

REPORT OF FERRUM S.A. SUPERVISORY BOARD ON BUSINESS ACTIVITIES IN 2015

Acting pursuant to § 12 item 2 point n) of the Supervisory Board Rules of Procedure of FERRUM S.A. seated in Katowice, the Supervisory Board provide the General Meeting of Shareholders with the Supervisory Board Report on business activities in 2015.

The Supervisory Board of FERRUM S.A. acted in compliance with the provisions of the Commercial Companies Code, the Company Articles of Association and the Supervisory Board Rules of Procedure in the reporting period. The main assignment of the Supervisory Board was the continued supervision of the Company business activities by way of all legally accessible means.

1. PERSONAL COMPOSITION OF FERRUM S.A. SUPERVISORY BOARD

The Supervisory Board of FERRUM S.A. consisted in seven persons in the financial year 2015.

As on 1st January 2015, the Supervisory Board of FERRUM S.A. of the VIII term of office comprised of:

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| - Bogusław Leśnodorski | - Chairman of the Supervisory Board |
| - Lech Skrzypczyk | - Vice-chairman of the Supervisory Board |
| - Piotr Chała | - Secretary of the Supervisory Board |
| - Sławomir Bajor | - Member of the Supervisory Board |
| - Martyna Goncerz-Dachowska | - Member of the Supervisory Board |
| - Hubert Pietrzak | - Member of the Supervisory Board |
| - Surojit Kumar Ghosh | - Member of the Supervisory Board |

On 21st December 2015 the Extraordinary General Meeting of Shareholders of FERRUM S.A. dismissed Mr. Surojit Kumar Ghosh from the position of the Supervisory Board member and appointed instead Mr. Marek Makowski.

In regard of the above, in the period from 21st December 2015 to 31st December 2015, personal composition of FERRUM S.A. Supervisory Board was as presented below:

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|-----------------------------|--|
| - Bogusław Leśnodorski | - Chairman of the Supervisory Board |
| - Lech Skrzypczyk | - Vice-chairman of the Supervisory Board |
| - Piotr Chała | - Secretary of the Supervisory Board |
| - Sławomir Bajor | - Member of the Supervisory Board |
| - Martyna Goncerz-Dachowska | - Member of the Supervisory Board |
| - Marek Makowski | - Member of the Supervisory Board |
| - Hubert Pietrzak | - Member of the Supervisory Board |

According to the submitted statements, the criteria of independence specified in Art. 15 of the Company Articles of Association are fulfilled regarding Mr. Bogusław Leśnodorski. In the

remaining scope, the Company assessment of the independence status quo of the Supervisory Board members confirms correctness and compatibility of the statements filled by these persons in connection with their appointment for the positions of Supervisory Board members.

2. PERSONAL COMPOSITION OF FERRUM S.A. AUDIT COMMITTEE

In the period from 1st January 2015 to 21st December 2015 the Audit Committee comprised of three persons. As on 1st January 2015, personal composition of the Audit Committee was as presented below:

- Martyna Goncerz-Dachowska - Chairman of the Audit Committee
- Lech Skrzypczyk - Member of the Audit Committee
- Surojit Kumar Ghosh - Member of the Audit Committee

With reference to the dismissal of Mr. Surojit Kumar Ghosh from the position of the Supervisory Board member by the Extraordinary General Meeting of Shareholders on 21st December 2015, the personal composition of the Audit Committee was also subject to change. In respect of the above, in the period from 21st December 2015 to 31st December 2015 the Audit Committee of the Supervisory Board of VIII term of office consisted in two members.

3. OPERATIONS OF FERRUM S.A. SUPERVISORY BOARD

In the period from 1st January 2015 to 31st December 2015, the Supervisory Board held nine recorded meetings, at which 32 resolutions were adopted. Moreover, in the period referred to above, the Supervisory Board expressed its opinion twice in the form of a resolution adopted by correspondence, through means of distance communication, under Art. 388 § 3 of the Commercial Companies Code and § 11 point 6 of the Rules of Procedure of FERRUM S.A. Supervisory Board.

Resolutions of the Supervisory Board adopted in the above period were related to the issues specified as follows:

- absence of the Supervisory Board Member at the Supervisory Board meeting formally convened
- changes to the Regulations of the Audit Committee of FERRUM S.A. Supervisory Board
- absence of the Supervisory Board Member at the Supervisory Board meeting formally convened
- approval of the written assessment of the Annual stand-alone financial statement of FERRUM S.A. for the 12-month period closed on 31st December 2014 and the Management Board Report on FERRUM S.A. business activities in 2014
- evaluation of the Management Board petition for 2014 net loss coverage
- approval of the written assessment of the Annual consolidated financial statement of FERRUM Capital Group for the 12-month period closed on 31st December 2014 and the Management Board Report on the business activities of FERRUM Capital Group in 2014
- approval of the written Supervisory Board Report on the evaluation of the Company and Capital Group Financial Statements and the Management Board Reports on the Company and FERRUM Capital Group business activities in 2014
- approval of the Supervisory Board Report on business activities in 2014
- consent to establish collateral to the general agreement on the contractual guarantee issuance

- approval of FERRUM S.A. Supervisory Board Rules of Procedure after amendments
- approval of changes to the Rules of Procedure of FERRUM S.A. Management Board
- approval of the business order of the General Meeting of Shareholders of FERRUM S.A.
- appointment of an auditor to audit financial statements of the Company and FERRUM Capital Group for 2015
- absence of the Supervisory Board Member at the Supervisory Board meeting formally convened
- consent of FERRUM S.A. to release Odlewnia Kutno Sp. z o.o. seated in Łaziska Górne from joint and several liability for the claims of HW Pietrzak Holding S.A. related to the OŻ Kutno operations
- absence of the Supervisory Board Member at the Supervisory Board meeting formally convened
- decision on the unified Articles of Association of FERRUM S.A.
- consent to conclude a loan contract with Towarzystwo Finansowe Silesia Sp. z o.o. seated in Katowice
- consent to conclude an arrangement with mFactoring S.A. seated in Warsaw
- consent to conclude an arrangement with ING Bank Śląski S.A. seated in Katowice
- consent to conclude an arrangement with Bank Millennium S.A. seated in Warsaw
- approval of the business order of the Extraordinary General Meeting of Shareholders of FERRUM S.A.
- consent to establish collateral for the benefit of WĘGŁOKOKS S.A.
- approval of the business order of the Extraordinary General Meeting of Shareholders of FERRUM S.A.
- appointment of the Vice-president of FERRUM S.A. Management Board for VIII term of office
- establishment of the collateral Art. 777 Code of Civil Procedure
- dismissal of the Vice-president of FERRUM S.A. Management Board Mr. Jacek Podwiński
- remuneration rules regarding Vice-president of the Management Board of FERRUM S.A. for VIII term of office
- appointment of the Audit Committee Member of FERRUM S.A. Supervisory Board
- change of the performed function of the Management Board Member of VIII term of office
- change of the workplace assigned in the contract concluded with the Management Board Member of VIII term of office
- approval of the arrangement with ING Bank Śląski S.A. signed by FERRUM S.A. Management Board on 23rd December 2015
- approval of the arrangement with Bank Millennium S.A. signed by FERRUM S.A. Management Board on 23rd December 2015
- approval of the arrangement with mFaktoring S.A. signed by FERRUM S.A. Management Board on 23rd December 2015

Having assessed fulfillment of the disclosure obligations by FERRUM S.A. with regard to the corporate governance principles, the Supervisory Board concluded that these obligations are executed correctly, effectively and within assigned deadlines. In connection with the changes in the Good Practices of WSE Listed Companies, on 29th January 2016 the Company published a relevant statement referring to the new corporate governance principles.

The Supervisory Board state as well that FERRUM S.A. does not run any sponsorship, charity or similar type of business.

4. OPERATIONS OF THE AUDIT COMMITTEE OF FERRUM S.A.

In the period from 1st January 2015 to 31st December 2015, the Audit Committee held four recorded meetings on 9th March, 22nd April, 25th May and 21st September 2015 respectively.

At the Audit Committee meeting held on 9th March 2015, the order of business included the below issues:

- Approval of the protocol no. 2/KA/VIII/14 dated 11th June 2014.
- Report of the expert auditor on the audit progress and any potentially revealed problems.
- Discussion of the issues specified in the auditor's letter to the Audit Committee.
- Discussion of inventory write-offs.
- Discussion of write-offs of non-moving finished products and evaluation of finished products of G2 and G3 type.
- Discussion of goods write-offs.
- Approval of the Audit Committee Report on business activities in 2014.

The representative of MW Rafin Sp. z o.o. spółka komandytowa, an expert auditor examining financial statements of the Company and FERRUM Capital Group for 2014, also participated in this meeting.

At the Audit Committee meeting held on 22nd April 2015, the order of business included the below issues:

- Approval of the protocol no. 3/KA/VIII/15 dated 9th March 2015.
- Assessment of the annual stand-alone financial statement of FERRUM S.A. for the 12-month period closed on 31st December 2014 and the Management Board Report on FERRUM S.A. business activities after its audit, in order to be submitted to the Supervisory Board.
- Assessment of the annual consolidated financial statement of FERRUM Capital Group for the 12-month period closed on 31st December 2014 and the Management Board Report on the business activities of FERRUM Capital Group after its audit, in order to be submitted to the Supervisory Board.
- Assessment of the Management Board petition for net loss coverage for 2014, in order to be submitted to the Supervisory Board.
- Discussion of the Company financial results for the 1st quarter 2015.

At the Audit Committee meeting held on 25th May 2015, the order of business included the below issues:

- Approval of the protocol no. 4/KA/VIII/15 dated 22nd April 2015.
- Consideration of the Management Board petition filed with the Audit Committee to recommend FERRUM S.A. Supervisory Board an auditor examining 2015 financial statements of the Company and FERRUM S.A. Capital Group.

The Audit Committee, upon the request of FERRUM S.A. Management Board, provided the Supervisory Board with its written recommendation regarding appointment of Deloitte Polska Sp. z o.o. Sp. k. as the auditor examining 2015 financial statements of the Company and FERRUM S.A. Capital Group.

At the Audit Committee meeting held on 21st September 2015, the order of business included the below issues:

- Approval of the protocol no. 5/KA/VIII/15 dated 25th May 2015.
- Discussion of the stand-alone and consolidated financial results for the 1st quarter 2015.
- Report of the expert auditor on the audit results of the half-year financial statement and any potentially revealed problems.
- Verification of execution of the Audit Committee recommendations regarding:
 - a) Current presentation of deviations from the production technical cost in the accounting books;
 - b) Appraisal of the inventory of finished products, particularly G2 and G3;
 - c) Realization of non-moving inventory;
 - d) Implementation of a systemic solution for quality improvement, considering the appraisal manner of impaired products;
 - e) Implementation of the procedures for debt collection and granting internal limit by the Management Board.

The representative of Deloitte Polska Sp. z o.o. Sp. k., an expert auditor appointed to examine 2015 financial statements of the Company and FERRUM Capital Group, also participated in this meeting.

5. ASSESMENT OF THE COMPANY SITUATION, INCLUDING THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IMPORTANT FOR THE COMPANY

The Company Supervisory Board positively assess the Company situation in 2015 and the Management Board operations in this period.

The most significant events which directly impacted the Company situation:

- Sale of products lower by 12,2%;
- Sale of materials and products lower by 84,3% resulting from ceased trading of steel products between the Company and HW Pietrzak;
- Costs of external services higher by 25% resulting mainly from the services of renowned financial consultants used by the Company;
- Cost of paid remuneration higher by 8% resulting mainly from overtime;
- Extending the conclusion of the framework agreement with OGP GAZ System after the 1st quarter 2015;
- Delays in holding and settling tenders in the gas industry i.e. mainly in OGP Gaz System;
- Lower price of base materials for the production of i.e. hot rolled tape in comparison to 2014;
- Decreased production of tubes and profiles;
- Sale of tubes from the inventory;
- Modernization of the spirally welded tube unit commenced in December 2015;
- Release of liability write-offs in the amount of 2,6 m PLN,
- Creation of liability write-offs in the amount of 44,4 m PLN, including 43,8 m PLN for HW Pietrzak liabilities;

- Release of write-offs for the finished products inventory, production in progress, goods and materials in the amount of 1,5 m PLN;
- Creation of write-offs for the finished products inventory, production in progress, goods and materials in the amount of 6,2 m PLN;
- Deferred income tax influencing positively the financial results in the amount of 9 725 k PLN;
- Signature by the Issuer of the below:
 - o On 23rd July 2015 the agreement on the mFactoring receivables against FERRUM, pursuant to which the Company approved the receivables of mFactoring against FERRUM S.A. in the amount of 49,9 m PLN (i.e. 45,6 m PLN and 1,1 m EUR). (the receivables in the specified amount result from the trade transactions of steel product deliveries concluded between the Company and HW Pietrzak; HW Pietrzak receivables were acquired by mFactoring under the factoring agreement bounding HW Pietrzak and mFactoring)
 - o On 23rd December 2015 a set of interrelated documents determining the new debt restructuring model, entailing the so-called restructuring costs connected to the services of external companies co-participating in the process of the strategy preparation and debt restructuring.

6. SUMMARY

Summarizing the whole range of business activities in the financial year 2015, the Supervisory Board of FERRUM S.A. assess its and the Audit Committee work as performed effectively.

The Supervisory Board continuously monitored the Company situation and gave opinions on the current issues and planned undertakings. In the whole reporting period, all Members of the Supervisory Board remained in permanent contact with the Management Board of FERRUM S.A. The Supervisory Board was capable of acquiring information from the Company Management Board on its financial condition, undertakings performed by the Company and cooperation with the business partners. Consultations on the issues related to the respective aspects of its operations were held on a current basis. Performing its duties, the Supervisory Board acquired necessary information from the documentation, presentations and explanations delivered by the Company Management Board. Cooperation with the Management Board was seamless. The presented documentation was complete and correctly prepared.