equity accounts for 52 per cent and payables stand for 48 per cent of the Liabilities. A book value per share was increased – from PLN 304.82 to PLN 347.07 (i.e. by 13.9 per cent).

Throughout the entire 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 the liabilities, both towards the employees and suppliers, the state budget and financial institutions.

The Capital Group is not excessively indebted, the use of current credits throughout the reporting period was moderate. In the assessment of the financing banks the Stalprodukt Group is continually enjoying a good credit capacity, the achieved results as well as transparent assets and financial standing allow the Group to obtain multi-form financing. In the reporting period the Parent Company and the subsidiary companies renewed their agreements with banks for the use of multi-purpose credit lines, aimed at securing the Group's financing sources.

The Management Board does not predict any worsening of the Group's financial standing in 2017. The restructuring of some companies within the Group and new undertakings are under way, especially aimed at the expansion to the supply and sales markets, rational management of inventories and costs reduction.

The management of financial resources should be regarded as correct, which is confirmed by the

achievement of good economic ratios and maintenance of 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**

- At present, the Zinc Segment is the biggest operating segment in the Stalprodukt Group considering the achieved sales (share of approx. 54.1 %). It also has the biggest impact on the Group's consolidated results. This Segment recorded an almost 7,2 % sales increase over 2015 (up to the level of PLN 1 699.8 million), whereas the Segment's net result was increased by 47 % and reached the level of PLN 370.2 million. The improved sales mainly resulted from the average increase of the prices in 2016 (the increase of PLN prices reached the level of 14 %) and strengthening of the American dollar against the Polish zloty. The sales volumes reached the level similar to the one achieved in 2015.
- The sales of the Electrical Sheets Segment decreased in 2016 by PLN 101.0 million, i.e. by 15.2 %. (The over-the-year decrease of average prices was insignificant and reached the level of 1.1 %). Whereas the decrease of the sheets sales volumes reached the level of 14.4 % and this result was chiefly responsible for the decrease of the Segment's sales.
- The EU market security measures introduced by the European Commission in 2015 (and particularly the minimum price mechanism), aimed at protecting the market against the excessive imports of transformer sheets, did not bring the expected results and the sheets prices on the EU market, despite their initial increase in the first half of the previous year, started to fall in the successive months.
- The Profiles Segment recorded significantly improved results. Although the average Segment's prices stood at the level lower than in 2015, the decrease of the sales volumes in the cold formed profiles product groups (by 2.3 %), accompanied by the increasing sales of the steel service centers (by 2.6 %) and road barriers (by almost 25 %) resulted in the improved results of this operating segment by PLN 21.0 million, i.e. by as much as 88.8 % in relation to 2015.
- The previous year's sales of the Other Activities Segment amounted to PLN 217.1 million, which accounts for a decrease by 3.4 % compared to 2015.

#### **Steel Market**

According to the data published by Worldsteel, the previous year's global steel production output reached the level of 1.629 billion tons of steel, which accounts for an increase by 0.8 per cent in relation to 2015. In the European Union steel production output decreased by 2.3 per cent, down to 162.3 million tons, and in Poland – by 2.8 % (down to 8.9 million tons).

These negative trends resulted in the decreased EU manufacturers' share in the global production of crude steel (from 10.3 % in 2015 to 10.0 % in 2016), only one EU country – Germany



still belongs to the first ten biggest world's manufacturers (occupying the 7<sup>th</sup> position with the output of 42.1 million tons).

The EU apparent steel consumption stood at the modest level of 1.8 per cent. Steel imports still remain the biggest problem for the EU steel manufacturers. Throughout 2016, the imports increased by over 9 %, and they reached a record-high level in many years. For the fourth year in a row the imports grew more than the actual EU steel market. In the second half of 2016 the imports accounted for 25% of the EU market.

### **Zinc and lead market conditions**

The year 2016 was definitely more satisfying to zinc producers. Starting from the beginning of the year spectacular zinc price increases could be observed, which exceeded the level of 70 % and made this metal to be the most attractive investment among any other raw materials.

The average zinc price level in 2016 was 2095 USD/t and was higher by 8.6 % compared to 2015 (1928 USD/t). The lead prices increased in this period by o 4.9 %. The average PLN/USD exchange rate increased in 2016 by 9.3 % from the level of 3.77 PLN/USD to the level of 3.94 PLN/USD. These factors jointly resulted in the increase of zinc PLN prices by over 14 % in relation to the prices recorded in 2015. Analogically, the lead PLN prices increased by 10 %, and silver prices by over 14 %.

The main reason behind these increases, pointed to by the analytics, was the decrease of the mining output, mainly caused by the closure of the Century mine in Australia and Lichen mine in Ireland and reduction of the ore excavation level by Glencore in its mining projects. This is excellently reflected in the TC level and the engagement of risk capital at the LME. This resulted in a significant zinc concentrate supply deficit combined with the high metal demand.

## **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 94.56 % in Zakłady Górniczo-Hutnicze "Bolesław" S.A. and 100% in the other companies.

## **7. Related party transactions**

Transactions with related parties in 2016 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

In the reporting period the Parent Company made use of the overdraft limits in its current accounts.

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 30.09.2017, the same to be used for the purposes of overdraft in the current account (up to PLN 44 167 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 17 332 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. Within the credit limit, the Capital Group company Stalprodukt-Wamech Sp. z o.o. may use a sublimit amounting to PLN 2 000 thousand.

The Agreement is binding until 10.01.2018.

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 (in this part the agreement is binding until do 05.01.2018) and PLN 25 000 thousand serving long-term guarantees with deadlines of up to 6 years (in this scope the obligation is binding until 07.07.2017).

On 24.03.2016 a short-term loan was incurred at Bank Handlowy S.A. in Warsaw amounting to PLN 90 000 thousand intended for the purchase of the Parent Company's own shares. The repayment deadline falls on 29.12.2017 r.

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 9 dating from 27 September 2016, the credit repayment period was extended until 30 September 2017. At the same time the validity term of the applied-for guarantees and letters of credit was extended until 30 September 2018.
- In May 2011, the Company concluded an agreement with BGŻ BNP Paribas Bank Polska S.A. for a multi-purpose credit line amounting to PLN 15 000 thousand. Pursuant to the Amendment No 9 dated 2 January 2017, the on-going period for the use of the credit line was extended until 9 January 2018.
- 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. On 29 June 2016, in the Amendment No 13, the limit was reduced to the amount of EUR 2 300 thousand, and the term was extended until 30 June 2017.

On 2 April 2015, the Company concluded a loan agreement with the National Fund for Environmental Protection and Water Management in Warsaw, NO 82/2015/Wn-06/OZ-UI-go/P, to support the financing of the project referred to as: "Construction of a Postflotation Waste Recycling Plant – installation for the recovery of zinc through the enrichment of postflotation waste obtained from the flotation tailings of Zakłady Górniczo-Hutnicze "Bolesław" S.A.". The loan amounting to PLN 42.161,8 thousand was granted for the period from 01.02.2015 to 20.12.2022 at 3.5% rate per year. The grace period for the loan capital repayment was fixed within 19.12.2017. The loan is secured with a blank promissory note without protest and the promissory note declaration agreement.

In 2016 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 5 000 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.

On 23.09.2016, HCM concluded a loan agreement with the Provincial Fund for Environmental Protection amounting to PLN 20 388 thousand intended to support the financing of the task referred to as: ”Construction of a Wastewater Neutralization and Thallium Removal System”, the repayment shall take place starting from March 2019.

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 2016 the Company was continuing to repay this loan. The Bolesław Recycling Sp. z o.o. Management Board issued a blank bill of exchange in favour of the National Fund for Environmental Protection and Water Management in Warsaw in order to secure the repayment of the amount of PLN 1 000 thousand enlarged by the potential interest, to arise from the partial write-off of the loan granted under the agreement concluded with the National Fund for Environmental Protection and Water Management in Warsaw No 426/2004/Wn-6/OZ-ui/P as of 13.10.2004. Towards the end of 2016, the nominal debt in respect of this loan amounted to PLN 0 thousand.

The written-off amount was used to carry out an investment task referred to as, ”Construction of Waste Electrolyte Recovery Plant” at BOLESŁAW RECYCLING Sp. z o.o.”

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 31.12.2016 the debt in respect of this loan amounted to PLN 13 415 thousand.

The Gradir Montenegro company benefits from the loans granted by ZGH ”Bolesław”. As of 31.12.2016 the loans amount to PLN 111.6 million.

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

As of the balance sheet day an aval granted by the Stalprodukt S.A Company was in force, referring to the blank bill of exchange issued by the Company STP Elbud Sp. z o.o. for the Pekao S.A. Bank with a seat in Warsaw, in connection with the investment credit incurred in 2015 amounting to PLN 13 000 thousand. The remaining outstanding credit amount is PLN 10 400 thousand, Repayment deadline is 31.12.2020.

As of the balance sheet day, the Parent Company does not have any other contingent liabilities apart from the above mentioned aval and guarantee of good workmanship concerning the production and erection of road barriers. As of 31.12.2016 the total unexpired guarantees in respect of the above amount to PLN 16 501 thousand.

According to the status recorded on 31.12.2016, 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.

On 25.03.2016 ZGH "Bolesław" S.A. concluded an agreement with the Stalprodukt S.A. Company aimed at securing the repayment of bank debt by Stalprodukt S.A. in respect of the credit agreement No BDK/KR-P/000008841/0011/16. On 24.03.2016, ZGH "Bolesław" S.A. blocked funds on their bank account at Bank Handlowy S.A. based in Warsaw amounting to PLN 90 000 thousand in order to secure the repayment.

According to the status recorded on 31.12.2016, ZGH "Bolesław" S.A. holds guarantees granted to contractors amounting to PLN 2 433 thousand and USD 550 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 2016, there were employed 148 people by the Company Stalprodukt S.A. At the same time, the employment relationship was terminated by mutual agreement or otherwise by 70 employees.

As at 31.12.2016 the employment of Capital Group amounted to 6,122 people, including:

- 1,646 people in the Parent Company,
- 4,476 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.

### **a) Investments related to product range expansion**

- A new production line for winding step butt cores was designed and installed at the BU Department.
- The existing NT line underwent slight modernization, consisting in placing the sheets guide unit behind the furnace.
- A design for the modernization the Ipsen furnace No 4 control functions was completed
- A design for hydrogen compressing and loading plant was completed and building permit was obtained.
- Two lines were supplied for the production of small and medium-sized precision profiles of the diameter range Ø10 – Ø76,1 processed from cold rolled steel strips and cold rolled galvanized and thermally seam-sprayed strips. The smaller of the two lines with the diameter range Ø10 – Ø40 has already been installed and acceptance tests are underway, while the installation of the bigger line with the diameter range Ø21 – Ø76,1 was completed in the 1<sup>st</sup> quarter of 2017.
- The line 3 stacking unit level was regulated at the P3 Department

### **b) Investments related to construction works**

- Two softened water tanks were constructed and placed in their foundations.
- The design was completed and building permit obtained for the construction of the filter press storage unit.
- The construction of a five-star hotel at the Kopernika Street in Kraków is being continued. The ground works have been completed and the first ceiling was built at the 2<sup>nd</sup> level. The start-up of the hotel is planned in mid 2018.

### **c) Undertakings affecting environment and occupational health and safety**

- The hydrochloric acid unloading unit was replaced with a new one and adjusted to applicable regulations.
- The turbidity level of the water cooling the WS-1 rolling mill was measured.
- A modernization permit was obtained for the existing car-wash unit.

- Works have started to adjust the magnetoactive coating preparatory mixture workstation to the applicable OHS regulations.
- A modernization design for the Ipsen's furnace edge-cutting device was completed.

**d) Other investment tasks**

- Works aimed at the upgrading of the IFS software to version 9 were initiated.
- The construction of the M-1 200 kW vertical-axis wind power plant was completed. At the moment the commissioning tests are underway.
- The works at the B-1 1,5 MW vertical axis wind power plant were continued. This project is co-financed by the National Center for Research and Development of the European Union and is carried out jointly with the Anew Institute Spółka z o.o. and AGH University of Science and Technology in Cracow.

**e) Zinc Segment's investments**

In 2016 the outlays on the capital work in progress and the intangible assets connected therewith amounted to PLN 130.3 million and was by 59 % higher than in 2015 (PLN 81.8 million).

In the mining part of ZGH "Bolesław" S.A. tasks were carried out aimed at the expansion of the raw material base. Moreover, the construction of the Postflotation Waste Recycling Plant was completed. 75% of this project was refunded from the loan granted by the National Fund for Environmental Protection and Water Management in Warsaw.

At the "Miasteczko Śląskie" Zinc Works the investment outlays were concerned with the continued construction of the Acid Wastewater Neutralization and Thallium Removal System, 75% of which will be financed from the loan granted by the Provincial Fund for Environmental Protection and Water Management.

"Bolesław Recycling" carried out the task referred to as "Construction of Waste Electrolyte Recovery Plant"

In the „Gradir Montenegro” company outlays were made to explore a new Zn-Pb ore deposit and allow the access thereto.

Within the framework of the Zinc Segment's new investments, the construction of a new Wash Tubs Hall is planned in ZGH "Bolesław". The implementation of this project is aimed at increasing the effectiveness of the Bolesław Zinc Works through the application, during the Zinc Electrolysis, of approximately 50% of charge originating from the recycling process combined with the same-time increase of the electrolytic zinc production capacity up to 100 thousand tons per year. Another project's objective is replacing the old Wash Tubs Hall with a new facility, using the state-of-the-art zinc production and occupational safety technical and technological solutions. The planned project's completion deadline is fixed for the year 2019. It is an innovative project on a global scale as zinc works generally use only 10% of recycled charge material in the electrolytic process.

In the Zinc Segment research and development works are conducted on a continuous basis due to the complicated technological processes which require continuous and systematic optimization. Upgrading the production processes and increasing the production output guarantee development and maintenance of a high position among zinc producers.

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

### External and Internal Factors Essential for Group's Development

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

#### - Forecast level of economic development

In 2017 the **Gross Domestic Product** growth rate will reach the level of 3 per cent, which means that it will be slightly higher than in the previous year. The economic growth will accelerate in the successive quarters, but the quarterly structure will not be very diversified – in the first quarter the GDP will increase by 2.8 per cent, and in the fourth one by 3.2 per cent. In 2018, we expect the further slight acceleration of the GDP growth which should reach 3.2 per cent.

In 2017, according to the forecast issued by the Institute for Market Economics, the **added value** will increase in industry by 4.3 per cent, so its growth will be slightly faster than in the previous year. Whereas the conditions will be significantly improved in the construction sector, which was mired in a deep crisis in 2016. In 2017, the added value will increase in construction by 6.8 per cent, which will primarily be possible thanks to the recovering investment demand. The increase of market services, mostly contributing to the GDP formation, in 2017 will reach the level of 3.2 per cent. According to the forecast issued by the Institute for Market Economics, the year 2018 will be better in all the market sectors. The added value in industry will increase by 3.4 per cent, in construction by 7.7 per cent and in market services by 3.4 per cent.

#### - Demand

In 2017 the **domestic demand** growth rate w 2017 will reach the level of 3.1 per cent, so slightly more than in 2016. According to the forecast issued by the Institute for Market Economics, the **individual consumption** will increase by 3.3 per cent throughout the period. The good labor market conditions and growing employment level will be conducive to the increase of consumption. Whereas, the value of **gross fixed capital formation** will increase by 3.6 per cent, which stands for the halt of the downward trend recorded in 2016. The recovery of the investment demand will be possible thanks to the large-scale implementation of investment projects in the areas of road and railroad infrastructure. However, it should be underlined that in 2017 some of the projects will remain frozen at their design stage, therefore the increase of the investment outlays value will be relatively small and will not allow for the compensation of the previous year's decrease. Also the low inclination towards investment in the business sector will act as a barrier against the faster growth of investments. The conditions will improve more clearly in 2018, when, according to the Institute's forecast, investments will grow by 7.1 per cent. At the same time individual consumption will increase by 3.4 per cent, and the domestic demand will grow by 3.3 per cent.

#### - Inflation

In the years 2017-2018 prices will grow moderately in Poland – the **inflation** will not exceed the level marked by the NBP's inflation target. According to the Institute's forecast, this year the average



inflation level will stand at 1.3 per cent, and its December level – at 2.2 per cent. Then, in 2018 the average annual inflation should reach the level of 2.2 per cent, and its December value – 2.5 per cent. The increase of fuel and food prices will be the main factor affecting the consumption prices growth rate.

According to the forecast issued by the Institute for Market Economics, in 2017 the exports growth rate will reach the level of 8.9 per cent, while the imports will increase by 9.3 per cent at the same time. This means that the foreign trade's contribution into the GDP formation will be negative at that time. In 2018 one should expect the accelerated growth of exports, whose increase will reach the level of 9.4 per cent as well as positive imports dynamics with the increase by 9.8 per cent. The foreign trade conditions will primarily be shaped by the European Union's economic condition. In the quarters to come, also the maintained high EUR/PLN exchange rate will be conducive to the growth of the Polish exports.

In the Institute's assessment, in the years 2017-2018, one should expect the stabilization of the **EURO and US. Dollar exchange rates** against the Polish Zloty at relatively all levels. The decline in Zloty's trading will, primarily, determine the maintained uncertainty as to the development of economic conditions in Poland, controversies around the essential elements of the government's foreign policy and negative opinions on the situation in Poland voiced by the opinion-forming international organizations. The currency market trends will also be significantly affected by the international political events. According to forecast of the Institute for Market Economics, in 2017, the average EUR/PLN exchange rate will reach PLN 4.2, and USD/PL - PLN 4.1. In 2018 the EUR/PLN and USD/PLN exchange rates will be the same and will amount to PLN 4.0.

### **Eurofer's forecast**

The perspectives for 2017 and 2018 are moderately advantageous. **The expected growth of productive activity in the steel-using sectors will reach the approximate annual level of 2%.** According to the optimistic forecasts, the real steel consumption in the EU will still be growing until 2018 only to reach its highest level in the last ten years. Despite this, the gap between the expected consumption level and the 2007 crisis-preceding level will still be 19%.

In total, **the real steel consumption is to increase, respectively, by 1.3% in 2017 and 1.4% in 2018**

In the years 2017 and 2018, the steel **demand** will still be growing at a moderate pace. The optimistic trend will be maintained thanks to the ongoing revival of the real steel consumption and positive influence of the days sales of inventories (DSI).

**The imports from third countries will still continue to be the key problem for the UE steel manufacturers.** The European producers will not be able to benefit from the forecast revival of demand on their domestic markets due to the materials in-flowing from the outside.

Such activities will escalate balance-related problems on the global steel market. If the basic issue of global oversupply is not duly regulated, the competition on global markets will still be getting more and more severe.

### **Group's development prospects in 2017**

The marketing targets and plans for 2017 include both the market aspects and industry- specific and macroeconomic forecasts. The Group expects the increase of sales to result mainly from the increase of the prices, as the beginning of the strong upward trend in this respect was strongly felt already in the fourth quarter of 2016.

### Transformer sheets

The electrical sheets market condition is quite difficult to forecast as of today – on the one hand price reductions are continuously being observed, while on the other the increase of charge material prices is so big, that it is quite unlikely that these increases will not affect the final product some time soon.

In 2017 sales volumes are planned to be improved over the 2016 performance. The Parent Company will still try to increase the sales share of laser-treated sheets and effectively manage the HGO sheets production capacity. These activities will also be aimed at the continuation of close cooperation with corporate groups with a view to conducting HGO sheets tests.

Considering the current market condition, altered structure of orders, significant increase of demand for sheets enabling the construction of higher efficiency transformers, the development of the offer based on HGO sheets is a key issue.

### Cold formed profiles

The fast-growing charge material prices in the last quarter of 2016 made us plan significant price increases already starting from the beginning of 2017.

Therefore, in 2017 the Group is planning a significant increase of the sales value, mainly resulting from the price increases accompanied with the slight increase of the sales volumes in relation to the sales value and volumes achieved in 2016.

The forecasts for the sectors which are the main steel consumers in Europe envisage increases not exceeding 2%. Such a level of development will not have a significant impact on the investment demand. The economic growth rate of the export target markets for profiles i.e. Germany, the Czech Republic, Baltic states will influence the absorption level, however, considering the production overcapacity and intensification of cheap imports, one should reckon with the aggravation of the competitive struggle, which may result in the decline of the prices as early as mid 2017 (it should be remembered that cold formed profiles and structural tubes are not included in any protective proceedings).

Taking the point of view of particular industries into account, it will be most important to maintain a high quality level of products and strengthen the institutional customer's sales share in particular segments: scaffoldings, rollers, foundation tubes, furnishings.

### Products of steel service centers

The sales volumes increase is predicted, especially in respect of the cold rolled sheet steel. The protective duties planned to cover the hot rolled steel in coils may have a decisive impact on the successful sales in this product group.

### Road barriers

The plan for road barriers envisages a significant increase of sales due to the planned increased sales volumes (up to over 24 thousand tons), as well as planned increase of the prices, which is connected with the increase of charge material and zinc prices.

### Zinc Segment

On the market a stable and continuous increase of global zinc demand is observed, which is estimated in 2017 at the level of 2.1 percent compared to 2016. At the same time the concentrate supply was reduced due to the closures of some zinc mines or zinc and lead ore mining restrictions introduced by several big mines. In the years 2015-2016 two of the world's biggest mines were closed – one Irish Lisheen belonging to Vedanta Resources and the Australian Century, which was owned by MMG. Due to the closures over 700 thousand tons of zinc disappeared from the market, which accounted for approximately 4% of the global production output. Additionally, due to the prices decline in mid 2015, the Glencore company decided to hold up the production of 500 thousand tons, which accounted for one third of the company's entire production capacity. Also Nyrstar reduced its zinc output in 2016 by approximately 200 thousand tons. These production capacities have not been reactivated by today.

The above factors had a significant impact on the dynamic increase of stock exchange zinc prices in the previous year. There are many indications that similar conditions will also be maintained in 2017, which should be conducive to a high level of zinc prices.

Moreover, the Zinc Segment's policy announced in 2016 sets very ambitious goals in front of this operating area of the Stalprodukt Group. These are among others: extension of the Olkusz-Pomorzany mine operation period until 2020 thanks to the exploitation of the new ("Klucze I") deposit, construction of the new bath tubs hall and increase of the electrolytic zinc production capacity up to 100 thousand per year, as well as launching of the postflotation waste recycling plant.

It is worth underlining that the latter has already been completed and will allow for obtaining approximately 20 thousand tons of zinc concentrates per year, which is essential for the raw material security. All these activities, undoubtedly, serve the upgrading of the Zinc Segment's competitive position accompanied by the increase of its production capacity.

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

### **a) macroeconomic environment**

- The results of the Group's, and especially of the Profiles Segment's, activities are strongly dependent on the general economic conditions, and, particularly, on the development of such sectors as construction and industry. The Gross Domestic Product growth rate is a good indicator of the general economic condition. In the previous year this indicator decreased to 2.7 % (from 3.8 % in 2015). The forecasts for 2017 present themselves more optimistically; the International Currency Fund forecasts the 3.4 per cent increase of the Polish GDP and the World Bank predicts that the economic growth will reach the level of 3.2 per cent. These forecasts allow for optimism regarding the expected demand for the Group's products and potential increase of its sales.
- Pursuant to the opinion of the Monetary Policy Council, the higher GDP dynamics will be supported by the forecast growth of investments related to the increasing inflow of the EU funds with the accompanying stable consumption dynamics. The infrastructural investments, financed from the EU funds are an important factor affecting the Company's sales, and especially its road barriers.

- The Group also operates on the export markets (mainly the EU ones), which generate up to 50 per cent of the total sales. Therefore, also the general economic conditions in the EU member states have an important impact on the level of the achieved sales and results. In line with the forecasts worked out by the European Commission, the EU GDP planned for 2017 is to reach the level of approximately 1.8 %, which accounts for an only slight decrease in relation to 2016 (1.9 %).

**b) demand for steel products in Europe**

An important growth factor for the sales of the Group's products, is the demand for these products on the EU markets. In 2016, the increase of apparent steel consumption amounted to approximately 1.8 %. The forecasts for 2016 worked out by EUROFER are less advantageous and envisage the increase at the level of 0.7 %.

**c) condition of charge material supply market**

For many years the Group has tried to pursue a diversification policy regarding its charge material supplies, i.e. make purchases of charge material both from the domestic suppliers and from the imports, which are usually cheaper than the prices offered by the leading domestic producer. Such an approach is a key to effective competing with other domestic tubes and profiles producers, as well as with the foreign ones.

In this context, the antidumping proceedings, though surely advantageous to the EU steel producers, undermine the profitability of the processing companies (such as Stalprodukt among others) and steel distributors. The limited access to cheaper charge material (hot- or cold-rolled sheets) caused by the imposed antidumping duties leads to the increase of their prices on the EU market. The market faced such a situation especially in the 2<sup>nd</sup> half of the previous year, when provisional duties for the imports of hot rolled coiled steel from China were introduced. Similar actions, or at least registration of imports of the same products, were anticipated (with the possibility of retrospective charging of duties) from such countries as: Serbia, Iran, Russia, the Ukraine and Brazil (all these countries were included in the antidumping proceedings). The lack of protection for the finished products (e.g. tubes and cold formed profiles) results in the increased exports of these products by such countries as Turkey or Russia. The Company repeatedly faces market price offers placing finished products at the level typical of hot rolled products offered by the EU suppliers. The potential deterioration of competitiveness resulting from the undertaken EU protective measures is an essential risk factor for the Profiles Segment.

**d) high competition among cold formed profiles producers and companies running steel service centers**

Big competition among the producers of cold formed profiles and companies running steel service centers is an important risk factor affecting the fulfillment of the sales targets adopted by the Group. The Group also has to compete with the imports of finished products based on cheap charge materials. In this context it worth pointing out that the total import volumes of cold formed profiles in the previous year reached the level of 222 thousand tons, which accounts for an increase by as much as 23.9 % compared to the previous year.

Another additional risk, essential to the Group, is the state support for the consolidation (around the Węgłokoks state treasury company) of a group of companies involved in the production of cold formed profiles among others (the Silesian Steel Works Project/*Śląskie Huty Stali*). Such decisions not only violate the principle of fair competition, but are also incomprehensible considering the massive overproduction existing on this market.

**e) Effects of protective measures introduced on the transformer sheets market in 2015**

The solution introduced by the European Commission in May 2015, i.e. the provisional antidumping duties imposed on the imports of transformer sheets coming from the outside of the EU area, allowed to improve the operating conditions for the EU sheets manufacturers, as the imports declined and the prices significantly increased on the EU market.

The fears expressed by the Parent Company in connection with the introduction of the definitive antidumping duties to be imposed on the imports of grain-oriented electrical sheets were confirmed as fully grounded. This solution (based on the minimum price mechanism) turned out to be ineffective. Since the prices of imported materials decreased to the level of minimum prices, and in the case of Russian producers they were even lower. The Parent Company started to suffer from the effects of this policy especially in the 2<sup>nd</sup> half of 2016. (the trend will also be felt at the beginning of 2017.).

**f) risks connected with the Zinc Segment's activities**

The market risk primarily connected with changing metal prices and fluctuating currency exchange rates is naturally embedded into the Zinc Segment's activities. The reduction of this risk to a safe level is achieved through the active risk management including the use of derivative instruments and conclusion of hedging transactions.

Other risks threatening the Zinc Segment's activities are:

- risk from changing prices of energy source materials,
- risk from changing prices of CO2 emission rights,
- short perspective for one's own raw material base,
- approaching liquidation of the "Olkusz-Pomorzany" mine (possibility of flooding),
- fluctuating prices of zinc concentrates and limited access to raw materials resulting from the increased global demand,
- equity consolidation in the zinc sector in its mining and metallurgical areas.

An important factor affecting the reduction of zinc production costs is the cost of energy source materials, i.e. electrical energy, coke and gas. For many years production plants have been carrying out investments resulting in the reduction of the energy absorption. Such activities aimed at the reduction of coke, gas and electrical energy consumption are also planned for the years to come. Moreover, in the case of electrical energy, the pursued policy provides for concluding short- and medium-term contracts with fixed purchase prices.

After several years of operation, the excavation of zinc ores in the Olkusz region started to enter the increasingly poorer mining areas. The reduction of the zinc content in the excavated ore, resulting in the constant reduction of the Segment's own concentrate production output, necessitated the construction of the Segment's own raw material base, guaranteeing the charge material for zinc

production after the completion of mining activities. Therefore, the construction of the raw material base and the raw material safety connected therewith is a strategic area of the Segment's interest.

The activities undertaken to this end are focused on:

- new mining projects, mainly in the close vicinity of the deposits currently excavated by the Company. Searching for new Zn-Pb ore deposits, lasting for many years, allowed the Company to start the excavations of the new "Klucze I" deposit. This deposit area is richer in the ore metal content than the currently operated ones. The ore excavations from this deposit will allow the Company to extend the operations in its mining part until the year 2020 (previous plans provided for the operations to be continued until the year 2017). In 2016 the Company obtained a concession for the expansion of its operations in the "Klucze I" deposit.
- ZGH "Bolesław" S.A. is also working on a concept for the construction of a mine to be operating the „Laski” deposit. The Company holds a concession allowing for the exploration of this deposit, pursuant to which several dozens of boreholes were drilled. At present, geological documentation is being prepared.
- obtaining qualified sulphide concentrate from the postlotation waste deposited in the talings ponds. In 2016 the Company completed the investment project referred to as "Construction of the Postflotation Waste Recycling Plant". Since January 2017 the production of blended concentrate has been carried out in the new plant (the planned production output is approx. 20 thousand per year).
- Expansion of the steelmaking dusts suppliers base, aimed at enabling the full exploitation of the newly launched installation for the deep dechlorination, defluorination and leaching of crude zinc oxides originating from the processing of steelmaking dusts. At present, such oxides account for approximately 30% of the charge material, and their planned share is supposed to reach as much as 40%-50%.
- arranging more advantageous rules for the purchases of sulphide and oxide concentrates and signing long-term trade contracts, guaranteeing systematic supplies.

#### **g) risks related to financial instruments**

Other risks arising from financial instruments, i.e. credit and contract risks, liquidity risk and market risk have been described in detail in the Additional and Explanatory Information to the Financial Report (Point 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 2015	Remuneration for holding positions in the statutory bodies of the subsidiaries	Total
Piotr Janeczek	906 369	1 785 168	434 647	197 324	3 323 508
Józef Ryszka	459 546	742 989	217 324	37 445	1 457 304
Łukasz Mentel	153 559	0	0	12 825	166 384
<b>Total</b>	<b>1 519 474</b>	<b>2 528 157</b>	<b>651 971</b>	<b>247 594</b>	<b>4 947 196</b>

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

	<b>Allowance</b>	<b>Royalties from the profit for 2015</b>	<b>Remuneration for holding positions in the statutory bodies of the subsidiaries</b>	<b>Total</b>
Stanisław Kurnik	89 728	108 662		<b>198 390</b>
Kazimierz Szydłowski	76 912	108 662	45 583	<b>231 157</b>
Janusz Bodek	70 501	108 662	51 064	<b>230 227</b>
Maria Sierpińska	76 912	108 662		<b>185 574</b>
Sanjay Samaddar	0	0		<b>0</b>
Tomasz Plaskura	70 501	108 662		<b>179 163</b>
Tomasz Ślęzak	32 766	108 662		<b>141 428</b>
Magdalena Janeczek	37 919	0		<b>37 919</b>
<b>Total</b>	<b>455 239</b>	<b>651 972</b>	<b>96 647</b>	<b>1 203 858</b>

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

### 1. Management:

- Piotr Janeczek - holds 115,053 shares of the Company Stalprodukt S.A. of face value - PLN 230,106
- Józef Ryszka - holds 504 shares of the Company Stalprodukt S.A. of face value - PLN 1,008
- Łukasz Mentel - holds 100 shares of the Company Stalprodukt S.A. of face value - PLN 200.

### 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 3,462 shares of the Company Stalprodukt S.A. of face value - PLN 6,924
- Janusz Bodek - holds 61,974 shares of the Company Stalprodukt S.A. of face value - PLN 123,948

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 2016 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 5.08.2016.
- The net remuneration under the agreement amounts to PLN 78,000.

### **Statement on the application of corporate governance principles in the Company**

The present Declaration on Corporate Governance made by Stalprodukt S.A. in 2016 was prepared pursuant to par. 91 subpar. 5 item 4 of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information submitted by the issuers of securities and conditions on which information required by the regulations of non-member states is recognized as equivalent (Journal of Laws 2014, item 133 with subsequent amendments).

#### **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 2016”. The contents of this document is available on the Company’s website ([www.stalprodukt.com.pl](http://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,**

As of 31.12.2016 r. the shareholders entitled to above 5 % of votes at the General Meeting of Shareholders:

- STP Investment S.A. holding 1 828 619 shares, accounting for 32.77 % of capital share and 5 870 991 votes, accounting for 48.13 % of the total number of votes at the General Meeting of Shareholders.
- Stalprodukt-Profil S.A., holding 621 719 shares, accounting for 11.14 % of capital share and 1 137 555 votes, accounting for 9.33 % of the total number of votes at the General Meeting of Shareholders.
- ArcelorMittal Sourcing a société en commandite par actions holding 1 066 100 shares, accounting for 19.10 % of capital share and 1 066 100 votes, accounting for 8.74 % of the total number of votes at the General Meeting of Shareholders.

Moreover, on 30 June 2016 an agreement was concluded concerning the purchase of Stalprodukt's own shares and consensual voting at the Company's General Meetings as well as pursuing a common policy in respect of the Company. The Shareholders who concluded this agreement are:

- STP Investment S.A. holding 1 828 619 shares, accounting for 5 870 991 votes at the General Meeting of Shareholders,
- Stalprodukt Profil S.A. holding 621 719 shares, accounting for 1 137 555 votes at the General Meeting of Shareholders,
- Stalnet Sp. z o.o. holding 169 565 shares, accounting for 417 573 votes at the General Meeting of Shareholders,
- Piotr Janeczek holding 115 053 shares, accounting for 574 913 votes at the General Meeting of Shareholders,

As of 31.12.2016, the shareholders, who concluded the agreement, jointly held 2 734 956 shares, accounting for 49.01 % of their capital share and 8 001 032 votes, accounting for 65.59 % of the total number of votes at the General Meeting of Shareholders.

**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,**

By the Resolution No XXXIII/13/2016 adopted by the General Meeting of Shareholders the share capital was decreased from PLN 13 450 000 to PLN 11 160 534, i.e. by the amount of PLN 2 289 466. The decrease was made through the redemption of 1 144 733 shares (the shares were bought in the years 2015-2016 in 3 tranches with a view to redemption – in accordance with the Resolution No XXXII/5/2015 of the Extraordinary General Meeting of Shareholders of Stalprodukt S.A.). On 1 July 2016 the Issuer's Management Board received information on the capital decrease registration by the Kraków-Śródmieście District Court of Kraków 12<sup>th</sup> Economic Department of the National Court Register on 28 June 2016. After the registration of the changes in the share capital level the total number of shares amounts to 5 580 267 items, which accounts for 12 198 535 votes at the General Meeting of Shareholders arising from all the shares. By the time of redemption of the above-mentioned shares, the voting rights arising therefrom had not been executed.

**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 Statutes. 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 2016, the Management Board of Stalprodukt was composed of:

Piotr Janeczek – President of the Management Board

Józef Ryszka - Member of the Management Board

Łukasz Mentel - Member of the Board (from 28 July to 31 December 2016)

#### **Composition of the Supervisory Board**

In 2016, 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

Tomasz Ślęzak (from 1 January to 20 June 2016)

Magdalena Janeczek (from 20 June to 31 December 2016)

### **Audit Committee**

In 2016, the Audit Committee was composed of:

- 1) Maria Sierpińska - Chairman
- 2) Tomasz Plaskura
- 3) Kazimierz Szydłowski

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Łukasz Mentel  
Member of the Management Board  
– Financial Director

.....  
Józef Ryszka  
Member of the Management Board  
– Marketing Director

.....  
Piotr Janeczek  
President of the Management Board – CEO