

**Report of the Management Board on the activities  
of Stalprodukt S.A. Capital Group  
for the period from 01.01.2014 to 31.12.2014**

**Bochnia 2015**

**Table of contents:**

- 1. Introduction**
- 2. Sale of basic products, markets. Sources of supply for materials**
- 3. Assessment of economic and financial situation**
- 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**
- 5. Information on reached and material for the Group agreements**
- 6. Organizational and capital relationships with other entities**
- 7. Related party transactions**
- 8. Information on executed and terminated agreements concerning credits and loans**
- 9. Information on granted and obtained loans, sureties and guarantees**
- 10. Information on the use of the Group's revenues from issuances**
- 11. Explanation of differences between the financial results disclosed in the annual report and previously published forecasts of results for the given year**
- 12. Assessment of financial management**
- 13. Assessment of the feasibility of investment plans**
- 14. Information on employment**
- 15. Investment activities and development**
- 16. Characteristics of the external and internal factors relevant to the Group's development and a description of operation development prospects**
- 17. Description of significant risks and threats, identifying the extent, to which the Issuer is exposed**
- 18. Changes in the basic principles applied by the Issuer to manage the Company and its 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**
- 20. The value of remuneration, bonuses or benefits paid, payable or potentially payable, for each manager and supervisor**
- 21. List of managers and supervisors holding shares of Stalprodukt**
- 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**
- 23. List of the proceedings pending before the court, competent arbitration authority or public administration**
- 24. Information about the control system over the employee share schemes**
- 25. Information on the body authorized to audit financial statements**

**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 Stalprodukt-Warszawa sp. z o.o. - company under liquidation was excluded from consolidation in 2013.

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

- in Cynk-Mal – 51 %
- in ZGH “Bolesław” – 90.07 %
- in other companies – 100 % shares each.

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

- Zinc Smelter - Huta Cynku “Miasteczko Śląskie” S.A. (91,58 %) – production of rectified zinc, lead and cadmium,
- Bolesław Recykling Sp. z o.o. (100 %) – zinc-bearing materials processing and recycling services as well as production and sales of non-ferrous metal concentrates,
- Bol-Therm Sp. z o.o. (100 %) – power supply-, laboratory-, mechanics and construction-related services, transport-equipment and forwarding services, production of dolomite aggregates, zinc products and zinc alloys,
- Gradir Montenegro d.o.o. (99,56 %) – zinc ores mining and concentrate production,
- Agencja Ochrony Osób i Mienia “Karo” Sp. z o.o. (100 %) – bodyguard and property security services.

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

F&R Finanse Sp. z o.o. was established in 2014 and registered under entry no. KRS 0000506742.

Bolesław Recycling Sp. z o.o. has taken over 49 % of shares in the newly created entity.

F&R Finanse runs a business activity in the area of financial services and financial advisory.

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

### 2.1 Electrical Sheets Segment

#### a) Transformer sheets and strips

In mid 2014 a breakthrough occurred after a long period of downward trend in prices. Thanks to the better results achieved in the second half of the year, the achieved whole-year's sales revenues were by one-fifth higher compared to the results achieved in 2013.

The domestic results were significantly improved thanks to the almost 40-percent sales volume increase and 20-percent value increase. Such a result was translated into the growth of the market share from 12 percent, as estimated towards the end of 2013, to 15 percent towards the end of 2014.

In the 2014 sales structure, the domestic sales accounted for 4 percent of the transformer sheets total sales.

The imports of transformer sheets to Poland during the 11 months of 2014 stood at the comparable level, both in respect of the sales volumes, values and prices in relation to the analogical period of 2013.

The main directions of transformer sheets imports to Poland (according to the country of origin) in 2014 are:

- for wide steel coils: the Czech Republic (40 %), Japan (13 %), Slovakia (11 %) and Germany (10 %),
- for steel strips: Japan (61 %) and Italy (23 %).

Table 1. Comparative breakdown of the sales of transformer sheets and strips

| Item    | Quantity (Mg) |               |               | Net value (thousand zł) |                |               |
|---------|---------------|---------------|---------------|-------------------------|----------------|---------------|
|         | 2013          | 2014          | 2014/2013 (%) | 2013                    | 2014           | 2014/2013 (%) |
| Country | 2 420         | 3 355         | 38,6          | 14 492                  | 17 405         | 20,1          |
| Export  | 69 861        | 84 665        | 21,2          | 361 699                 | 428 643        | 18,5          |
| Total   | <b>72 281</b> | <b>88 010</b> | <b>21,8</b>   | <b>376 191</b>          | <b>446 048</b> | <b>18,6</b>   |

#### Competitive Conditions

In 2014, the transformer sheets market underwent many dynamic processes. First of all, attempts were undertaken at reversing the unfavorable price trends. The first significant price-raising attempt was taken by the Japanese manufacturers. In January they suggested a rise to the level of USD 100 per ton. Although this proposal was not accepted at once, the movement of the Japanese manufacturers, anyway, became an example to be followed by others. Then, the beginning of the year clearly proved that the global market prices reached their lowest level ever, and the trend, though slowly, started to reverse.

The problem that is still observed at the transformer sheets market is overproduction and huge differences in the domestic trade and foreign trade balance between particular countries and regions. There are such countries as India, where the lack of manufacturers of grain-oriented electrical sheets, makes the country completely dependent on the imports whereas, for example, in Japan the production capacity equals 450 thousand tons and the domestic consumption does not exceed

40 thousand tons so the production capacity exceeds the domestic demand eleven times. The Russian production capacity exceeds the domestic demand six times, and Korean – almost four times.

These disproportions make the particular overproduction-stricken regions try to place the surpluses at the remaining markets, and the ones, which are most exposed to such actions, try to protect themselves against the excessive imports, dumping prices and inflow of steel sheets with very low magnetic parameters (non-prime material, waste).

Such activities include, among others:

- European anti-dumping proceedings,
- American anti-dumping proceedings,
- BIS registration in India.

In Europe a decision was taken regarding the modernization and improvement of transformers. New regulations are supposed to take effect as early as mid 2015, and their main assumption is a transition from the conventional (CGO) sheets to higher steel grades (HiB) and laser-treated sheets. The volume of the material to be shifted from CGO to HiB may reach the level of 100 000 tons. Consequently, transformer manufacturers have to adapt to the new market conditions as quickly as possible.

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

The sales of transformer cores reached an almost identical level as in 2013, i.e. approx. 1000 tons. Slight differences in the volume, value and prices did not affect the change of this product position in the total product-based sales structure – the toroidal cores still represent 1 percent of sales revenue.

Table 2. Comparative breakdown of sales of transformer cores

| Item    | Quantity (Mg) |              |               | Net value (thousand zł) |               |               |
|---------|---------------|--------------|---------------|-------------------------|---------------|---------------|
|         | 2013          | 2014         | 2014/2013 (%) | 2013                    | 2014          | 2014/2013 (%) |
| Country | 440           | 393          | -10,7         | 5 135                   | 4 484         | -12,7         |
| Export  | 546           | 663          | 21,4          | 5 346                   | 5 861         | 9,6           |
| Total   | <b>986</b>    | <b>1 056</b> | <b>7,1</b>    | <b>10 481</b>           | <b>10 345</b> | <b>-1,3</b>   |

#### **Competitive Conditions**

The transformer cores market is aspiring to become more technologically advanced and, at the same time, to adopt more economical solutions. The former requirement is fulfilled by the introduction of new products, i.e. rectangular, cut, impregnated and coated cores, while the latter is fulfilled through the reduction of the cores' weight (cores not exceeding 0.5 kg are ordered more and more often) and reduction of the volumes ordered in a given assortment.

Searching for more economical solutions makes transformer manufacturers return to the production of cores. They had been departing from such a model for a number of years in favor of service centers and external cores suppliers. The access to relatively cheap transformer sheets resulted in the come back to the former practices.

## **2.2 Profiles Segment**

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

In 2014, the Stalprodukt Group sold 221.6 thousand tons of profiles and tubes. This result accounts for a slight increase (by 0.7 percent) in relation to the sales achieved in 2013. A slightly better performance (increase by 2.3 percent) was achieved in domestic sales which, currently, account for 66.4 percent of the total sales.

Basing on the data published by CIBEH, CAAC – Analytical Center of Customs Administration and HIPH — Polish Steel Association, one may assess the Group's up-to-date share in the cold formed profiles domestic market as standing at the level of 23 percent. This accounts for a minimum increase of the market share over 2013.

The above presented sales results were achieved in spite of the unfavorable market conditions. As it is clear from the information published by the Polish Steel Association, in the period from January to December 2014:

- Poland recorded a decrease in the production of cold formed profiles by 4 percent - to the level 518 thousand tons;
- at the same time a 0.9-percent increase of tubes apparent consumption was recorded (to the level of 1,012 thousand tons), including the 0.3-percent decrease of the cold formed profiles apparent consumption (to the level of 526 thousand tons);
- the imports of profiles in the period from January to November increased by 24 percent and reached the level of 157 thousand tons – and the present main import directions are: for steel profiles of wall thickness below 2 mm: the Ukraine (37 %), the Czech Republic (17 %) and Italy (13 %), whereas for the profiles of wall thickness above 2 mm: Italy (31 %), the Ukraine (12 %) and the Czech Republic (10 %). Round tubes of the diameter up to 168.3 mm are imported to Poland mostly from Italy (70 %), tubes of the diameters from 168.3 mm to 406 mm from Italy (31 %), the Ukraine (20 %) and Germany (13 %);
- the export of cold formed profiles increased by 3 percent and had reached 107 thousand tons by November 2014.

In the exports of profiles and tubes an over 2-percent volume decrease was recorded in relation to 2013. Their exports share in the total cold formed profiles sales structure currently accounts for 33,7 percent.

Table 3. Comparative breakdown of sales of cold formed profiles

| Item    | Quantity (Mg)  |                |               | Net value (thousand zł) |                |               |
|---------|----------------|----------------|---------------|-------------------------|----------------|---------------|
|         | 2013           | 2014           | 2014/2013 (%) | 2013                    | 2014           | 2014/2013 (%) |
| Country | 144 776        | 148 161        | 2,3           | 360 985                 | 355 988        | -1,4          |
| Export  | 75 221         | 73 433         | -2,4          | 188 420                 | 180 448        | -4,4          |
| Total   | <b>219 997</b> | <b>221 594</b> | <b>0,7</b>    | <b>549 405</b>          | <b>536 436</b> | <b>-2,4</b>   |

#### 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 production of tubes in the EU increased by 2.8 percent during the 2014.

In the opinion of Eurofer, the activities pursued on the tubes market significantly differed between particular countries in respect of: range of the assortment offered, end-user segment, balance between the domestic and export sales and exposure to international competition.

The production output of tubes in France, Spain and Sweden dropped, a 4-per cent decrease was also recorded in Poland (in the period January – December), while in Germany, Italy and the UK increased production outputs were recorded.

The main reason is thought to be hidden in the worsening market conditions in the last quarter of 2014, when the implementation of the South Stream Gas Pipeline project was halted. EUROFER assesses that, even though several pipeline projects are continued in Eastern Europe, North America and in the Far East, the expected decrease in the crude oil prices may cause delays or even cancellations of these projects. It is generally claimed that the lower output of crude oil and gas will slow down the development of demand on the pipeline market.

The forecasts announced for the key sectors which act as end recipients of small-sized welded tubes, i.e. construction industry, motor industry and metal processing industry are moderately favorable and a slight increase of demand is being observed in the EU.

There production output forecast for 2015 is only minimal – about 1 %, for 2016 it reaches 1.5 %.

The above conditions confirm the opinion that the Polish market became an arena of an aggressive (mostly price-related) confrontation between the local and foreign manufacturers, and the price is the main tool used to win the competitive advantage.

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

In 2014, road barriers sales recorded an almost 5-percent value increase and 7-percent volume increase, compared to 2013. The first half of the year turned out nicely, compared to the previous year, considering the sales volume increase by 48 percent and sales value increase by 44 percent.

In the 3rd quarter of 2014, a few material agreements were concluded for the construction of freeways and express ways, among others, including: the A4 freeway Rzeszów–Jarosław section, A1 freeway from Stryków to Tuszyń (3 sections), S5 express way, Korzeńsko–Wrocław North route (3 sections).

Yet, the greatest number of contracts, requiring from 18 to 36 months to be carried out, were concluded in the 4th quarter of 2014 and in the 1st quarter of 2015. Due to the above-mentioned circumstances, one can expect a significant increase in the road barrier sales as late as in 2016.

Table 4. Comparative breakdown of sales of safety road barriers

| Item    | Quantity (Mg) |               |               | Net value (thousand zł) |                |               |
|---------|---------------|---------------|---------------|-------------------------|----------------|---------------|
|         | 2013          | 2014          | 2014/2013 (%) | 2013                    | 2014           | 2014/2013 (%) |
| Country | 21 666        | 23 486        | 8,4           | 100 585                 | 105 588        | 5,0           |
| Export  | 2 872         | 2 812         | -2,1          | 10 621                  | 10 631         | 0,1           |
| Total   | <b>24 538</b> | <b>26 298</b> | <b>7,2</b>    | <b>111 206</b>          | <b>116 219</b> | <b>4,5</b>    |

### c) Products of steel service centers

The sales of steel sheets and strips, offered by steel service centers, are not carried out in accordance with the projected plans. Slightly above 50 thousand tons of steel sheets were sold for PLN 108 million, which stands for significant decreases both in respect of the volumes, and values of the sheets sold, in relation to the previous year.

Table 5. Sales of products of metal sheet service centres

| Item    | Quantity (Mg) |               |               | Net value (thousand zł) |                |               |
|---------|---------------|---------------|---------------|-------------------------|----------------|---------------|
|         | 2013          | 2014          | 2014/2013 (%) | 2013                    | 2014           | 2014/2013 (%) |
| Country | 57 997        | 43 639        | -24,8         | 128 437                 | 92 702         | -27,8         |
| Export  | 9 835         | 6 821         | -30,6         | 23 329                  | 15 421         | -33,9         |
| Total   | <b>67 832</b> | <b>50 460</b> | <b>-25,6</b>  | <b>151 766</b>          | <b>108 123</b> | <b>-28,8</b>  |

### Competitive Conditions

Overproduction and low prices have been the main characteristics of the steel distribution and service centers market for several years now.

Another very important feature, characteristic of this market, is the fact that, already, over 60 percent of the regional deliveries to EU end recipients are controlled by steel producers, which considerably hinders the functioning of independent distributors under the conditions of significant over-production and low growth forecasts. The overproduction directly affects low prices and, consequently, low profit margins. The consequences suffered by the service centers are: problems with liquidity, takeovers, acquisitions or even bankruptcies.

The growth of demand on the European market of distribution and service centers in 2014 was estimated at the level of 2-3 percent, which is mainly connected with the development of the mechanical engineering and automotive markets.

## 2.3 Zinc Segment

The Zinc Segment embraces the activities of ZGH “Bolesław” S.A. and its subsidiary companies, i.e. the excavation of zinc-lead ores, production of zinc and lead as well as related activities. The sales results embrace the key products processed by the Group's companies, whose activities are connected with this Segment.

### a) Zinc and Zinc Alloys

Z1 zinc is mainly used to protect surfaces from corrosion through hot dip and electrolytic galvanizing. Zinc alloys are processed in continuous casting lines or high pressure casting lines and are applied in motor industry as well as in construction and household appliances industry.

Thanks to the higher lead content, Z5 zinc is used in the production of brass and bronze as well as, in galvanizing plants, as a cheaper replacement of, or supplement to Z1 zinc.

In 2014, the sales volume of zinc and zinc products was only slightly higher than in 2013. Whereas the sales revenues from zinc products increased by 13 percent in connection with the growth of zinc prices on the LME and the strengthening of the American dollar.

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

| Item    | Quantity (Mg)  |                |               | Net value (thousand zł) |                  |               |
|---------|----------------|----------------|---------------|-------------------------|------------------|---------------|
|         | 2013           | 2014           | 2014/2013 (%) | 2013                    | 2014             | 2014/2013 (%) |
| Country | 77 868         | 80 839         | 3,8           | 515 498                 | 599 128          | 16,2          |
| Export  | 65 957         | 63 634         | -3,5          | 424 866                 | 464 761          | 9,4           |
| Total   | <b>143 824</b> | <b>144 473</b> | <b>0,5</b>    | <b>940 363</b>          | <b>1 063 889</b> | <b>13,1</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.

Table 7. Comparative breakdown of sales of refined lead

| Item    | Quantity (Mg) |               |               | Net value (thousand zł) |               |               |
|---------|---------------|---------------|---------------|-------------------------|---------------|---------------|
|         | 2013          | 2014          | 2014/2013 (%) | 2013                    | 2014          | 2014/2013 (%) |
| Country | 13 741        | 10 971        | -20,2         | 101 666                 | 77 218        | -24,0         |
| Export  | 1 652         | 2 929         | 77,3          | 12 181                  | 21 077        | 73,0          |
| Total   | <b>15 393</b> | <b>13 900</b> | <b>-9,7</b>   | <b>113 847</b>          | <b>98 296</b> | <b>-13,7</b>  |

In 2014, the sales of refined lead decreased by almost 14 percent, which was, both, caused by the decrease of the sales volume and the decrease of the lead market prices.

### c) Flotation Galena

The flotation galena produced at ZGH “Bolesław” (approx. 87 percent of the output) and at Gradir Montenegro in Montenegro, is a concentrate, containing approx. 62 percent of lead. The output is dependent on the volume of the excavated zinc-lead ore and the ore's lead content. In connection with the exploitation of the limited ore resources in the “Olkusz-Pomorzany” mine, the production and sales volumes systematically come down.

Moreover, lead prices dropped by 2 percent in 2014, compared to the previous year. Practically, the whole flotation galena output is exported.

Table 8. Comparative breakdown of sales of flotation galena

| Item    | Quantity (Mg) |               |               | Net value (thousand zł) |               |               |
|---------|---------------|---------------|---------------|-------------------------|---------------|---------------|
|         | 2013          | 2014          | 2014/2013 (%) | 2013                    | 2014          | 2014/2013 (%) |
| Country | 0             | 14            |               | 0                       | 48            |               |
| Export  | 30 509        | 25 845        | -15,3         | 104 676                 | 87 236        | -16,7         |
| Total   | <b>30 509</b> | <b>25 859</b> | <b>-15,2</b>  | <b>104 676</b>          | <b>87 284</b> | <b>-16,6</b>  |

### d) Dore Metal

Dore metal is produced by the Huta Cynku “Miasteczko Śląskie” Company. It is a kind of high-value, useful waste, formed during the lead refining process, fit only for further processing.

It is an alloy with high silver content. The level of output depends on metal content in concentrates. In 2014, considering a slightly lower sales volume compared to 2013, the sales revenues decreased by 22 percent. This was attributable to the significant decrease of the silver market prices.

Table 9. Comparative breakdown of sales of Dore metal

| Item   | Quantity (Mg) |           |               | Net value (thousand zł) |               |               |
|--------|---------------|-----------|---------------|-------------------------|---------------|---------------|
|        | 2013          | 2014      | 2014/2013 (%) | 2013                    | 2014          | 2014/2013 (%) |
| Export | 25            | 23        | -5,4          | 57 528                  | 45 002        | -21,8         |
| Total  | <b>25</b>     | <b>23</b> | <b>-5,4</b>   | <b>57 528</b>           | <b>45 002</b> | <b>-21,8</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 byproduct originating from the zinc production technology. It has a great significance in various branches of industry. It is used, among others, in the production processes of other acids, dyes, synthetic fibres, explosives and fertilizers.

- **dolomite**

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

- **Zn-Pb-Ag concentrate**

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

The total sales value of the above products amounted to PLN 53.5 million in 2014, which accounts for a decrease by 15 percent in relation to the previous year.

*Note:*

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

#### **2.4 Other Activities**

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

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

Analyzing the territorial sales structure for all of the Group's products, one should note that in 2014 their exports reached the level of 47.7 %.

An increase in the electrical sheets sales share (by over 2 p.p.) in the Electrical Sheets Segment's sales structure is worth noting as well as and a slight increase of the sales generated by the Zinc Segment (by half p.p.). At the same time, the Profiles Segment's sales share was decreased by 2,3 p.p..

| Assortment                | 2013                      |              | 2014                      |              |
|---------------------------|---------------------------|--------------|---------------------------|--------------|
|                           | value<br>(in thousand zł) | share<br>(%) | value<br>(in thousand zł) | share<br>(%) |
| Electrical Sheets Segment | 386 672                   | 13,8         | 456 393                   | 15,9         |
| Profiles Segment          | 812 377                   | 28,9         | 760 779                   | 26,6         |
| Zinc Segment              | 1 383 181                 | 49,3         | 1 422 538                 | 49,8         |
| Other activities          | 224 293                   | 8,0          | 218 827                   | 7,7          |
| Total                     | <b>2 806 523</b>          | <b>100,0</b> | <b>2 858 537</b>          | <b>100,0</b> |

### Purchase of feedstock

In 2014 the main suppliers of feedstock for Stalprodukt, with the value of supplies exceeding 10% of revenues from sale, was ArcelorMittal Flat Carbon Europe - share in revenues – 19.6 %

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

### 3. Assessment of economic and financial situation

In 2014, the Stalprodukt Capital Group's sales from total activities amounted to PLN 2 902.3 million. This accounts for an increase by 0.5 percent over the year 2013. The generated operating profit amounted to PLN 143.4 million, whereas net profit – PLN 101.4 million (in 2013 the operating profit amounted to PLN 80.7 million, and net profit – PLN 77,5 million).

In the period under discussion the EBI DA reached the level of PLN 278.9 million (compared to PLN 209.6 million in 2013).

In 2014, the profitability of sales by levels was as follows:

| Item                    | 2014 | 2013 |
|-------------------------|------|------|
| Return on sales         | 5,4  | 1,5  |
| Operating profitability | 5,0  | 2,9  |
| Gross profitability     | 4,7  | 3,5  |
| Net profitability       | 3,6  | 2,8  |

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

| Item             | 2014 | 2013 |
|------------------|------|------|
| Return on assets | 3,2  | 2,6  |
| Return on equity | 5,5  | 4,4  |

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

| Item                        | 2014 | 2013 |
|-----------------------------|------|------|
| Current liquidity ratio     | 2,3  | 1,8  |
| Accelerated liquidity ratio | 1,2  | 1,0  |

In 2014, the operating cash flow amounted to PLN 203.3 million.

Compared to 2013, in the reporting period the assets of the Stalprodukt S.A. Capital Group increased by the amount of PLN 152.1 million, i.e. by 5 percent. The fixed assets increased by PLN 19.6 million in relation to the previous year and amount to PLN 1 933.7 million.

In the period under discussion the value of the current assets was increased by PLN 132.5 million.

The equity increased from PLN 1 756.3 million in 2013 to 1 846.6 million in 2014 and accounted for 59 percent of the balance sheet sum.

As of 31.12.2014, the long-term liabilities of the Stalprodukt Capital Group amounted to PLN 415.5 million, including the long-term credits and loans which accounted for PLN 92.3 million. Compared to 2013, there was an increase of long-term liabilities by PLN 2.3 million.

In the long-term liabilities group, the amount of PLN 296.1 million accounts for the identified risk concerned with the take-over of ZGH “Bolesław” S.A., i.e. the liquidation costs of the “Olkusz-Pomorzany” mine, liability for the mining damages, potential non-recovery of the financial means engaged in the Montenegro d.o.o. company, severance payments for the employees of the mining division, coal allowance-related claims as well as granted guarantees and sureties.

Towards the end of 2014, the short-term credits and loans amounted to PLN 113.6 million. The net working capital increased from the level of PLN 513.9 million in 2013 to 687.6 million towards the end of 2014.

In the analyzed period the Return on Equity ratio in the Stalprodukt Capital Group reached the level of 5.5 percent, and the level of cash as of 31.12.2014 r. amounted to PLN 169.0 million.

### Assessment of results and financial situation

Considering the results achieved, the year 2014 was much better for the Stalprodukt Group than 2013. The Group recorded an almost 2-percent increase of its sales revenues, at the same time, the profit on sales (increase by 262 percent), operating profit (increase by 78 percent) and net profit (increase by 31 percent) were all significantly improved.

The increase of the consolidated sales and improved profit margins were related to the activities of the Electrical Sheets Segment and Zinc Segment.

The increase of the achieved results in the Electrical Sheets Segment was, primarily, connected with the increase of the sales volume and value. After the period of record-low prices recorded in the 1st half of 2014, this Segment witnessed a significant improvement in the second half of the year. In effect, the Segment achieved a result improved by PLN 29.2 million in relation to 2013, which accounts for

the 144-percent increase. The Segment's sales volume increase, recorded in respect of the entire year 2014, amounted to 21.6 percent.

In the Profiles Segment the market conditions were close to the ones typical of 2013. Due to the significant price pressure continued in the previous year and adverse market environment, the decline in the Segment's sales volumes reached 4.5 percent in relation to 2013. The sales revenues decreased by 6.4 percent, whereas the result – by 2.4 percent, which resulted from the continued efforts aimed at the reduction of the product manufacturing costs in the Segment.

The Segment of Zinc recorded an almost 3-percent increase of sales in relation to 2013, while the Segment's result was increased by 98 percent. This, primarily, resulted from the increase of the zinc average price in 2014 by 13 percent (to the level of USD 2 164) and the strengthening of the American dollar.

The improved financial condition of the Capital Group is also reflected by the economic and financial ratios, characterising economic activities. All the ratios were improved in relation to 2013. The Stalprodukt-Centrostal Kraków Sp. z o.o. Company is suffering from financial difficulties in connection with the economic slowdown, affecting trade with steel finished products. Among the ZGH “Bolesław” S.A. subsidiary companies, Gradir Montenegro d.o.o, is affected by the most serious financial problems.

The Capital Group did not experience any payment difficulties, consistently implementing its adopted risk-management policy. The Parent Company is not threatened either with any fluctuating currency exchange rates thanks to the natural hedging mostly applied against this kind of risk. However, ZGH “Bolesław” S.A. and subsidiary companies pursue a very active security policy. In compliance with the pursued hedging policy, intended to protect against the effects of the falling zinc, lead and silver prices as well as USD exchange rates, the subsidiary companies identify and assess, on an on-going basis, the risk related to the metal price changes and exchange rates fluctuations likely to affect the financial result, cash flow and balance sheet.

In 2014, some slight changes occurred, affecting the assets and their financing sources. Both an increase of fixed assets took place by PLN 19.6 million, i.e. by 1 percent, and increase of current assets by PLN 132.5 million, i.e. by 12.3 percent.

The current assets group saw an increase of inventories by 14.2 percent and decrease of short-term receivables by 5.2 percent.

The Group's assets were increased by PLN 152.1 million, i.e. by 5 percent. The increase of assets was accompanied by the growth of the financing sources in the ‘equity’ position by 5 percent and ‘provisions and liabilities’ by 5 percent.

In the analyzed period there was also a decline in the short-term trade liabilities by 16 percent (PLN 60.4 million).

Equity accounted for 59.0 of the total liabilities, and liabilities – 41.0 percent. The book value per single share was also subject to an increase from PLN 261.16 to PLN 274.59 (by 5.1 percent).

Throughout the entire year 2014, The Parent Company and most of the Capital Group's companies maintained good financial liquidity, which is confirmed by the liquidity ratios and on-time settlement of the financial liabilities, both in respect of the employees and suppliers as well as towards the government and financial institutions. Only such companies as Cynk-Mal S.A., Stalprodukt-Centrostal Kraków Sp. z o.o. and Gradir Montenegro d.o.o. experienced temporary problems with liquidity.

The Capital Group is not excessively indebted and only occasionally benefits from current credits. In the assessment of the financing banks the Stalprodukt Group continually enjoys good credit capacity, and the results achieved as well as the transparent assets and ownership status allow the Company to obtain financing for its activities in a variety of forms.

In 2014 both the Parent Company and its subsidiaries extended their agreements with banks for the provision of multi-purpose credit lines, in order to secure the Group's financing sources.

The Management Board does not predict any deterioration of the Group's financial standing in 2015. In order to maintain the good financial standing and liquidity, restructuring activities and further undertakings are pursued, focusing on the expansion to new supply and sales markets, rational management of inventories and receivables and reduction of costs.

Achieving good economic ratios and maintaining financial liquidity and credit capacity as well as on-time settlements of the incurred liabilities testify to the correct management of the financial resources.

#### **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**

- In accordance with the data released by the Polish Statistical Office (GUS), in 2014 the economic growth in Poland reached the level of 3.4% (against 1.7 % in 2013). This accounts for a significant improvement of economic conditions on the domestic market. This factor does not exert a significant impact on the Electrical Sheets Segment in Stalprodukt as only 4% of sales come from the domestic market. To a much higher degree, the GDP ratio affects the sales of such products as cold formed profiles or road barriers, although in the latter case, the main growth factor are the outlays on road construction and, especially, big projects connected with the construction of freeways and express ways.
- A significant factor, determining the performance of the Electrical Sheets Segment, is the increase of volumes by 21.6 per cent compared to 2013, partly resulting from the completion of the investment projects carried out with a view to launching the HiB sheets production, and partly from the improvement of the market conditions and growing number of orders. In effect, despite the decrease of average prices continued throughout the year, the Company managed to increase its sales in this operating Segment by 18.0 per cent, and the net result by 144.8 per cent.
- Another important factor affecting the results improvement in the Electrical Sheets Segment was the reversal of the negative price tendency, originated in 2010 and persisting up to the 1<sup>st</sup> quarter of 2014. The transformer sheets prices started to grow in the 2<sup>nd</sup> quarter of 2015 and the increase was maintained also in the successive quarters of the previous year. Numerous signals indicate that this is a persistent tendency, which will also be maintained in 2015.
- The decrease of sales volumes and average selling prices had a negative impact on the revenues generated by the Profiles Segment (which dropped by 4 per cent in the previous year). It should be stressed that the prices decline affected almost all the products belonging to this Segment. Despite this, the Profiles Segment generated a result close to the one achieved in 2013.

- A negative, although relatively slight, impact was exerted on the Company's results by the Segment of Other Activities, which recorded both a decrease in sales by 13.8 per cent, and a loss amounting to PLN 491 thousand (in 2013 a positive result at the level of PLN 855 thousand).

### ***Steel Market***

- In 2014, the global raw steel production output reached the level of 1 661.5 million tons, which accounts for a 1.2-per cent increase over the previous year. On the Polish market the raw steel output increased by 7.4 per cent, alike other steel products, such as: among others, COS semi-products, hot- and cold-rolled sheets, steel tubes or galvanized sheets and strips.
- A significant improvement should be noted in respect of the apparent steel consumption on the EU market. In 2013, a 0.2-per cent decrease of this ratio was recorded, whereas in 2014 a clear increase of apparent consumption occurred, by as much as 3.3 per cent.  
In Poland the apparent consumption of flat steel products (i.e. the ones that the Company specializes in) increased even more, i.e. by 11 per cent, reaching the level of 6.591 million tons. However, there's an unfavorable tendency connected with the continuous growth of imports, which reached 12 per cent for all steel products in 2014.

### **Zinc and Lead Market Conditions**

- The Zinc Segment results are strongly dependent on the stock exchange metal prices, i.e. zinc, lead and silver ones. Such a situation occurred in 2014 when average zinc prices, which exert the strongest impact on the Segment's results, increased by 13 percent, which was translated into a 98-percent increase of the Segment's performance.
- In 2014, the global mining zinc output increased by merely 0.6 % , i.e. to the level of 13.3 million tons. The metals output increased by 3.4 % over 2013 and also totaled 13.3 million tons. The global zinc consumption increased to the highest degree (as in the previous year), totaling 13.6 million tons, which stands for a 4.6% increase in relation to 2013.
- In the case of lead, the conditions were completely different. Decreases were recorded in respect of the mining output, metal production output and consumption as well. And so, the mining output decreased by 8.4 % (to 5.0 million tons), metal production output by 1.4 % (to 11.0 million tons), and lead consumption by 1.5 % (also to 11.0 million tons). The decrease of lead consumption contributed to the decrease of the stock exchange prices.
- The level of the zinc and lead prices obtained by the Group is directly dependent on the prices quoted on the London Metal Exchange (LME). This is the basic factor, affecting the results achieved by the companies involved in the production of these metals (ZGH „Bolesław” S.A. and Huta Cynku „Miasteczko Śląskie” S.A.). In 2014, the average LME special high grade zinc price amounted to 2164 USD/t and was higher by 13% compared to 2013 (1909 USD/t). The average LME lead price amounted to 2096 USD/t in 2014 and was by 2.1 % lower compared to 2013 (2141 USD/t).

## **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., 90.07 % in Zakłady Górniczo-Hutnicze "Bolesław" S.A. and 100% in the other companies.

## **7. Related party transactions**

Transactions with related parties in 2014 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.

A credit line agreement, comprising a working capital facility in the current account equipped with a limit of up to PLN 40 000 thousand was extended in July 2014 until 10 July 2015, and a limit for guarantees and letters of credit of up to the amount of PLN 20 000 thousand, concluded with the Nordea S.A. Bank (from 31.10.2014 PKO BP S.A.), was extended until 28.08.2015 r.

At the Pekao S.A. Bank based in Warsaw there's a guarantee and letter of credit line equipped with a limit of up to a total of PLN 75 000 thousand valid within 30.09.2015 r.

Within the framework of the credit limit, the Capital Group companies STP Elbud Sp. z o.o. and Cynk-Mal S.A. may use the sublimits of up to, respectively: PLN 13 000 thousand and PLN 21 502 thousand.

The Multi-Purpose Credit Line Agreement, concluded with the BNP Paribas Bank Polska S.A. based in Warsaw, intended for credits opened within the current account, guarantees and letters of credit, was extended for another annual term and equipped with the limit of up to PLN 50 000 thousand. The Agreement is valid until 13.01.2016.

Also the credit limit at Bank Handlowy w Warszawie S.A. was prolonged with regard to a revolving credit line intended to serve bank guarantees and letters of credit equipped with a revolving limit of up to PLN 65 000 thousand. The credit line refers to the amount of PLN 40 000 thousand and is intended to serve a current account credit and issue of guarantees and letters of credit within an 18 month period (until 08.07.2016) and PLN 25 000 thousand for long-term guarantees within a 6 year period (Agreement valid until 10.07.2015 r.).

Additionally, the Multi-Purpose Credit Limit Agreement with the PKO BP S.A. Bank based in Warsaw is still in force, serving transactions of up to up to PLN 50 000 thousand, intended for a credit in the current account, issuing letters of credit and granting guarantees. The Agreement is valid until 9.12.2015 r.

Also the subsidiary companies extended their current account credit line agreements for the following year, including Stalprodukt-Centrostal spółka z o.o. in Nordea S.A (currently PKO BP S.A.) bank with

the credit line amounting to PLN 20 000 thousand and Cynk-Mal S.A. as well as STP Elbud Sp. z o.o. in the Pekao S.A. bank, with the credit lines amounting to, respectively PLN 21 502 thousand and PLN 13 000 thousand within the framework of the credit granted to the parent Company.

In the reporting period, ZGH „Bolesław” S.A. did not practically benefit from any open account credit limits.

ZGH „Bolesław” S.A. Credit Lines - Breakdown:

- In April 2006, the Company concluded an agreement for an open account credit with ING Bank Śląski S.A. amounting to USD 10 000 thousand. In accordance with the amendment as of 31.08.2012 the final date for the use of the granted credit funds is extended by the successive 12 months, unless contradictory statements are made by the parties, however, the credit shall be valid no longer than by 31 October 2022.
- In March 2011, another credit agreement was concluded, in a form of an open account credit line, with the Polska Kasa Opieki S.A. bank, amounting to PLN 30 000 thousand. The credit maturity date was extended by the Amendment No 7 dated September 2014, until 30 September 2015. At the same time, the validity of the requested guarantees and letters of credit was also extended until 30 September 2015.
- In May 2011, the Company concluded an agreement for a current account multi-purpose credit line with BNP Paribas Bank Polska S.A. amounting to USD 10 000 thousand. On 9 December 2013, the credit limit amount was amended to PLN 15 000 thousand and, in accordance with the last Amendment No 7 dated 22 January 2015, the credit limit remained at the same level. Pursuant to the Bank's consent to the credit disbursement dated 29 December 2014, the current valid term for the credit disbursement was fixed as pending from 15 January 2015 to 13 January 2016.
- On 5 April 2011, an agreement was concluded for the release of a credit line for LC/ guarantee purposes, with Deutsche Bank Polska S.A. amounting to EUR 2 000 thousand. Pursuant to the Amendment dated 28 June 2011, the limit was reduced to the amount of EUR 1 000 thousand. By the Amendment dated 7 July 2014, the released credit line limit for guarantees and letters of credit was retained at the level of EUR 1 000 thousand and the agreement was extended until 29 June 2015.

In 2014, the Zinc Works - Huta Cynku “Miasteczko Śląskie” enjoyed open credit lines in the following banks:

- |                              |                      |
|------------------------------|----------------------|
| • GETIN NOBLE BANK SA        | PLN 5 000 thousand,  |
| • Credit Agricole CA Bank SA | PLN 10 000 thousand, |
| • PLN PKO BP SA.             | PLN 10 000 thousand, |
| • Pekao SA.                  | PLN 15 000 thousand, |
| • ING SA                     | PLN 30 000 thousand. |

The Zinc Works cooperated with Alior Bank S.A. and BNP PARIBAS in respect of treasury transactions within the framework of the granted transaction limits.

Moreover, in 2014, the Zinc Works HC “Miasteczko Śląskie” obtained a loan from the National Fund for Environmental Protection and Water Management, amounting to PLN 36 950 thousand to serve the investment project “Expansion of the Zinc Waste Recycling Plant with Three Additional Re-distillation Columns”.

Since 2004 the Bolesław Recycling Sp. z o.o. company has been using a loan from the National Fund for Environmental Protection and Water Management in Warsaw, intended as a subsidy for the investment project: "Zinc Oxide Works Modernization". In 2014, the Company continued to repay the loan. Towards the end of 2014 the nominal debt in respect of the loan concerned amounts to PLN 7 140 thousand.

In 2011, the National Fund for Environmental Protection and Water Management granted aid to the Company in the form of a preferential loan for the completion of the task: „Expansion of the Rolldown Furnaces Installation at BOLESŁAW RECYCLING Sp. z o.o.”. The loan granted pursuant to the agreement dated 15 June 2011 amounts to PLN 28 081 thousand. As of 31.12.2014 the debt in respect of the loan amounts to PLN 20 748 thousand.

In the reporting period, the Gradir Montenegro company used two credits at Hipotekarna Banka amounting to EURO 3.5 million and EUR 0.5 million. As of 31.12.2014 the remaining repayment amount totaled EUR 198,959. In January 2015 the debt was completely repaid.

Moreover, the Company is using the loans granted by ZGH „Bolesław”. As of 31.12.2014, the indebtedness level in respect of the loans stands at PLN 93.6 million.

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

On 4.07.2014 r. Stalprodukt S.A. guaranteed the liabilities of the Stalprodukt-Centrostal Kraków sp. z o.o for the Nordea S.A. (from 31.10.2014 PKO BP S.A.) based in Gdynia, in respect of the current account credit amounting to PLN 20 000 thousand. As of the balance sheet day, the Group does not have any other off-balance contingent liabilities, other than the performance guarantees regarding the production and erection of road safety barriers as well as guarantees and bills of exchange issued by ZGH „Bolesław” S.A. As of 31.12.2014, the amount of valid guarantees in this respect totals PLN 18 241 thousand. Additionally, according to the status recorded as of 31.12.2014, ZGH „Bolesław” holds a guarantee granted in June 2011 in respect of Bolesław Recycling Sp. z o.o. up to the amount of PLN 29 332 thousand, which secures the liabilities in respect of the loan granted by the National Fund for Environmental Protection and Water Management. As of 31.12.2014, the loan amount totaled PLN 20 748 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 2014, there were employed 124 people by the Company Stalprodukt S.A. At the same time, the employment relationship was terminated by mutual agreement or otherwise by 104 employees.

As at 31.12.2014 the employment of Capital Group amounted to 5,875 people, including:

- 1,513 people in the Parent Company,
- 4,362 people in subsidiary companies.

## **15. Investment activities and technological development**

In the reporting period, the Company carried out investments related to the development of its products and improvement of technological processes, construction works and undertakings affecting environment and work safety conditions.

### **Investments under Electrical Sheets and Profiles Segments**

#### **1. Investments related to expansion of product range**

- One investment project: “Launching the Production of HiB Electrical Sheets” was completed. Within the framework of the project, the following tasks were carried out, among others:
  - modernization of the WS-1 rolling mill,
  - modernization of the NT line (construction of a new furnace within the line),
  - modernization of B1 and B2 lines,
  - construction of a new ammonia reloading and storing station,
  - expansion of the nitrogen generating plant (purchase of a new generator),
  - providing technological installations and gases for the needs of the modernized lines,
  - mounting a laser treatment line for steel sheets ,
  - construction of a new hydrogen generation plant.

- An additional LOI furnace cap was provided for use.
- The sulphuric acid unloading station was modernized for compliance with the requirements of Transportation Technical Supervision.
- Oil coating units were purchased and installed within four technological lines in the Profiles Segment.
- A contract was signed for the purchase of a new saw for the line No 7 at the Profiles Department.
- A new nitrogen tank was installed for the use of the Transformer Sheets Department.
- A new linear welding unit was purchased for the line No 7 at the Profiles Department.
- A new unit was launched for the production of toroidal cores - "UNICORES" type.

## **2. Investments related to construction works**

- A construction of a new locomotive depot was started.

## **3. Investments affecting environment and work safety areas**

- A construction of a new clarifier and two-chamber sewerage detention tank.
- Vapor extractors were installed at the Profiles Department in Kraków.
- Within the framework of the boiler plant adjustment to the IED Directive requirements a contract was signed for the supply of a new gas-fueled water boiler tank and an extra bag filter to be installed in the existing fume extraction line, serving four OR-10 boiler tanks.

## **4. Other investment tasks**

- A new cooling system was launched for the linear welding machines at the Krakow Profiles Department.
- The S3-S switchgear for the Transformer Sheets Department was modernized.
- A super-efficient HPC computer was purchased for strength calculations road barrier crash simulation tests.
- A contract was signed for the supply of an M-1 wind park with a 200 kW vertical axis rotor.
- Construction works were continued for the B-1 wind park with a 1.5 MW vertical axis rotor. The project is co-financed from the resources channeled by Polish National Center for Research and Development and European Union, which is carried out jointly by the Anew Institute Spółka z o.o. and the Kraków University of Science and Technology.

## **Investments under Zinc Segments**

- In 2014, a new investment project was started in the Zinc Works - Huta Cynku "Miasteczko Śląskie" S.A. referred to as "Expansion of the Zinc Waste Recycling Plant with Three Additional Re-distillation Columns". This investment project will enable the production of the highest quality 100 % zinc (instead of GOB zinc). The project will be completed in the first half of 2015. In 75% it is financed from a preferential loan granted by the National Fund for Environmental Protection and Water Management. The modernization of the production processes and the increase of zinc output will guarantee the Company development and a high position to be maintained among other zinc producers.

- The investment tasks completed at ZGH "Bolesław" S.A. in their metallurgical part will improve the zinc production efficiency by the increase of zinc yield, and the tasks carried out in the mining part are improving the mine's efficiency by the reduction of costs of the main drainage system.

## **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 significant for the Group's development**

The Market Economy Research Institute prepared a forecast for the years 2015 – 2016. Selected elements are presented below.

In 2015, the **Gross Domestic Product** growth rate in Poland will reach the level of 3.5 per cent, which means that it will only be slightly higher than in the previous year. According to the forecast issued by the Market Economy Research Institute, the economic growth rate will be accelerating in the successive quarters of 2015, but the differences between the quarters will only be slight – in the first quarter the GDP will grow by 3.3 per cent, and in the fourth one by 3.8 per cent. In 2016, the economic growth is forecast to accelerate further up to 3.8 per cent.

- Forecast level of economic development

**In 2015 the added value in industry will increase by 4.7 per cent according to the forecast issued by the Market Economy Research Institute.** The industry growth rate should be relatively stable throughout the year and should quarterly reach approximately 4-6 per cent. According to the Institute's forecast, market conditions will improve for the construction sector, whose added value will increase by 6.7 per cent, following the previous year's increase by 5.0 per cent. The economic growth stabilization should be expected in the sector of market services, where the forecast growth of the added value will reach the level of 3.4 per cent in the year concerned. In 2016 the conditions will still be improving for industry, where the added value will grow by 5.0 per cent according to the Institute's forecast. The economic growth will also accelerate in construction and will reach the level of 7.5 per cent, mostly thanks to the investments carried out in the road and railway sectors.

- Demand

**In 2015 the growth rate of domestic demand will reach the level of 4.4 per cent**, the same as in the previous year. According to the Institute's forecast **individual consumption** will increase at the same time by 3.5 per cent, while the value of **gross fixed capital formation** will increase by 11.2 per cent. The growth of investments will primarily result from the increased outlays on simple reproduction of fixed assets in the sector of enterprises. The inflow of EU funds for the financing of infrastructural projects will be another factor to support the investments. In 2016 domestic demand will grow by 4.6 per cent both due to the growing individual consumption (by 3.8 per cent), and growing investment outlays (by 11.8 per cent). In the years 2015-2016 the domestic demand will be the main driving force of the economic development in Poland.

#### - Inflation

According to the forecast issued by the Market Economy Research Institute, in the first half of 2015 deflation will hold on in the Polish economy. In the first quarter the prices will go down by 0.6 per cent on average, and in the second one by 0.2 per cent. In the third and fourth quarter consumer prices should already be rising in the economy, and **an average inflation level will stand at 0.1 per cent throughout the year**. In 2016 inflation will still remain below the NBP (National bank of Poland) inflation target, and its average level will reach 1.6 per cent. Low inflation, especially in 2015, will create hospitable conditions for the reduction of the central bank's interest rates.

According to the forecast issued by the Market Economy Research Institute, in 2015 the **exports** growth rate in Poland will reach 6.2 per cent, while the **imports** will grow by 7.5 percent. This means that the foreign trade's contribution into the GDP formation will stay negative. In 2016, a faster growth of exports should be expected, with the increase reaching 7.0 per cent., and positive imports dynamics, with the increase by 8.5 per cent. Foreign trade conditions will, primarily, be shaped by the status of the European Union market conditions, therefore the growth rate of the Polish exports, accelerating to the level forecast for the years 2015-2016, is determined by the improvement of our key partners' market conditions.

In the Institute's assessment, in the years 2015-2016, a slight **appreciation** of the zloty to euro and dollar should be expected. Due to the maintained low interest rates, the appreciation trend will not be as clear as it might have seemed a few years ago. According to the Market Economy Research Institute, in 2015 the annual average euro and dollar exchange rates to zloty will equal 4.1 and 3.4 , respectively, whereas in 2016 the average euro to zloty exchange rate will stay at 4.0 , and dollar to zloty average exchange rate will be 3.3.

#### **Market forecasts**

According to the EUROFER forecasts, in the years 2015-2016 the EU steel market will gradually be strengthened. The increase of steel apparent consumption is supposed to reach, respectively, 1.9 % and 2.6 %. Falling crude oil prices and weaker Euro as well as the monetary policy loosening programme carried out by the European Central Bank, should act as the positive growth factors.

#### **Group's development prospects in 2015**

The objectives and marketing plans of the Stalprodukt S.A. Group for particular activity segments not only take into account the macroeconomic and industry specific forecasts, but also the Company's internal conditions.

#### **Transformer sheets**

The transformer sheets plan for 2015 contains an assumption for a significant increase of the sales value in relation to the sales completed in 2014. This is one of the two product groups in the entire structure, for which such a significant growth is planned.

The overall transformer sheets market conditions are being improved. There are signals for us to expect that this trend will continue and enable the transformer sheets profit margins to improve. Such a plan will be possible to carry out by increasing the sales share of laser-treated sheets and effective management of the production capacity in respect of new product, i.e the HiB sheets.

### Cold Formed Profiles

In 2015 the Company is planning only slight sales volume and value increases in respect of the cold formed profiles, as compared to the 2014 sales results. These assumptions result from the market signals. The growth rate of the profiles export markets, i.e. Germany, the Czech Republic and Baltic states – will result in the reduced cold formed profiles absorption of the consumer companies, which, considering the existing production capacity in Europe alone, will aggravate the competition and may induce the reduction of prices.

### Products of steel service centers

An increase of sales is planned over the 2014 sales results, although, under the present market conditions, the fulfillment of the plan will be a difficult task.

### Road safety barriers

The Company predicts a significant decrease of road barriers sales in 2015. The adopted assumptions are mainly influenced by the road investments implementation cycle, which usually lasts from 18 to 36 months. In 2015, several big road investments are planned to be completed, within the framework of which road barriers will be delivered and mounted. As late as in the 2nd half of 2015 one can expect road barriers assembly activities within the frames of investment projects launched in 2014.

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

### **a) Macroeconomic environment**

- The Profiles Segment's results are strongly dependent on the general economic conditions, and, in particular, on the development of such branches as construction and industry. The economic conditions in particular branches are best reflected by the Gross Domestic Product growth rate indicator. The relatively high growth rate for Poland (3.4 percent in 2014), as compared to other EU countries and the favorable forecasts for 2015 (3.2 – 3.5 percent depending on the forecasting center), allow us for moderate optimism in respect of the expected demand for the Group's products and potential increase of the sales revenues.
- The development of the Polish economy should also be supported by the EU resources, therefore the Company has high hopes for the new EU financial perspective for the years 2014-2020. The EUR 82.5 billion, that Poland is to receive, will surely have a positive impact on the economic 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, including the product group of road barriers, which is facing very good prospects for improved results in the years to come.
- The Group also operates on export markets (mainly EU ones) which generate up to 50 per cent of the total sales. Therefore, the economic conditions in the EU countries also have a significant impact on the level of the sales and results achieved. According to the forecasts

prepared by the European Commission, the GDP forecast for the year 2015 should reach the level of approx. 1.7 %, which accounts for an increase in relation to 2014 (1.3 %).

- One can, therefore, assume that a favorable economic environment, both on the domestic market, and on the EU markets, will be hospitable to the growing sales of the products offered by the Group.

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

The demand for steel products on the EU markets is an essential factor affecting the growing sales of the products offered by the Group. The year 2014 brought a relatively high increase (3.4 %) of steel apparent consumption in the European Union. The forecasts for the year 2015 prepared by EUROFER are less favorable and predict an increase at the level of 1.9 %.

**c) Charge material supply markets**

The cost of charge material (mainly hot- and cold rolled sheets in coils) is the main component of production costs at the Profiles Segment, and the profit margins obtained from the sales are relatively low (except for the road safety barriers). Charge material prices rising too high might have a negative impact on the obtained profit margins. All the more so, as under the conditions of aggravated competition, the possibility of a complete translation of these costs to the prices of the finished products are limited.

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

Massive competition existing among the producers of cold formed profiles is a significant risk factor for the sales targets planned by the Company. The price stands for the basic criterion governing the selection of offers, which leads to the decrease of the obtained profit margins.

**e) New requirements concerning transformers produced on the EU market**

The EU Ecodesign Directive, to be effective as of 1 July 2015, will force the transformer manufacturers to apply materials characterized with better quality parameters, which will be translated into the increased use of high-grade (HiB) transformer sheets. The Company has been preparing to meet these new conditions for several years, among others, through the necessary modernizing investments and launching of the HiB technology. In 2014, Stalprodukt conducted the necessary tests aimed at the quality improvement of the processed HiB sheets, however, one of the conditions determining the fulfillment of this goal is obtaining good input material, which remains beyond the Company's control. The non-fulfillment of this condition might threaten the materialization of the HiB sheets sales targets adopted for the year 2015, and possible loss of EU market shares at the same time.

The Company is trying to minimize the risk from the absence of an appropriate product offer by offering laser-treated sheets for some applications, the sheets - which, in many cases, comply with the Ecodesign Directive.

**f) Risks related to the Zinc Segment activities**

The main among the above mentioned risks are:

- the risks recognized at the ZGH “Bolesław” S.A. purchase stage,
- high sensitivity of the pursued activities to the decrease of zinc and lead prices and also to the strengthening of the zloty,
- growing concentrate prices and limited access to raw materials,
- a very high share of energy costs in the production costs and absence of systemic solutions in this respect (i.e. lack of excise tax breaks for energy-intensive businesses, necessary support for renewable energy etc.).
- limited perspectives for the excavation of zinc and lead ores in the Olkusz area and necessity to provide a new raw material base for the Bukowno Works.

The depletion of the natural resources, reduction of zinc content in the excavated ore, and the resulting continuous decrease of the Company's own concentrate, force ZGH “Bolesław” S.A. to develop a raw material policy capable of guaranteeing the charge for zinc production after the mining activities have been wound up. Therefore, building the raw material base, and the raw material safety related thereto, is the Group's strategic area of interest. The activities pursued to this end are focused on:

- new mining projects, mainly in the close proximity to the natural resources currently exploited by ZGH “Bolesław”,
- acquiring classified sulphide concentrate from the post-flotation tailings deposited in sludge ponds. In 2015, a new investment project will be initiated – “Construction of Flotation Tailings Processing Plant”. The new plant should provide approx. 25 thou. tons of blended concentrate per year.
- expanding the base of steelmaking dusts suppliers to ensure a better exploitation of the newly constructed plant for the deep dechlorination, defluorination and leaching of the raw zinc oxide derived from the processing of steelmaking dusts. At present, these oxides account for approx. 26 percent of the charge at the Bolesław works, and the planned target share is up to 40 percent.
- Establishing the most advantageous rules of the Group's concentrate purchases and concluding long-term commercial contracts should ensure their systematic supplies.

**g) Risks Related to Financial Instruments**

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

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

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

**19. Any and all agreements between the Issuer and its management, providing for compensation in the event of resignation or dismissal from a position held**

**without a valid reason or if their withdrawal of dismissal is due to the merger by acquisition of the Issuer**

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

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

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

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

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

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

|                | Base pay         | Bonus for the results* | Royalties from the profit for 2013 | Remuneration for holding positions in the statutory bodies of the subsidiaries | Total            |
|----------------|------------------|------------------------|------------------------------------|--|------------------|
| Piotr Janeczek | 805 000          | 992 754                | 39 753                             | 153 622  | 1 991 129        |
| Józef Ryszka   | 402 500          | 398 580                | 19 877                             | 81 479   | 902 436          |
| Total          | <b>1 207 500</b> | <b>1 391 334</b>       | <b>59 630</b>                      | <b>235 101</b>   | <b>2 893 565</b> |

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

|                      | Allowance | Royalties from the profit for 2013 | Remuneration for holding positions in the statutory bodies of the subsidiaries | Total   |
|----------------------|-----------|------------------------------------|--|---------|
| Stanisław Kurnik     | 80 504    | 9 938                              |  | 90 442  |
| Kazimierz Szydłowski | 69 003    | 9 938                              | 43 116   | 122 057 |
| Janusz Bodek         | 63 255    | 9 938                              | 47 576   | 120 769 |
| Maria Sierpińska     | 69 003    | 9 938                              |  | 78 941  |

|                         |                |               |               |                |
|-------------------------|----------------|---------------|---------------|----------------|
| Augustine Kochuparampil | 0,00           | 4 693         |               | 4 693          |
| Tomasz Plaskura         | 63 255         | 9 938         |               | 73 193         |
| Tomasz Ślęzak           | 63 255         | 5 245         |               | 68 500         |
| <b>Total</b>            | <b>408 275</b> | <b>59 628</b> | <b>90 692</b> | <b>558 595</b> |

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

### **1. Management:**

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

### **2. Supervisory Board Members:**

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

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

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

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

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

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

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

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

## **25. Information on the body authorized to audit financial statements**

- The Stalprodukt Company reached an agreement for a semi-annual review and complete audits of financial statements (separate and consolidated) for the year 2014 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 25.06.2014.
- The net remuneration under the agreement amounts to PLN 59,000.

### **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](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 (the information is consistent with the possessed the Company's knowledge at the date of the report),**

1. ArcelorMittal Poland S.A. holding 2,270,800 shares, representing 33.77% of the share capital, and 6,846,800 votes, representing 38.20% of the total votes at the AGM,
2. STP Investment S.A. holding 1,959,725 shares, representing 29.14 % of the share capital, and 5,899,941 votes, representing 32.92 % of the total votes at the AGM,
3. Stalprodukt Profil S.A. holding 614,065 shares, representing 9.13 % of the share capital, and 936,349 votes, representing 5.22 % of the total votes at the AGM.

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

There are no securities that would grant special control rights.

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

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

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

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

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

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

The Management Board of the Company operates under the provisions of the Commercial Companies Code and the Company's 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 2014, 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 2014, 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 2014, the Audit Committee was composed of:

1) Maria Sierpińska - Chairman

2) Kazimierz Szydłowski

3) Tomasz Plaskura

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

.....  
Józef Ryszka  
Management Board Member - Marketing Director