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

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1. Introduction

The Company Stalprodukt S.A. was established in 1991 in the process of restructuring of Tadeusz Sendzimir Steelworks (now the Branch of ArcelorMittal Poland S.A.), using an innovative path of privatization. A year later, when the agreements for lease of land, buildings, equipment and machinery, supply of feedstock to manufacture and purchase of current assets were entered into with Tadeusz Sendzimir Steelworks, Stalprodukt started its own economic activities.
As a result of strenuous efforts of the management of the Company, there were gradually purchased in 1994-1996 - in an open public tendering procedure - previously leased assets and the right of perpetual usufruct of land from Tadeusz Sendzimir Steelworks, for the total net sum of PLN 90 million. Once the assets were purchased from HTS, the privatization process of Stalprodukt S.A. was completed and this allowed the Company's Management Board to take action to introduce the Company's shares to public trading and stock-exchange (first quotation of the shares of Stalprodukt was held on 6 August 1997). This allowed to obtain additional funds, which were used for the purchase of a 20-roll mill of "Sendzimir" type and the development of the production hall of the Transformer Sheets Department. The second phase of transformation, with the aim to create a capital group, was initiated in the middle of 1997. As a result, new entities were created, mainly limited liability companies with majority ownership of Stalprodukt.
The Company was the first manufacturer of steel products in Poland to build its own distribution network of profiles in 1997. The main goal of this project was to organise a complex sale of steel products made by Stalprodukt and other manufacturers in the industry.
The project was completed in its material parts in 2000 with the launch of the trade warehouse in Wroclaw. The scope of the distribution network was also widened over subsequent years, thus more warehouses were founded. Currently, a nationwide distribution network is one of the most valuable assets of the Issuer and its management company Stalprodukt-Centrostal Sp. z o.o. (100% subsidiary of Stalprodukt S.A.) is one of the major distributors of steel products in Poland.
Over next years, the Company continued its dynamic development, which was mainly based on organic growth, large-scale investments and relevant decisions of strategic importance. The most important of these concerned the withdrawal from the production of generator sheets, dynamic growth in the segment of transformer sheets, growth of production capacity and offering the wider scope of cold formed profiles and road barriers, as well as the construction of service centres for hot and cold rolled sheets.
Stalprodukt also expanded its business through acquisitions. In 2005, the Company purchased the Electrical Power Engineering Company "ELBUD" in Cracow, at the end of 2008 the Company took up a controlling stake in the company Cynk-Mal S.A., with a registered office in Legnica, through the issuance of new shares and on 7 November 2012 the Company concluded a Contract with the State Treasury, as a result of which Stalprodukt S.A. acquired 1 096 600 registered shares of Zakłady Górniczo-Hutnicze "Bolesław" S.A. company based in Bukowno, accounting for 86.92 % of its share capital.

Currently, the Company's production program includes the following products:
- electrical transformer sheets
- cold formed profiles and tubes
- safety road barriers
- toroidal cores
- hot- and cold-rolled sheets and strips.

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

Transformer sheets and strips

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

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

Table 1. Sales of Transformer Sheets and Strips - Breakdown

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

Competitive Conditions

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

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

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

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

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

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

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

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

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

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

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

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

Toroidal cores

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

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

Table 2. Comparative breakdown of sales of transformer cores

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

Competitive Conditions

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

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

2.2 Profiles Segment

a) Cold formed profiles

In 2015, almost 230 thousand tons of profiles and tubes were sold. Such a result accounts for a slight increase in relation to the sales generated in 2014. Better results were achieved in the domestic sales segment, which, currently, account for 73 percent of the total sales.

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

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

- **decrease of the Polish cold formed profiles output by 9 percent -** to the level of 470 thousand tons,
- **decrease of the tubes apparent consumption by 8 percent** in the period January – November 2015 (to the level of 930 thousand tons), also including the decrease of the apparent consumption of cold formed profiles by 8 percent (to the level of 486 thousand tons),
- **increase of the profiles imports by 8 percent** (the level of imports in the period January – November increased to 169 thousand tons), and at present the main import directions are: for the profiles with the wall thickness below 2 mm: the Ukraine (28 %), the Czech Republic (24 %) and Italy/Belarus (13 % each), whereas for the profiles with the wall thickness above 2 mm Italy (31 %) and the Ukraine (12 %). Round tubes with the diameter up to 168.3 mm were mainly

imported to Poland from Italy (56 %), the tubes with diameters from 168.3 mm to 406 mm from Italy (34 %), Germany (15 %) and Romania (11 %),
- **increase of the profiles exports by 8 percent** (116 thousand tons in the period January – November 2015).

Considering the export sales of profiles and tubes, the Group recorded a 15-percent decrease of sales volumes in relation to 2014. The exports percentage share in the total sales of cold formed profiles has, currently, reached 27 percent.

Table 3. Comparative breakdown of sales of cold formed profiles

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

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

Cold Formed Profiles Market Condition

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

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

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

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

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

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

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

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

Safety road barriers

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

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

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

Table 4. Comparative breakdown of sales of safety road barriers

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

Competitive Conditions

Due to the significant decrease of demand for road barriers, in 2015 all the Stalprodukt's biggest competitors and also barrier installation companies experienced difficulties connected with the lack of orders. Consequently, throughout the year 2015, significant price decreases could be observed on the barriers market.

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

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

Products of steel service centers

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

Table 5. Sales of products of metal sheet service centres

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

Competitive Conditions

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

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

Product-Based Sales Structure

In 2015, radical changes occurred in the product-based sales structure in relation to the year 2014 – the share of transformer sheets and toroidal cores was increased by 14%, whereas the share of the remaining product groups was decreased: profiles and road barriers by 10 percentage points and products from steel service centers by 4 percentage points.

Table 6. Assortment structure of revenues from sales of products

Assortment	2014		2015	
	value (in thousand zl)	share (%)	value (in thousand zl)	share (%)
Transformer sheets and strips and transformer cores	456 393	37,5	664 003	51,0
Cold formed profiles and tubes and road barriers	641 798	52,7	556 181	42,8
Products from the service centre*	108 123	8,9	70 167	5,4
Other	11 220	0,9	10 468	0,8
Total	**1 217 534**	100,0	**1 300 819**	100,0

*** hot and cold rolled sheets and strips**

Purchase of feedstock
In 2015 the main suppliers of feedstock for Stalprodukt, with the value of supplies exceeding 10% of revenues from sale, were ArcelorMittal Flat Carbon Europe, share in revenues – 41.88 %.

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

3. Assessment of economic and financial situation

In 2015, the business revenues (including sales, operating and financial income) reached the level of PLN 1 357.5 million, which accounts for an increase by 5.4% compared to 2014.
The Company generated an operating profit at the level of PLN 146.8 million. In 2015, the net profit amounted to PLN 108.7 million, while EBITDA reached the value of PLN 193.8 million.
In terms of value, the Company recorded a sales increase by 5.4% for all the segments, accompanied by the sales volume decrease by 3.3% for all the segments.

In 2015, the profitability of sales by levels was as follows:

Item	2014	2015
Return on sales	3,4	11,4
Operating profitability	2,9	10,9
Gross profitability	2,8	10,0
Net profitability	2,1	8,1

Return on assets and equity is reflected in the following values:

Item	2014	2015
Return on assets	1,4	5,8
Return on equity	1,8	7,0

Liquidity in terms of static indicators is reflected in the following values.

Item	2014	2015
Current liquidity ratio	1,7	1,8
Accelerated liquidity ratio	0,8	1,0

The cash flow from operating activities was positive and amounted to PLN 190.5 million The cash flow from investment activities was negative and amounted to – PLN 58.3 million. The investment-related expenses were primarily connected with the purchase of tangible fixed assets and ZGH shares purchased within the buy-back of the employee shares.

In 2015, the cash flow from financial activities was negative and amounted to – PLN 150.8 million. The negative cash flow from financial activities was caused by the dividend disbursement, repayment and service charges in respect of the investment credit and purchase of own shares within the 1^{st} tranch of the own shares' purchase program.

The year 2015 saw a decrease of the Company's assets from PLN 1 937.9 million (2014) to PLN 1 871.9 million (2015), i.e. by 3.4 %. The fixed assets increased by 0.4 %, whereas the current assets were decreased by 13.3 % in relation to the previous year.
The net working capital decreased from PLN 228,6 million (2014) to PLN 214.2 million (2015 r).
The equity value increased from PLN 1 547.9 million in 2014 to PLN 1 554 million towards the end of 2015. Its value accounts for 83 % of the balance sheet value.

Assessment of results and financial situation

Considering the results achieved, the year 2015 was much better for the Stalprodukt than 2014. The Company recorded an almost 5-percent increase of its sales revenues, at the same time, the profit on sales (increase by 258 percent), operating profit (increase by 290 percent) and net profit (increase by 300 percent) were all significantly improved.

The increase of the achieved results in the Electrical Sheets Segment was, primarily, connected with the increase of the sales volume and value. During this period of 2015, the segment saw a continuation of the trend recorded in the 2nd half of 2014, i.e. improvement in the prices. At the same time, the Company achieved considerably higher sales results both in terms of the volumes and value. Throughout the entire year 2015, an increase of sales volumes was being recorded to reach the level of 9.4%. In effect, the Segment achieved a result improved by PLN 29.2 million in relation to 2013, which accounts for the 144-percent increase.

In the Profiles Segment the market conditions were close to the ones typical of 2014. Due to the significant price pressure continued in the previous year and adverse market environment, the decline in the Segment's sales volumes reached 7.0 percent in relation to 2014. The sales revenues decreased by 16.5 percent, whereas the result – by 33.8 percent.

In the reporting period the Company's financial standing was at a good level. The economic and financial ratios, characterizing economic activities, were improved. Their level should be regarded as satisfactory under the existing market conditions.

The Company did not suffer from any payment backlogs, consistently pursuing its adopted risk management policy. The Company is not threatened either by the fluctuating currency exchange rates thanks to natural hedging used in the majority of cases.

In 2015, no significant changes were recorded in the structure of assets and their financing sources. The balance sheet value of fixed assets increased by 0.4 %, whereas in the case of the current assets a value decrease by 13.3 %. was recorded.
In the current assets group, inventories account for 48 % (in 2014 - 53 %), whereas payables account for 46 % (in 2014 - 39 %). The short-term investments account for 4.6 % of the current assets (in 2014 - 7 %). In the structure of assets, the fixed assets' share reached 75 % (in 2014 - 72 %), while the current assets' share accounts for 25 % (in 2014 - 28 %). The Company's assets were decreased by PLN 66 million, i.e. by 3.4 %. The decrease of assets was accompanied by a slight change in the financing sources (equity increased by 6.2 million, while payables and provisions for payables decreased by PLN 72.3 million).
The structure of liabilities also underwent sight changes. Equity accounts for 83 % of liabilities and, payables for 17 %. A book value per share was subject to a slight increase – from PLN 230.17 to PLN 231.10.

Throughout the entire reporting period, the Company maintained a very good financial liquidity level, which is testified by exemplary liquidity ratios and punctual settlement of all the liabilities, both in respect of the employees and suppliers, as well as towards the government and financial institutions. The Company is not indebted and it only sporadically benefitted from current credits. In banks' assessment, the Stalprodukt Company continually enjoys credit capacity, while the results achieved and a transparent property and ownership status, allow the Company to obtain financing for its activities in various forms.

In the reporting period, the Company renewed its agreements with the banks concerning multi-purpose credit lines to secure its financing sources.

The Management Board does not predict a further worsening of the Company's financial standing in 2015. In order to maintain the good financial standing and level of liquidity some restructuring works and other activities are pursued, focusing especially on the new sales and procurement markets to be captured, rational management of inventories and receivables and cost reduction.

The management of financial resources should be considered as correct, which is confirmed by good economic ratios and good level of financial liquidity and credit capacity as well punctual settlement of the liabilities incurred.

4. The evaluation of factors and unusual events affecting the outcome of operations for the fiscal year, specifying the degree of impact of these factors or unusual events on the achieved result

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

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

- The Profiles Segment recorded poorer sales results, both in terms of the volumes and value, which adversely affected the Segment's and the Company results although the impact concerned was relatively slight. The sales decreased by 16.5 %, combined with the decrease of average prices by 9 %. As a result, the Segment's result decreased by PLN 10.2 million, i.e. by 33.8 %.

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

- Another segment which also had a negative impact on the Company's results, though to the smallest degree, was the Segment of Other Activities which had recorded both a decrease of sales (by 16.9 per cent.), and further worsening of the Segment's negative result (by PLN 1.6 million).

Steel Market

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

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

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

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

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

5. Information on reached and material for the Group agreements

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

6. Organizational and capital relationships with other entities

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

7. Related party transactions

Transactions with related parties in 2015 include:

- sales of products and goods for the companies belonging to Stalprodukt Capital Group,
- provision of services for Stalprodukt S.A. by the subsidiary companies.

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

8. Information on executed and terminated agreements concerning credits and loans

In the reporting period, the Company periodically just used the credit limits on overdrafts.

An agreement was concluded with the Bank PKO BP S.A. based in Warsaw concerning a multi-purpose credit limit of up to PLN 150 000, to be used for overdraft in the current account (up to PLN 80 000 thousand) and to serve the letters of credit and guarantee issue purposes (up to PLN 40 000 thousand). Within the credit limit, the Capital Group's companies such as: Stalprodukt-Centrostal Kraków Sp. z o.o. and STP Elbud Sp. z o.o. may use their sublimits amounting to: PLN 20 000 thousand and PLN 10 000 thousand respectively. The term of the agreement is pending until 12.08.2017.
A Credit Line Agreement, amounting to the total of PLN 75 000 thousand, was extended with the Bank Pekao in Warsaw for another term pending until 30.09.2016, the same to be used for the purposes of overdraft in the current account (up to PLN 42 000 thousand) and issuance of letter of credits and guarantees (up to PLN 10 000 thousand). Within the credit limit concerned, the Capital Group's companies such as: STP Elbud Sp. z o.o. and Cynk-Mal S.A. may use their sublimits amounting to: PLN 13 000 thousand and 19 332 thousand respectively. The Multi-Purpose Credit Line Agreement with BGŻ BNP Paribas S.A. based in Warsaw was extended for another annual term, aimed to be used for the purposes of overdraft in the current account, issuance of guarantees and letters of credit within a limit of up to PLN 50 000 thousand. The Agreement is binding until 12.01.2017. Also the credit limit at Bank Handlowy in Warsaw S.A. was extended for the revolving credit line serving the purposes of guarantees and letters of credit with a revolving limit of up to PLN 65 000 thousand. The line covers the amount of PLN 40 000 thousand to serve the purposes of overdraft in the current account, issuance of guarantees and letters of credit with deadlines of up to 18 months and PLN 25 000 thousand serving long-term guarantees with deadlines of up to 6 years. The Agreement is binding until 08.07.2016.

9. Information on granted and obtained loans, sureties and guarantees

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

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

In the reporting period, the 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 Company does not publish financial forecasts.

12. Assessment of financial management

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

13. Assessment of the feasibility of investment plans

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

14. Information on employment, remuneration and training

In 2015, there were employed 131 people by the Company Stalprodukt S.A. At the same time, the employment relationship was terminated by mutual agreement or otherwise by 77 employees – including 43 people retiring.
As at 31.12.2015 the employment of Stalprodukt S.A. amounted to 1,568 people. The average remuneration per 1 employee was 5,095 PLN/month in 2015.
In 2015, there were 141 trainings carried out, attended by 827 employees. The cost of trainings amounted to PLN 255.5 thousand, which was about PLN 309 per participant.

15. Investment activities and technological development

In the reporting period the Company 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) Investment Projects Regarding the Expansion of the Products Range

- Completed modernization of the ACW 3 slitting line at the P2 Department.
- Contract signed for the design and construction of a step-butt core winding machine at the BU Department.
- A new nitrogen compressor bought and put to operation at the BP Department.
- A new winding machine for arch-type barriers bought for the P2 Department.
- A new saw bought for Line 7 at the P2 Department and put to operation.
- An order placed for the design and construction of a new hydrogen compression and loading plant.

- Contracts signed for the supply of two processing lines for the production of precision small- and medium-sized profiles of diameters ranging from Ø10 to Ø76,1, processed from cold-rolled steel strip and cold-rolled strip subsequently galvanized and sprayed on the weld line. The launching of the lines is planned in 2016.

b) Investments in Construction

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

c) **Undertakings Affecting Environment and Work Safety (EHS).**

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

d) **Other Investment Tasks.**

- Started investment task related to the monitoring of the process data.
- New facilities were adapted and extra server room was put to operation in the WL1362 building.
- The compatibility of the lines safety systems is successively being assessed at all Departments.
- A new crane was installed for the Forming Line No 8 at the P4 Department.
- Works were underway to put the M1 wind power plant with a vertical axis turbine into operation (200 kW).
- Construction works were continued to complete the B-1 1.5 kW wind power plant with a vertical axis turbine. This project was co-financed from the funds provided by the National Centre for Research and Development and the European Union, and is carried out jointly with the Anew Institute Spółka z o.o. and the AGH University of Science and Technology in Kraków.

16. Characteristics of the external and internal factors relevant to the Issuer's development and a description of operation development prospects

External and Internal Factors Essential for Company'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

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

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

- Demand

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

- Inflation

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

Market forecasts

The EU economy entered the year 2016 with solid foundations, which bodes well both for the foundations and for the market conditions in the quarters to come. What is more, the conditions will be hospitable to investments which will become the main growth drivers after the period, during which growth was mainly based on individual consumption. Eurofer forecasts the EU GDP growth at the

level of 2 % in 2016 and 1.9 % in 2017.
What should be regarded as the key intracommunity issue is the lack of an effective solution to the refugee problem and the risk of political and economic instability related thereto. The lack of coordination of the EU policies in the migration-related area combined with the risk of social unrest at the domestic level may finally threaten the Schengen treaty. This, in turn, may seriously impair the EU economic growth.
Also "Brexit" (GB's exit from the EU) and general weakening of the Euro zone reforms can be listed among other internal dangers potentially threatening the EU economic stability.

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

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

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

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

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

Company's Development Prospects in 2016

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

Electrical Sheets Segment

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

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

Profiles Segment

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

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

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

17. Description of significant risks and threats, identifying the extent, to which the Company is exposed

a) Macroeconomic Environment

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

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

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

b) Demand for Steel Products in Europe

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

c) Charge Materials Supply Market Conditions

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

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

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

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

e) Consequences of EcoDesign Directive.

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

f) Consequences of Measures Introduced for Market Protection of Transformer Sheet Producers in 2015

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

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

g) risks related to financial instruments

Other risks, resulting from financial instruments, i.e. credit- and contract-related risk, liquidity risk and market risk have been described in detail in the Additional and Explanatory Information to the Financial Report (Par. 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 Company's Management Board in connection with the termination of their employment are set forth in individual employment contracts entered into with the Management Board Members.

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

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

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

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

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

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

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

	Allowance	Royalties from the profit for 2014	Remuneration for holding positions in the statutory bodies of the subsidiaries	Total
Stanislaw Kurnik	84 812	27 151		**111 963**
Kazimierz Szydłowski	72 699	27 151	35 026	**134 876**
Janusz Bodek	66 638	27 151	43 570	**137 359**

Maria Sierpińska	72 699	27 151		**99 850**
Sanjay Samaddar	0,00	0,00		**0,00**
Tomasz Plaskura	66 638	27 151		**93 789**
Tomasz Ślęzak	66 638	27 151		**93 789**
Total	**430 124**	**162 906**	**78 596**	**671 626**

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

1. Management:

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

2. Supervisory Board Members:

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

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

22. Information on the agreements known to the Company (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 Company 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 Company 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 Issuer.

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

The Company has no control systems over the employee share schemes.

25. Information on the body authorized to audit financial statements

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

Statement on the application of corporate governance principles in the Company

Pursuant to § 29 par. 5 of the Rules of the Warsaw Stock Exchange S.A., adopted by Resolution No. 20/1287/2011 of the Supervisory Board of the Warsaw Stock Exchange on 19 October 2011, the Management Board of Stalprodukt S.A. presents a report on the application by the Company in 2014 of corporate governance principles contained in the document "Good practices in companies quoted on the Warsaw Stock Exchange".

a) indication of

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There are no securities that would grant special control rights.

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

In March 2007, Stalprodukt S.A. acquired 69,733 own shares for their redemption. On 31.12.2014, these shares were not redeemed yet (lack of a relevant resolution of AGM). These shares were locked in the Company's brokerage account, and the resulting right to vote at the AGM Stalprodukt are not exercised.
Moreover, on 17 November 2015, the Extraordinary General Meeting of Shareholders adopted a resolution concerning the Company's purchase of its own shares with a view to redemption. By the date of publication of the present report, three invitations had been announced within the purchase program: on 20 November 2015, 27 January 2016 and 31 March 2016. Within the 1st and 2nd tranches, the Company purchased 716 800 of its own shares. After the clearing of the above mentioned tranches, as of the report's publication day, the Company holds the total of 786 533 of its own shares.
The redemption of the purchased own shares will take place after the completion of the entire program. Until this time, the voting rights arising therefrom, will not be used.

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

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

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

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

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

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

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

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

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

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

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

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

According to the Statutes of the Company:

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

The General Meeting may only pass resolutions on matters covered on the agenda. Agenda is determined by the Management Board of the Company. A Shareholder or Shareholders representing at

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

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

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

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

According to § 36 of the Company’s Statutes, the General Meeting has the right to:
- dismiss the Chairman of the Management Board;
- examine and approve the annual financial statements of the Company, the annual report the Management Board on the Company’s operations and the consolidated financial statements of the Group;
- decide on the profit distribution or loss coverage;
- grant vote of acceptance to the managing bodies of the Company confirming the discharge of their duties;
- amend the Company’s Statutes;
- reduce or increase the share capital of the Company;
- changing the object of the Company’s activities;
- merge or transform the Company;
- liquidate the Company, appoint liquidators and determine the distribution of assets after the liquidation of the Company;
- issue bonds;

- issue a decision on claims for damages suffered during the establishment of the Company and its management or supervision;
- decide on the use of capital reserve and on the creation and allocation of supplementary reserve;
- determine the royalty ratio for the Management Board and method of its payment;
- other powers, which pursuant to the provisions of the Commercial Companies Code, are the exclusive rights of the Shareholders' Meeting, except for giving consent to the acquisition and disposal of real property, perpetual usufruct or interest in real property, which were entrusted to the Supervisory Board

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

Composition of the Management Board:

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

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

Composition of the Supervisory Board

In 2015, the Supervisory Board was composed of:

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

Audit Committee

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

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