

STATEMENT OF THE
MANAGEMENT BOARD
ON COMPANY'S
ACTIVITIES IN 2016

Zakłady Urządzeń Kotłowych
„Stąporków” S.A.



Date of publication: 2 May 2017

- Stąporków -



LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD TO THE SHAREHOLDERS OF ZUK 'STĄPORKÓW' S.A.

Dear Shareholders, Investors and Business Partners,

on behalf of Zakłady Urządzeń Kotłowych 'Stąporków' S.A. I hereby disclose the statement of the Management Board on Company's activities in 2016. The statement has been prepared in accordance with the Accounting Act and audited by certified auditors. The published data are aimed at ensuring a fair assessment of the Company's financial position and its further prospects.

Results achieved by ZUK 'Stąporków' SA in 2016 in terms of the level of sales revenues (revenue of PLN 41 million versus PLN 77 million in the previous year, operating profit of approximately PLN 15.3 million and net profit of PLN 15.5 million "below the line") cannot be considered satisfactory. Nonetheless, I wish at this point, to draw your attention to several key factors of an objective nature, which directly influenced the result. In the last financial year, which undoubtedly proved to be one of the most difficult in the Company's history, we were forced to face the biggest challenges since the Company's privatization. Write-downs of certain items of assets has been made, restructuring of employment has been carried out, provisions for doubtful receivables has been established and thorough review of the inventory has been performed. Each of these operations had an adverse impact on the presented result of the Company. In addition, the current financial and organizational condition of the Company, prospects of its development, market downturn and temporary deterioration of the volume of orders for the power and environmental protection sectors, falling unemployment rate, difficulties in acquiring highly qualified employees and perceived need to open up to new markets led to the decision to conduct at the turn of the past and coming fiscal year, radical restructuring measures. In order to achieve these goals, the Company has obtained a significant financial investor, who together with the Management Board, is engaged in intensive efforts to recover the full operating profitability. In addition, the investor will contribute the financing to the Company, which not only will gently go through the coming period of change, but also allow to set realistic and ambitious new plans and challenges. ZUK "Stąporków" SA will continue to focus its core activity in four main sectors:

- power industry - as a supplier of equipment for heat and power industry;*
- environmental protection - as a manufacturer filters and air protection devices, including those based on Company's own patented solutions;*
- construction - as a manufacturer of shuttering systems used mainly in infrastructure construction and general construction;*
- renewable energy sources - as a manufacturer of specialized equipment and as a technology supplier.*

In connection with the results achieved, the Management Board does not anticipate paying a dividend to the Shareholders for the year 2016. However, we believe that the actions taken will lead to a rapid improvement of financial situation of the Company and returning to the dividend model of awarding the Shareholders.



I assure all the Shareholders of ZUK 'Stąporków' SA that the Management Board and the employees of the Company are making every effort to ensure, in all market conditions, the security of the funds invested by the Shareholders and the results on these investments.

The year 2017 will be another period of hard work for the Company, on the one hand focused on using opportunities offered by the market, and on the other hand, on the consistent implementation of development plans and strategy. It will be a groundbreaking year which will show that a large-scale restructuring will bring the desired results. We are aware that both the Shareholders, as well as the financial institutions and the market environment of the Company are expecting this.

On behalf of the Management Board, I would like to thank all our Investors, Clients and Employees for your trust and confidence in our Company's growth potential, and I encourage you to familiarize yourself with the Annual Report for 2016.

Sincerely,

Grzegorz Pasturczak

President of the

Management Board

1 Selected financial data

The basic financial data is presented in the table below:

Selected financial data	PLN THOUSAND		EUR THOUSAND	
	2016	2015	2016	2015
I. Net revenue from the sale of products, goods and services	41 874	77 969	9 570	18 631
II. Profit (loss) from operations	-15 326	508	-3 503	121
III. Gross profit (loss)	-16 310	-75	-3 727	-18
IV. Net profit (loss)	-15 777	-1 530	-3 606	-366
V. Net cash flow from operating activities	2 408	-6 440	550	-1 539
VI. Net cash flow from investing activities	-8	-1 466	-2	-350
VII. Net cash flow from financing activities	-593	8 650	-135	2 067
VIII. Total net cash flow	1 807	745	413	178
IX. Assets, total	59 741	84 725	13 504	19 881
X. Liabilities and provisions for liabilities	43 511	52 718	9 835	12 371
XI. Long-term liabilities	12 734	6 631	2 878	1 556
XII. Short-term liabilities	20 167	37 452	4 558	8 788
XIII. Equity	16 231	32 007	3 669	7 511

XIV. Share capital	1 531	1 531	346	359
XV. Number of shares	4 503 790	4 503 790	4 503 790	4 503 790
XVI. Profit (loss) per ordinary share (in PLN / EUR)	-3,50	-0,34	-0,80	-0,08
XVII. Book value per share (in PLN / EUR)	3,60	7,11	0,81	1,67

The financial data presented above have been converted into EUR according to the following rules:

- individual items of the balance sheet were converted into EUR at the exchange rate announced by the National Bank of Poland (NBP), that is as at 31 December 2016 (EUR 1 = PLN 4.4240) and 31 December 2015 (EUR 1 = PLN 4.2615);
- individual items of the profit and loss account and the cash flow statement were converted into EUR at the arithmetic mean of exchange rates published by the National Bank of Poland for the last day of each month during the reporting period i.e. from 1 January to 31 December 2016 (EUR 1 = PLN 4,375) and from 1 January 2015 to 31 December 2015 (EUR 1 = PLN 4,1848).

2 Information about the Company and its activities

2.1 History of the Company

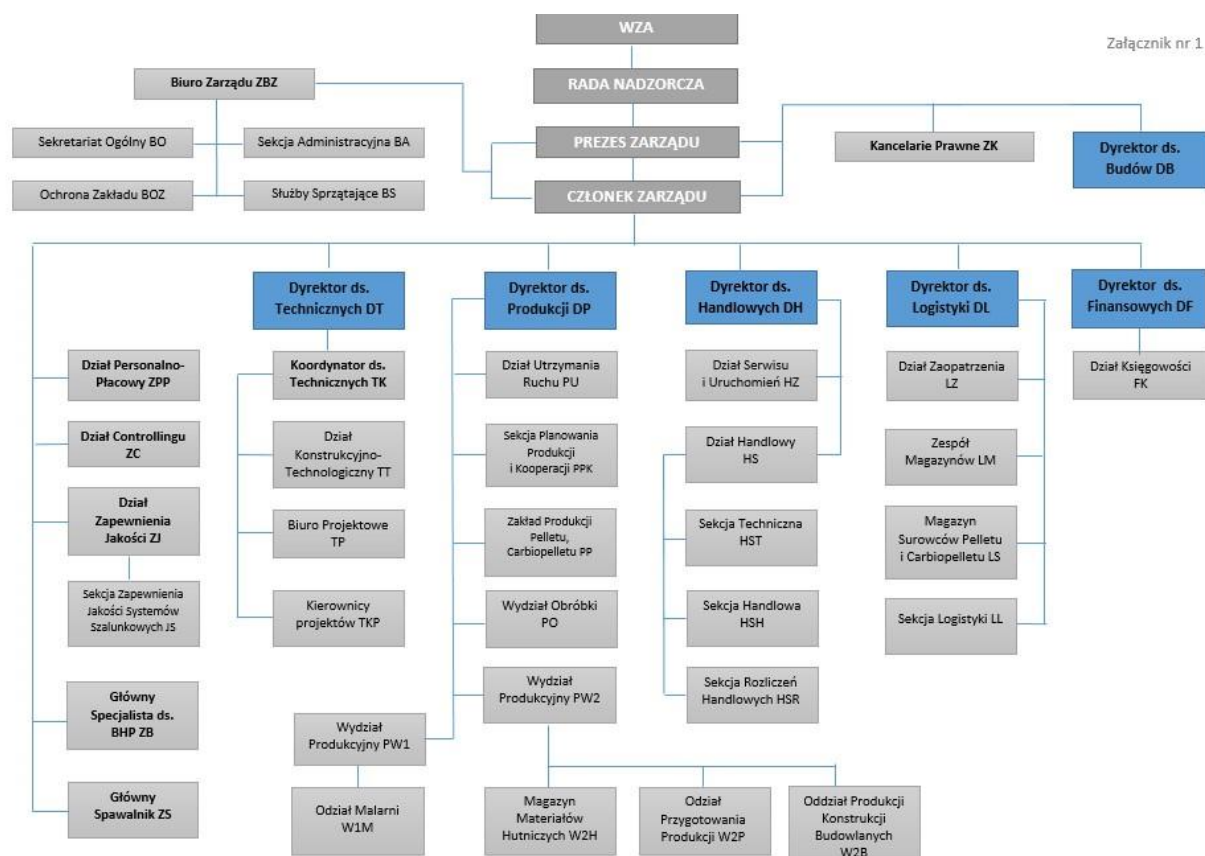
The documented history of industrial activity is associated with the year 1738, when Chancellor Jan Małachowski built a large furnace for iron processing at the production site of Zakłady Urządzeń Kotłowych 'Stąporków'. In the interwar period, 'Stąporków Steelworks' was located here. After the Second World War, the 'Stara Góra' ('the Old Mountain') mine was also built. It was liquidated in the early 1970s.

At that time, the Mining and Metallurgy Plant 'Stąporków' was established and since 1976, upon the decision of the Minister of Heavy and Agricultural Machinery – ZAKŁADY URZĄDZEŃ KOTŁOWYCH 'STĄPORKÓW'. Then, the basic profile of the production became: mechanical grates, grate drives and slag traps. The economic transformations taking place in Poland in the late 1980s have provoked the need to diversify the activity and broaden the scope of production not only for the needs of the thermal power industry but also for the broadly understood metal industry. ZUK 'Stąporków' Spółka Akcyjna (Joint Stock Company; the Company, the Issuer) was incorporated in 1995 as a result of transformation into a state-owned stock company. In September 1995, the Company's shares were transferred to the National Investment Funds. In July 2002, the lead fund and other investment funds sold shares in ZUK 'Stąporków' to STALMAX S.J. and to the then President of the Management Board, Marek Milczarek.

On 3 August 2007 the Company debuted on the Warsaw Stock Exchange. Currently, Zakłady Urządzeń Kotłowych Stąporków is one of the leading companies serving the thermal power industry in Poland. The company operates on the market since 40 years.

2.2 Principles of business management

The table below presents the organizational structure of the company:



On 31 October 2016, the Supervisory Board approved a resolution amending the Organizational Rules of the Company, annex to which is the organizational chart presented above.

2.3 Description of the business activity

The company runs production activities at its headquarters in Stąporków. The scope of the current activities of the Company covers the following areas:

- power industry,
- environmental protection industry,
- production of elements for the infrastructure

- production of machines for various industries,
- services,
- biomass processing.

The company operates on the basis of gained experience and market expectations, and adjusts its offer to market needs. The company independently develops, improves and implements new products. The Company is a fully independent entity - it does not own shares in other entities as well as does not have branches.

2.4 Areas of business

Within the area of the Power Sector, the Company's activities cover:

- the design and manufacture of complete carburizing, burning and de-slagging systems.

The company has a design office equipped with AUTOCAD and SOLIDWORKS software. The vast majority of products for the power sector is produced by the Company according to its own projects.

- assembly of offered goods;

Mechanical grates and slag traps manufactured by the Company reach the weight of about 54 tons and considerable dimensions, which causes them to be delivered in parts. On power plants, they are assembled by the company's service groups.

- modernization of heating systems;

In recent years, the company's designers have made a number of changes in the design of the manufactured equipment, aimed at improving their functionality and work efficiency. The works in this direction are still very intensively conducted. The most important issue is the co-firing of coal dust and biomass and burning of clean biomass.

- Sales and distribution of a wide range of products for the power industry;

The Company has its own trade and commercial services with subordinated storage facility for manufactured products and spare parts. A part of products subject to rapid wear and tear, are available in continuous sale.

- production of devices for the manufacturing of pellet from biomass

In the area of environmental protection the business activities include:

- Design and manufacture of complete dedusting systems

The design office of the Company prepares the construction documentation according to its own solutions and assumptions. The offered solutions meet the requirements of the current environmental standards.

- assembly of devices:

The dedusting systems designed and manufactured by the Company are large-scale and reach a significant weight of several to several dozen tonnes. Such a situation causes that these devices are delivered to the facility in parts, where they are assembled and commissioned by the Company's service.

- servicing and commissioning of equipment:

At the request of a Client, the Company carries out inspections, repairs and commissions of equipment during and after the warranty period.

In the area of Production of elements for infrastructure, the Company's activities include:

- design and construction of steel structures;
- production of formwork systems, anchoring systems and metering containers for concrete;
- manufacture of systems for urban architecture;
- production of special shuttering panels;

The company also provides services in particular in the following areas:

- design and manufacture of complete carburizing, burning and de-slagging systems;
- modernization of manufactured equipment;
- assembly of offered products from the heating industry.

In the field of industrial machinery production the business activities include:

- construction of machinery on the basis of entrusted documentation – i.e. paper industry machinery, machinery for the food industry or mining industry.

In the field of biomass processing the business activities include:

- lines for feeding, grinding and granulating agro biomass.

2.5 Outlets and supply markets

Recipients

The company runs production activities at its headquarters in Stąporków. The Company's activity is based on a flat organization structure of trade and the lack of strict regionalization.

Such a structure allows for ensuring better relations between employees of the

Company and its customers.

The Company also carries out export activities. Based on long-term business contacts, the Company is present in Europe and intends to enter new markets.

The territorial structure of sales revenues is presented in the table below:

Item	2016		2015		Change (%)
	(PLN THOUSAND)	(%)	(PLN THOUSAND)	(%)	
Domestic sale	28432,5	67,90	57642,6	73,93	-50,67
Export, including	13441,5	32,10	20325,9	26,07	-33,87
<i>Germany</i>	9779,8	23,35	11612,3	14,89	-15,78
<i>Norway</i>	266,6	0,64	4372,4	5,61	-93,90
<i>Sweden</i>	2570,5	6,14	1812,4	2,32	41,83
<i>Finland</i>	634,2	1,51	1807,2	2,32	-64,91
<i>Other countries</i>	190,4	0,46	721,6	0,93	-73,61
Total:	41874,0	100,0	77968,5	100,00	-46,29

Domestic sales is realized primarily in the area of energy. The Company holds significant competences in this field. Export sales are based on products for environmental protection and infrastructure sectors. As regards export sales, the Company is present in particular in Germany and in Scandinavian countries (Norway, Sweden and Finland).

In 2016, the share of export sales in total sales increased, which is related in particular to a decrease in domestic sales.

Suppliers

Within its operations, the Issuer cooperates with both Polish and foreign suppliers.

Key contractors

The Company's key contractor in 2016 was Hünnebeck GmbH, based in Germany. This entity is also the largest recipient of the Company's services as well as one of the largest suppliers of production materials for the Company.

In 2016 the share of supplies of the aforementioned entity accounted for 7.2% of the total purchase of materials. At the same time, the share of turnover associated with above mentioned entity as a recipient, in 2016 amounted to 19% of sales revenue.

There are no organizational links between Hünnebeck GmbH and the Issuer.

In 2016, apart from above mentioned entity, none of the suppliers and recipients exceeded the 10%-share in sales revenue.

2.6 Significant events in 2016 and until the date of the statement hereof

In the analyzed period there were both positive and negative factors that affected the Company's business activity and financial results.

Positive factors include:

- termination of any non-profitable contracts;
- obtaining a strategic partner in the field of steel constructions production;
- obtaining a financial investor interested in recapitalization and further development of the Company;
- Company's continuous functioning on the market despite unfavorable market situation;

The factors had have a negative impact on the business and the results include:

- problem with maintaining operating profitability;
- too high level of fixed costs in relation to achieved revenues and production potential;
- insufficient results of the restructuring program, which has to be intensified;
- significant decrease in the number of tenders and orders, especially in the energy sector;
- observed increasing pressure on wages, particularly with regard to posts requiring expertise;
- too high level of inventory and the need to write-off some items.

2.7 Significant agreements

Agreements regarding operating activities

On 14 November 2016, the issuer signed with MKL Bau Sp. z o.o. (limited liability company) with its seat in Siedlce, a significant agreement for the total net amount of over PLN 4.9 million (contract). The subject of the contract is the performance of steel structures for the project Helios Ostrand.

The Completion of all works covered by the agreement was set for October 2017.

Except for the aforementioned agreement, the company did not did not conclude significant agreements related to operating activities. At the same time, significant turnover with Hünnebeck GmbH was realized in 2016. Moreover, in addition to cooperation with Hünnebeck, in 2016 the Company has continued a long-term cooperation, commenced in previous years.

In 2016, the Company executed the contracts for: the supply of shuttering elements (Germany), supply of biomass conveyors (Finland), supply and installation of grates for WR-OR boilers (Poland), supply and installation of dedusting systems for WR-OR boilers (Poland), repair of WR boiler pressure section, supply of chain conveyors (Poland and Finland) and prefabrication of steel structures (Poland).

Except for the aforementioned agreement, the company did not did not conclude significant agreements related to operating activities.

Cooperation agreements

In a current report no 16/2016 of 8 November 2016, the Management Board of ZUK Stąporków S.A. disclosed the information on a strategic partnership with MKL Sp. z o.o. (Limited Liability Company) with its registered office in Łazy. The subject of the agreement is to undertake strategic, industry cooperation, covering in particular such actions as: creation of a common commercial offer for clients; submission of joint consortium offers in significant tendering procedures (domestic and foreign).

In 2016, the Company continued the agreement concluded on 28 May 2015 for the execution and financing of a project performed within the "Environment, Agriculture and Forestry" program - BIOSTRATEG.

Except for the aforementioned agreements, the issuer did not did not conclude in 2016 any other cooperation agreements.

Insurance contracts

The company annually renewed insurance contracts in respect of:

- property insurance against burglary, robbery and devastation, fire and other risks;
- insurance of electronic equipment;
- liability insurance for damages caused in connection with the business activity and owned property;
- motor insurance;
- insurance for contracts in terms of industrial risks;
- insurance of civil liability of managers of the Company.

In 2016 the Issuer did not hold significant insurance contracts.

2.8 Information on credits and loans

The Company used the overdraft facility of Deutsche Bank Polska S.A. with a limit of PLN 4 million. The term of the agreement is 8 April 2017 (annexed until 30 June 2017). Furthermore, the Company uses a multi-purpose credit line launched by aforementioned Bank with a limit of PLN 6.5 million, available for use until 29 September 2017. At the same time a factoring contract was concluded with mentioned Bank with a limit of up to PLN 3.5 million and the availability period until 25 February 2017 (annexed until 23 February 2018). The Issuer also holds in mentioned Bank, a revolving guarantee facility limit in the amount of PLN 2 million. In 2016, the Company did not conclude forward contracts and as a result was not exposed to exchange rate fluctuations.

Additionally, the Company repaid its credit commitment at Millennium Bank and entered into a credit agreement with PKO BP for current financing up to the amount of PLN 7 million.

Interest rates on mentioned credits are equal to WIBOR + 1% and plus bank margin.

Apart from the credits mentioned above, in 2016 the Company did not use any other credits nor did the Company terminate any credit agreement during that period.

In 2016, the Company did not grant nor received loans.

2.9 Sureties and guarantees

In 2016, the Company did not issue sureties or guarantees for financial liabilities to any entities, including related entities.

The company commissions the issue of guarantees in connection with the executed core operating activities - in particular with regard to ongoing construction works. The beneficiaries of these guarantees are entities commissioning the Issuer the performance of certain construction services. The Company is not a beneficiary of guarantees other than the guarantees issued in respect of core business operations performed. Contingent liabilities arising from bank and insurance guarantees increased by PLN 137.8 thousand as compared to the balance as at the end of 2015. These liabilities ensue from performance guarantees in the total amount of PLN 1 803.7 thousand, granted by Deutsche Bank Polska S.A. to contractors cooperating with the Issuer.

2.10 Transactions with related parties

In 2016, the Company did not enter into transactions with related parties on other than market conditions.

3. Financial position

3.1. Overview of financial results

The primary source of revenues of ZUK "Stąporków" S.A. is the sales of own products and services. The level of sales is closely related to the number of orders obtained.

The structure of sales revenues in 2016 and 2015 was as follows:

Net revenues from sales	2016		2015		Change (%)
	PLN THOUSAND	structure	PLN THOUSAND	structure	
Sale of products	40 524,6	96,78	76 156,5	97,7	-46,79
- Energy (power industry)	15 289,8	36,51	13 953,7	17,9	9,59
- Environmental protection	9 844,8	23,51	39 366,4	50,5	-74,99
- Construction equipment	13 194,8	31,51	13 447,8	17,2	-1,88
- Pellet	0,0	0,00	252,6	0,3	-100,00
- Other	2 195,3	5,24	9 136,0	11,7	-75,97
Sale of services	492,2	1,18	759,8	1,0	-74,70
Sale of materials	857,2	2,05	1 052,2	1,3	-18,53
Net revenues from sales	41 874,0	100,00	77 968,5	100,0	-46,29

Revenues from the sales of products, services and materials in 2016 were lower compared to the corresponding period of 2015, and net income was lower compared to net result generated in the corresponding year of 2015. The reasons for the decline were as follows:

- decline in investments in the heating sector in 2016;
- later launch of EU funds from a new perspective.

Sales of own products, services and materials in 2016 was lower by PLN 35,899.5 thousand as compared to 2015. In 2016, on its business operations, the Company recorded a gross loss in the amount of PLN 16 511.1 thousand, that is generated a result by PLN 16 436.6 thousand lower as compared to 2015. Mentioned loss consists of:

- loss on sales in the amount of PLN 6 082.2;

- loss on other operating activities in the amount of PLN 9 445.3
- loss on financial activities in the amount of PLN 983.6

The company is working on implementing new products.

With respect to the results for 2016, the Company created the following write-offs, i.e.:

- write-offs for work in progress in the amount of PLN 7,287 thousand; this amount mainly consists of current assets associated with discontinued modernization works over the device for the production of pellet and unclaimed by customers products that were produced by for ZUK to with the aim of optimizing the variable costs of production;
- allowances for doubtful debt – PLN 1402,6 thousand.

3.2 Assessment of the management of the financial resources

The structure of the Company's assets as at 31 December 2016 was as follows:

Item	31.12.2016		31.12.2015 Comparable data		Change (%)
	PLN THOUSAND	structure (%)	PLN THOUSAND	structure (%)	
Intangible assets	733,6	1,23	1 057,8	1,25	-30,65
Fixed tangible assets	31 412,1	52,58	31 102,6	36,71	1,00
Long-term investments	1 711,1	2,87	1 711,1	2,02	0
Long-term prepayments	1 494,8	2,50	1 036,1	1,22	44,27
Inventory	11 377,0	19,04	22 581,6	26,65	-48,72
Short-term receivables	4 752,8	7,96	18 281,1	21,58	-74,00
Short-term investments	3 054,6	5,11	1 261,8	1,49	142,08
Short-term prepayments	5 205,4	8,71	7 692,8	9,08	-32,33
Total Assets	59 741,4	100,00	84 724,9	100,00	-29,25

The structure of the Company's liabilities as at 31 December 2016 was as follows:

Item	31.12.2016		31.12.20145 Comparable data		Change (%)
	PLN THOUSAND	structure (%)	PLN THOUSAND	structure (%)	
Equity	16 230,5	27,17	32 007,1	37,78	-48,66
Provisions for liabilities	1 539,3	2,58	1 777,8	2,1	-13,41
Long-term liabilities	12 734,0	21,31	6 630,7	7,83	92,04

Short-term liabilities	20 166,6	33,76	37 451,7	44,20	-46,15
Accruals	9 071,0	15,18	6 857,6	8,09	32,28
Total Liabilities	59 741,4	100,00	84 724,9	100,00	-29,25

In 2016, the main source of financing the business activities was outside capital. Its share in total assets in 2016 amounted to 72.6%. Equity accounts for the remaining 27.17%. A significant decrease in equity is related to the creation of revaluation write-downs on assets. In 2016 there was a significant reduction in short-term liabilities of the Company. In the opinion of the Company there is no threat to the Issuer's ability to meet incurred liabilities. The current liquidity ratio as at 31.12.2016 was: 1.20.

3.3 Factors that affected the financial results

The revenues in 2016 fell by about 46% as compared to 2015. This significant decrease is the result of the following events:

- 1) decrease in export orders
- 2) decline in investment in the domestic market
- 3) soaring metallurgical materials prices.

With respect to the results for 2016, the Company created the following write-offs, i.e.:

- write-offs for work in progress in the amount of PLN 7,287 thousand; this amount mainly consists of current assets associated with discontinued modernization works over the device for the production of pellet and unclaimed by customers products that were produced by for ZUK to with the aim of optimizing the variable costs of production;
- allowances for doubtful debt – PLN 1402,6 thousand.

The current priority is to ensure the Company's current liquidity and ability to acquire new contracts. Close cooperation between the bank financing the Company and the investor able to provide a new source of financing for ZUK, is a prerequisite for the success of the planned changes. The Issuer estimates that the effects of measures taken to improve the financial situation (including the level of net profit) will only be apparent over the next few quarters.

3.4 Financial indicators

Key financial indicators for 2015-2016:

Profitability Ratios	2016	2015
Return on Assets (ROA)		
<u>Net financial result x 100</u> Total Assets	-26,41	-1,81
Net Return on Sales		
<u>Net financial result x 100</u> Total Revenues	-35,68	- 1,87
Financial Liquidity Ratios		
Current Liquidity Ratio (I)		
<u>Current Assets – Trade Receivables over 12 months</u> Short-term Liabilities - Short-term Liabilities over 12 months	1,20	1,33
Quick Liquidity Ratio (II)		
<u>Current Assets – Inventories – Short-term Prepaid Expenses - Trade Receivables over 12 months</u> Short-term Liabilities - Trade Creditors over 12 months	0,38	0,52
Immediate Liquidity Ratio (III)		
<u>Short-term Investments</u> Short-term Liabilities - Trade Creditors over 12 months	0,15	0,03
Turnover Ratios		
Inventory Turn Rate		
<u>Average Inventories x 365 days</u> Net revenues from sales of products, goods and materials	148	136
Receivables Turn Rate		
<u>Average Trade Receivables x 365 days</u> Net revenues from sales of products, goods and materials	97	60
Repayment of Liabilities		
<u>Average Trade Creditors x 365 days</u> Net revenues from sales of products, goods and materials	96	78

The Company timely repays its liabilities and due to that fact, the Management Board does not foresee any risk associated with difficulties arising from debts repayment in due time.



3.5 Investments

In 2016, the Company incurred capital expenditures in the amount of PLN 623.6 thousand. Fixed assets with an initial value of PLN 2035.3 thousand were accepted for use. Fixed assets of the initial value of PLN 49.8 thousand were liquidated while fixed assets with the initial value of PLN 684.4 thousand were sold. Investments realized in 2016 were financed with the use of bank loans, and thus it was possible to make use of the leverage effect. In 2017, the Company is considering investments in software and machinery to optimize production in areas of material consumption and labor intensity. With regard to the planned investments, the Issuer positively evaluates their feasibility. Investments will be implemented with consideration of the share capital increase through the issue of C-series shares. In 2016 the Issuer did not issue securities.

3.6 Financial instruments

The Management Board of ZUK 'Stąporków' S.A. informs that the Company was not a party to a foreign exchange or option contract in 2016.

3.7 Financial forecasts

The company did not publish forecasts of financial results for 2016.

4. Description of risks and development prospects

4.1 Strategy and development prospects

The Company's goal is a comprehensive implementation of different tasks for the energy sector, with particular focus on the energy industry. Zakłady Urządzeń Kotłowych Stąporków S.A. has a well-thought out functional strategy, which mainly involves the functioning of a modern machine park, as well as own production technology and design office. As a result, the manufacturing costs of the respective products are on a good, not too high level, and the number of orders takes full advantage of the available production capacity. The company also has a well-qualified management staff, which creates opportunities to pursue further activities aimed at further development. In the future, ZUK S.A. intends to continue the search for further technological solutions to be able to implement them to carry out its business activities. The Company is committed to further improvement of the quality of its products as well to the ability of expanding the market in terms of both domestic and foreign customers. The lack of strong competition in the immediate area of activity, very good production capacity and modern technology and infrastructure are conducive to the further development of the Company.

4.2 Development factors

Over the next financial year, the Company plans to continue the applied development strategy. As a result, the main task in 2017 will be a further improvement of work efficiency aimed at maximizing the Company's potential. A positive financial result is a key determinant of the Company's further development in terms of technology, which, in turn, is of great importance to the functioning on the market at ever-increasing competition. Also, efforts will be made aimed at improving the productivity and efficiency of the Company as an organization. The Company's development prospects in the coming years will be determined, inter alia, by increasing investments in the field of environmental protection.

4.3 Significant risk factors and threats

Risk associated with operational activities

Risk associated with operational activities is strictly connected with internal and external considerations affecting the business activity of the Company. The growth rate of Issuer's business activity sector as well as competitive pressure which may negatively influence the amount of revenues and operating margin, shall constitute the group of main external factors affecting the Company's operational activities. Taking into consideration the significance of export for the Company's business activity, it shall be of very high importance to maintain a strong competitive position on foreign markets. The internal risk factors shall be connected with the appropriate choice of the Company's market strategy and its effective implementation. The above mentioned factors, both of external and internal nature, are only partially dependent on the Company. Due to that fact, the risk of negative influence of market environment (or irregularities in further development strategy) on the Company and its financial results, may occur. The Company has already undertaken the relevant steps in order to maintain its market share (continuous monitoring of prices of products for Power Sector and Environmental Protection Industry and adjusting them to market's needs).

Management and key employees

The Company's activity on the market requires the relevant, specialized knowledge of the management and technical personnel. The successful performance of the most technologically advanced projects depends on the level of employees' competences. Due to the above, there shall be a risk of personnel fluctuations (key employees may engage in an activity for the benefit of business rivals). Furthermore, the increase of demand on branch specialists may result in remuneration increases. The additional risk factor is labour migration noticeable also in the business areas within which the Issuer performs its activities. The company is aware of this risk and take preventive measures at two levels. On the one hand it is bounding the existing employees with the Company.

This is executed through the introduction of the incentive system and the gradual increase of salaries. On the other hand, the Company constantly improves the process of recruiting new employees, so that the staff at each position is replaceable in the shortest possible time.

Risk associated with contracts performance

The cooperation with suppliers, subcontractors and other entities engaged in investment implementation shall constitute the most important factor which may influence production processes. The agreement performance is strictly connected with different legal provisions regarding non-performance or improper performance of obligations of the second party to the agreement. Furthermore, during the investment implementation, the risk arising from improper agreement performance (construction, project, technological irregularities affecting the quality and timeliness of a contract), may occur. The possible delays or postponements of assembly works due to the exclusive fault of an Issuer, shall result in financial penalties (0.1%-0.5% of contract value per each day of delay assuming that the total amount of penalty shall not exceed the limit individually determined for each party). In most cases, the investor has also the right to obtain additional compensation above the penalty limits, up to the amount of actual damage, which may negatively influence the Company's financial results. The Issuer points out that, in the reporting period, contractual penalties for untimely or improper compliance with agreement provisions, were not imposed on the Company. Bank and insurance guarantees are used by the Issuer as instruments for securing the appropriate performance of contracts. The amount and form of security shall depend on the subject of an agreement, contractual dates and deadlines as well as on the specificity of a given investment. The conditions regarding contractual penalties shall comply with standards expected for the execution of such agreements. The additional risks arising from contracts realization shall be connected with: the possibility of courts disputes with the principal; the need to remove the possible defects of a subject of an agreement; possible payments of contractual penalties; withdrawal from an agreement. Furthermore, there is a risk that the principal may not comply with payment terms which may negatively influence the financial liquidity. So far, the Company did not have any problems concerning contracts performance. The Company does not anticipate such situation in future.

Risk associated with change of terms of agreement

The Issuer's business activity is mainly based on assembly and construction services and technological devices production at investor's site. Due to the offer specificity, the Company's business activity focuses on Energetics Market as well as on Building and Environmental Protection Industry. The Issuer also conducts significant projects regarding the modernization of power plants and thermal power plants located in Poland and in other European Union countries. The permanent cooperation with selected entities ensures the stability of business agreements' content. Nonetheless,

there is a risk that the possible changes of cooperation conditions imposed upon the Company by the principals may result in difficulties with contract performance, increase of costs or termination of cooperation with a given client, which in consequence, may negatively affect the Issuer's financial result.

Risk associated with development of export activities

The significant part of Company's revenues is realized abroad. The share of export sales in the Issuer's revenues amounted to 32.10% in 2012⁶ which is associated with a high competitiveness of offered products and consistent development of international business relationships. Despite the fact that such development strategy fosters the profitability of the Company's business activity, there is still a risk connected with maintaining current contracts and obtaining new orders in future. However, the Management Board assesses the situation in the field of export as good and intends to expand export activities as the Issuer's production capacity increases. The Company calculates the prices of export goods assuming achieving satisfactory sales margins at variable exchange rates.

Competition

ZUK 'Stąporków' S.A. is exposed to the competition pressure arising from the large number of companies which offer similar products, solutions and services. The Company parallelly maintains its business activities on Energetics, Construction and Environmental Protection markets. The high quality and relatively low prices of Issuer's products allow to alleviate the competition connected with the Company's field of activity. It is a noteworthy fact that the Company develops its own products and solutions, including those protected by a patent, which additionally strengthens its competitive position. Despite Company's good points and advantages, it is necessary to take into consideration the possibility of operating activities' profitability decline in future that may arise from the increase of competition pressure.

Macroeconomic Situation

Attaining the strategic objectives and achieving the financial results by the Issuer shall be influenced by macroeconomic factors which impact is independent of the activities of the Issuer. These factors include: inflation, general position of the Polish economy, changes in the economic situation, increase in the Gross Domestic Product, tax policy, increase in the interest rates. The fluctuations of macroeconomic indicators may result in the decrease of planned revenues as well as in the increase of operating costs.

Currency Risk

The significant part of Issuer's costs and revenues is expressed in a foreign currency. In 2016, the export revenues constituted over 32.10% of total revenues (98.1% - settlements in Euro, 1.9% - settlements in Norwegian Kroner). The currency risk factors are always taken into consideration by the Company while determining the trade policy and pricing conditions for end customers. The vast majority of materials used in production is imported. The import of materials is denominated in Euro currency. The currency risk may be completely neutralized after Poland's accession to the Euro zone in future. The Company has never been and is not as at the day of report preparation, a party to the currency option contract. For this reason, the Company is not exposed to the risk that any volatility of foreign exchange rates could result in material losses or other negative events related to such transactions.

Financial risk

Factors that may adversely affect the Company's operations include:

- risk of changing prices of raw materials, products, services - the Company is exposed to the risk of changing the market prices of raw materials used. In the long-term contracts, the risk discussed is minimized by provisions in sales contracts relating to product prices
- credit risk
- risk associated with cash flows
- risk associated with financial liquidity - Part 3 of the financial statements for 2016 contains explanatory notes to the cash flow statement.

Part 4 of the financial statements for 2016 contains additional explanatory notes, which present information on financial instruments.

Risk associated with securing further financing of the Company

As a result of the Company's losses in 2016, financial ratios, particularly those related to debt levels and the financing structure, have significantly deteriorated. In extreme cases this may lead to a reduction in financing by banks, which could adversely affect the Company's liquidity and impair its functioning. This risk is minimized because the company is in discussions with the financing institutions, informs on the corrective measures undertaken and aims to the appropriate distribution of the remaining debt repayments.

5. Corporate governance

5.1 Applicable corporate governance code

In 2016, the Company applied corporate governance principles which are Appendix to the Warsaw Stock Exchange Supervisory Board Resolution No 26/1413/2015 of 13 October 2015, "Best Practice for GPW Listed Companies 2016" (**DPSN, Corporate Governance Rules**), which were published in a web-service dedicated to good practices of companies listed on the WSE operated by the Warsaw Stock Exchange at the following internet address https://www.gpw.pl/lad_korporacyjny_na_gpw.

The obligation of the Company to apply DPSN results from § 29 of the WSE Rules, according to which in case the Exchange Supervisory Board, on application of the Exchange Management Board, resolves the rules of corporate governance for joint stock companies that are issuers of shares, convertible bonds or bonds with priority rights admitted to exchange trading, the issuers should apply these rules. The corporate governance rules set out in mentioned resolution are not the rules in force on the WSE within the meaning of the Exchange Rules.

5.2 Corporate governance rules not observed by the Company

Below the information is presented as regards, the corporate governance principles set forth in the DPSN 2016 code, from which the Company derogated in 2016, together with a comment on the reasons for this derogation.

I.Z.1.3. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation - a chart showing the division of duties and responsibilities among members of the management board drawn up according to principle II.Z.1

Comment by the Company:

Taking into account the principle of adequacy (understood as the adaptation of the specific rules to the possibility of their implementation by companies of different sizes), the Issuer explains that due to the scale and volume of its activity, at present there has been no internal division of responsibility for particular areas of the Company's activity. As a result, the entire Issuer's Management Board is responsible for all areas of the Company's activities. In the event of developing a responsibility policy, the Company will consider applying this policy.

I.Z.1.11. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation – information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule

Comment by the Company:

The Company does not have a formalized and adopted principle in terms of changing the entity authorized to audit financial statements. Selection of the entity authorized to audit the financial statements in each case is the sovereign power of the Supervisory Board, which operates in accordance with the Company's corporate regulations and generally applicable regulations in this regard.

I.Z.1.20. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation – an audio or video recording of a general meeting

Comment by the Company:

The Company has not practiced so far the registration of the proceedings of the general meetings in a different way than by drafting the protocol required by the law, therefore the Issuer does not apply the above rule. In the opinion of the Company, the immediate publication of resolutions adopted by the general meeting gives investors the opportunity to get acquainted with the course of the general meeting in a sufficient manner. At the same time, in the opinion of the Company, the cost of such recordings, in particular video, would be disproportionate to the benefits that the shareholders would receive.

II.Z.1. The internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent, and a chart describing that division should be available on the company's website.

Comment by the Company:

Taking into account the principle of adequacy (understood as the adaptation of the specific rules to the possibility of their implementation by companies of different sizes), the Issuer explains that due to the scale and volume of its activity, at present there has been no internal division of responsibility for particular areas of the Company's activity. As a result, the entire Issuer's Management Board is responsible for all areas of the Company's activities. In the event of developing a responsibility policy, the Company will consider applying this policy.

III.Z.2. Subject to principle III.Z.3, persons responsible for risk management, internal audit and compliance should report directly to the president or other member of the management board and should be allowed to report directly to the supervisory board or the audit committee.

Comment by the Company:

This principle, insofar as it requires that the persons responsible for risk management, internal audit and compliance, are directly under the control of the President or another member of the Management Board is not currently applied by the Company. Due to the scale, size and type of activities conducted by the Company, at present no persons were organizationally separated which could be responsible for the aforementioned areas. Risk management, internal audit and compliance activities are carried out within individual organizational divisions of the Company based on other than ensuing from this rule, subordination scheme.

IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through:

- 1) real-life broadcast of the general meeting;*
- 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;*
- 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary*

Comment by the Company:

In the opinion of the Management Board, the implementation of reporting obligations by publishing relevant current reports and submitting information on the website, at the moment provides the shareholders appropriate access to all important information relating to the Company's general meetings.

IV.Z.2. If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.

Comment by the Company:

In the opinion of the Management Board, the implementation of reporting obligations by publishing relevant current reports and submitting information on the website, at the moment provides the shareholders appropriate access to all important information relating to the Company's general meetings.

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent, identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

Comment by the Company: The Issuer explains that at present there is no separate procedure in the Company regulating the issue of conflicts of interest and setting the rules of conduct in the face of its occurrence.

VI.R.1. The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

Comment by the Company: The Company has not drawn up a document regulating the area of remuneration policy. Decisions concerning remuneration of the Supervisory Board are taken by the General Meeting while the remuneration for the Management Board is determined by the Supervisory Board. In turn, the decisions concerning the remuneration of managers are taken by the Management Board adequately to their function, range of individual responsibility, scope of duties and responsibilities. The intention of the Company, however, is to implement an appropriate remuneration policy.

VI.R.2. The remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds

Comment by the Company: Due to the fact that at the moment the Company does not have a formal remuneration policy, the commented rule does not apply.

However, in the case of possible determination of remuneration policy within the Company, the Issuer shall endeavor that it is strictly linked to the Company's strategy, objectives, interests and results.

5.3 Internal control and risk management system applicable for the preparation of financial statements.

The internal control and risk management system applicable to the process of preparing the financial statements in the Company is carried out through the Company's procedures of preparation and approval of financial statements. The financial statements are prepared by the financial and accounting services under the control of the Company's Chief Accountant while the final content is approved by the Management Board.

The financial statements approved by the Management Board are then verified by an independent auditor appointed by the resolution of the Supervisory Board. The Supervisory Board assesses on an annual basis, the Company's audited financial statements for their accuracy, lawfulness and compliance with books and documents. The results of this assessment, are disclosed by the Board to the shareholders in its annual statement. The accounting policy is applied in the Company on a continuous basis. Accounting policies, describing methods of valuation of assets and liabilities and determination of financial result, are included in the introduction to the annual report. In the period from 1 January 2016 to 31 December 2016, the Company made no changes in the principles of determining the value of assets and liabilities and the measurement of the financial result as compared to the principles applied in the years 2012-2015.

5.4 Shares and the shareholding structure

5.4.1 Significant shareholders

As at 31 December 2016, the Company's share capital amounts to PLN 1 531 288.60 and is divided into 4 503 790 shares. Currently, all shares of the Company are traded on the regulated market operated by the Warsaw Stock Exchange. After the balance sheet date, that is on 28 March 2017, the Extraordinary General Meeting of the Company adopted the resolution concerning the increase of the share capital by the amount not lower than PLN 306,000 (three hundred six thousand zlotys) and not higher than PLN 680,000.00 (six hundred eighty thousand zlotys), i.e. from PLN 1,531,288.60 (one million five hundred thirty one thousand two hundred eighty eight zloty and sixty grosz) up to an amount not lower than PLN 1,837,288.60 (one million eight hundred thirty seven thousand two hundred eighty eight zloty and sixty grosz) and not higher than PLN 2,211,288.94 (two million two hundred and eleven thousand two hundred eighty eight zloty and ninety four grosz), through the issue of not less than 900,000 (nine hundred thousand) and not more than 2,000,000 (two million) C-series bearer shares of nominal value amounting to PLN 0.34 (thirty four grosz) each. The issue price per C-series share shall be not less than PLN 3,00 (three zloty) and not more than PLN 4,00

(four zloty). Agreements for the acquisition of C-series shares will be concluded by the Company by 25 September 2017. Until the date of this financial statement, the shares were not issued. According to the Company's knowledge, as at 31 December 2016 the following persons held at least 5% of votes at the Company's General Meeting:

Shareholder	Number of shares	Share in capital (%)	Number of votes	Share in votes (%)
Lech Jan Pasturczak	676 896	15,03	676 896	15,03
Andrzej Piotr Pargieła	676 896	15,03	676 896	15,03
Stanisław Juliusz Pargieła	814 874	18,09	814 874	18,09
Artur Mączyński	636 896	14,14	636 896	14,14
Other shareholders	1 698 228	37,71	1 698 228	37,71
Total	4 503 790	100	4 503 790	100

Until the date of this report there were no changes in the structure of significant shareholders.

5.4.2 Shares held by managing and supervising persons

The holdings of shares or stock options held by the Issuer's managing and supervising persons at 31 December 2016 shall be as follows:

Grzegorz Pasturczak	President of the Management Board	holds 1384 shares of the Issuer with nominal value of PLN 470.56; does not hold stock options
Dariusz Cieślik	Member of the Management Board	does not hold any shares of the Issuer or stock options
Lech Jan Pasturczak	Chairman of the Supervisory Board	holds 676 896 shares of the Issuer with nominal value of PLN 230.144,64; does not hold stock options
Andrzej Piotr Pargieła	Secretary to the Supervisory Board	holds 676 896 shares of the Issuer with nominal value of PLN 230.144,64; does not hold stock options
Stanisław Juliusz Pargieła	Vice- Chairman of the Supervisory Board	holds 814 874 shares of the Issuer with nominal value of PLN 277.057,16; does not hold stock options
Artur Mączyński	Vice- Chairman of the Supervisory Board	holds 636 896 shares of the Issuer with nominal value

		Of PLN 216,544,6; does not hold stock options
Jacek Wilk	Member of the Supervisory Board	does not hold any shares of the Issuer or stock options

The holdings of shares or stock options held by the Issuer's managing and supervising persons at 26 April 2016 shall be as follows:

Grzegorz Pasturczak	President of the Management Board	holds 1384 shares of the Issuer with nominal value of PLN 470.56; does not hold stock options
Dariusz Cieślik	Member of the Management Board	holds 10 345 shares of the Issuer with nominal value of PLN 3 517,30; does not hold stock options
Lech Jan Pasturczak	Chairman of the Supervisory Board	holds 676 896 shares of the Issuer with nominal value of PLN 230.144,64; does not hold stock options
Andrzej Piotr Pargieła	Secretary to the Supervisory Board	holds 676 896 shares of the Issuer with nominal value of PLN 230.144,64; does not hold stock options
Stanisław Juliusz Pargieła	Vice- Chairman of the Supervisory Board	holds 814 874 shares of the Issuer with nominal value of PLN 277.057,16; does not hold stock options
Artur Mączyński	Vice- Chairman of the Supervisory Board	holds 636 896 shares of the Issuer with nominal value Of PLN 216,544,6; does not hold stock options

The Company has not issued any securities that give special control rights in relation to the issuer.

5.4.3 Limitations and restrictions concerning securities

There are no restrictions in terms of exercising the voting rights and the transferability of the issuer's securities. According to the Management Board's knowledge, no restrictions were imposed on the transfer of ownership rights to the shares of the Company.

5.4.4 Information regarding the system of control of employee share programs

The Company does not have employee share option plans.

5.4.5 Potential changes in the shareholding structure

Subject to information on the planned increase of the share capital through the issue of C-series shares, at the date of this report, the Management Board of the Company has no information on agreements which may result in changes in the proportions of shares held by existing shareholders or bondholders.

5.4.6 Own shares

As at the date of preparation of the report hereof, the Company does not hold own shares nor did acquire its own shares in 2016.

5.5 Corporate bodies

5.5.1 Management Board

Composition of the Management Board

The Management Board of Zakłady Urządzeń Kotłowych "Stąporków" S.A. operates under the provisions of the Commercial Companies Code, provisions of the Articles of Association and applied Rules of the Management Board approved by the Resolution of the Supervisory Board of 20 February 2007. The Rules of the Management Board are public and available on the Company's corporate website.

In 2016 and at the date of this report, the composition of the Management Board was as follows:

- Grzegorz Pasturczak – President of the Management Board
- Dariusz Cieślik – Member of the Management Board

Rules for the appointment and dismissal of managing persons and their powers

The rules, procedure of appointment and dismissal of the managers and their powers are presented in §28, §30-34 of the Company's Articles of Association. Mentioned rules are detailed in the Rules of the Management Board and the Rules of the Supervisory Board. The Rules of the Management Board and the Rules of the Supervisory Board are public and available on the Company's corporate website. Subject to the possibility of increasing the Company's share capital through the issue of C-series shares, the Management Board of the Company does not have the individual power to decide on the issue or redemption of shares.

Agreements concluded with the managing persons

Members of the Management Board are employed by the Company on the basis of employment contracts and management contracts. In case of termination of these contracts, they are entitled to compensation and severance payments under labor law.

Managers' contracts do not provide for compensation in the event of their resignation or dismissal from their position without a valid reason, or when their dismissal is due to the merger by acquisition.

Remuneration of the Management Board

BOARD	Gross remuneration in 2016 (in PLN)
Grzegorz Pasturczak	276 317,73
Dariusz Cieślik	136 215,00
TOTAL	412 532,73

The managing and supervising persons do not receive any awards or benefits including those arising from incentive or bonus programs based on issuers equity including programs based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in-kind or in other possible form).

5.5.2 Supervisory Board

Composition

Composition of the Supervisory Board in 2016:

- Lech Pasturczak – Chairman of the Board
- Stanisław Pargieła – Vice-Chairman of the Board
- Artur Mączyński – Vice-Chairman of the Board
- Andrzej Pargieła – Secretary to the Board
- Jacek Wilk – Member of the Board

After the end of the reporting period, on 28 March 2017, the Extraordinary General Meeting adopted a resolution on the dismissal of a member of the Supervisory Board - Mr. Jacek Wilk. At the same time, the EGM adopted a resolution on the appointment of Mr. Rafał Mania as a member of the Supervisory Board of the Company as of 28 March 2017. As at the date of this report, the composition of the Supervisory Board was as follows:

- Lech Pasturczak - Chairman of the Board
- Stanisław Pargieła – Vice-Chairman of the Board
- Artur Mączyński – Vice-Chairman of the Board

- Andrzej Pargieła - Secretary to the Board

- Rafał Mania – Member of the Board.

The current term of office of Supervisory Board Members expires in 2017.

Rules of the Supervisory Board

The functioning of the Supervisory Board is governed by the provisions of the Commercial Companies Code, Articles of Association and the Rules of the Supervisory Board. The Rules of the Supervisory Board are public and available on the Company's corporate website.

Remuneration of the Supervisory Board

BOARD	Gross remuneration in 2016 (in PLN)
Lech Pasturczak	240 000,00
Stanisław Pargieła	240 000,00
Andrzej Pargieła	240 000,00
Artur Mączyński	240 000,00
Jacek Wilk	60 000,00
TOTAL	1 020 000,00

The managing and supervising persons do not receive any awards or benefits including those arising from incentive or bonus programs based on issuers equity including programs based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in-kind or in other possible form).

Supervisory Board Committees

In accordance with the Company's Articles of Association, in the case of a five-member Supervisory Board, the Supervisory Board may incorporate audit committee tasks into its competence. Thus, in 2016 the functions of the audit committee were fulfilled collectively by the Supervisory Board. In accordance with the Company's Articles of Association, the Audit Committee issues opinions and recommendations to the Supervisory Board on all Company's matters of a financial nature, and on matters associated with internal control and risk management.

Irrespective of the above, the audit committee's statutory tasks include in particular:

- supervision over the organizational unit responsible for internal audit;
- monitoring the financial reporting process;



- monitoring the effectiveness of internal control, internal audit and risk management systems;
- monitoring the performance of financial audit;
- monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, including in the case of providing to the Company other services than the financial audit services;
- recommending to the Supervisory Board the entity authorized to audit the financial statements of the Company.

The Supervisory Board while fulfilling the tasks of the audit committee had ongoing contacts with the Management Board and thus the opportunity to become familiar with the current financial situation of the Company, including, in particular in terms of contracts under execution, the level of sales, cost management and maintaining the company's financial liquidity.

5.6 Commitments to former managers and supervisors

The Company has no obligations or commitments to former members of the management and supervisory boards.

5.7 Description of the rules for changing the company's articles of association

Pursuant to § 18 of the Company's Articles of Association, the only body authorized to amend the Company's Articles of Association is the General Meeting.

5.8 The manner of operation of the General Meeting and its powers; description of shareholders' rights

The rules, the procedures of convening and holding the General Meeting s of meetings of the general meetings of Zakłady Urządzeń Kotłowych "Stąporków" S.A. are presented in §§ 11-13 of the Company's Articles of Association. Mentioned rules and procedures are detailed in the Rules of the General Meeting as adopted by the Resolution no 13 of the Ordinary General Meeting held on 28 June 2010. In addition, according to the Rules of the General Meeting, the scope of competence of the General Meeting is determined by the provisions of the Commercial Companies Code. The content of the Company's Articles of Association and the Rules of the General Meeting is available on the Company's website. Rights and obligations related to the shares of the Company are set out in the provisions of the Commercial Companies Code, the Articles of Association of the Company and other applicable laws.

5.9 Remuneration policy

In 2016, the Company did not have a formalized remuneration policy document applicable to managing and supervising persons and key managers. However, the Company has a number of formal regulations, including the Remuneration Rules. The Company's Remuneration Rules are linked to its strategy, objectives, interests and results. In addition, the Remuneration Rules also take into account the issue of non-discrimination for any reason. In 2016 there were no significant changes in the Remuneration Rules applied by the Company. The Company's remuneration rules are assessed positively from the point of view of its objectives, in particular, long-term growth and stability of the company. In the first half of 2017, the Company plans to implement the new Remuneration Rules, which will be disclosed in the report for the first half of 2017.

6. Other information

6.1 Court proceedings

To the best knowledge of the Issuer's Management Board, in the reporting period, any court proceedings before a relevant body for conducting arbitration proceedings or before government administration bodies in terms of liabilities or claims of ZUK 'Stąporków' S.A. whose value accounts for at least 10% of the Issuer's equity were not pending against the Company.

6.2 Achievements in research and development

The Patent Office of the Republic of Poland, by way of the Decision No. P.362958, has granted to the Company a patent for an invention under the name: 'The device for feeding the furnaces with solid-mixed fuel'. The period of above mentioned invention protection covers 20 years as from the date of invention reporting (20 October 2003). The following inventions, trademarks and industrial designs have been filed with the Patent Office of the Republic of Poland:

P.394252 "Solid fuel in the form of formed fittings and the method of its manufacture"

P.395692 „Device for manufacture of solid fuel in the form of formed fittings and the method of its manufacture”

Application extended to the EU on 9 July 2012 under EP number 12005062

P.395693 „Device for manufacture of solid fuel in the form of formed fittings and the method of its manufacture”

Application extended to the EU on 9 July 2012 under EP number 12005064

P.395694 „Device for manufacture of solid fuel in the form of formed fittings and the method of its manufacture”

Application extended to the EU on 9 July 2012 under EP number 12005066

P.396786 "Device for mixing energy fuels, including in particular biomass, waste vegetable materials, coal dust and, optionally, binders"

P.398061 "Working chamber for the production of pellet or feed pellet and molding matrix"

P.398078 „The system of heads for the device for production of pellet or feed pellet”

Application extended to the EU on 6 February 2013 under EP number EP 13154118

P.404295 „Method of obtaining pellet or feed pellets from biodegradable raw materials and a technological line for the implementation of this method”.

009582776 - the Community Trade Mark "Carbiopellet" was registered

001938606-0001 - Industrial Design for Mobile Pellet Plant was registered

WZT 011951787- Application for registration of the Community Trade Mark PELLETON

The Company also holds:

- **The certificate of conformity of Factory Production Control No. 2527-CPR-1A.033.00 according to the Regulation of the European Parliament and EU Council No. 305-2011** dated 9 March 2011 (Regulation CPR), certificate relates to the construction products: welding of load-bearing elements made of construction steel in the class EXC1 and EXC 2, method 1, 3a, 3b according to the norm EN 1090-1: 2009 + A1: 2011, manufactured by Zakłady Urządzeń Kotłowych "Stąporków" S.A. The certificate covers welding processes: 111, 131, 135, 141, 783, in material groups (PN-EN ISO 15608): 1.1, 1.2, 1.3, 1.4, 8.1. Certificate issued by TÜV SÜD Polska Sp. z o.o. Notified entity No. 2527. Certificate issued on 14.07.2014.

- **Certificate of conformity no. TSP-3834-045.00 confirming the fulfillment of the quality requirements for welding according to PN-EN ISO 3834-3: 2007** for the products manufactured in Zakłady Urządzeń Kotłowych "Stąporków" S.A. – i.e.: belt gratings with light primers (type Rn, Rtn, Rtsnc); belt gratings with medium primers (type Rtsr, R1a,

R0,8); belt gratings with heavy primers (type Rtwc, Rtwk, RI); Belt conveyors, screw conveyors and slag conveyors (OZDW, OZGW, OZ57 / 77A, OZ13-5, OZ2 / 8, OZ3 / 8; OZ1 / 12; OZ35B; PPZ; OW08; PZZ; OCS2 / 4; OCS1 / 4A; OCS50; , OCS77A); Pulse filters; Filter-bicyclon; Two-stage systems - cyclone battery; dedusters; components of dust extraction installations; Steel structures (wall thickness 30mm, diameter 2000mm, length 36m), formwork for concrete casting. The certificate covers welding processes: 111, 131, 135, 141, 783, in material groups (PN-EN ISO 15608): 1.1, 1.2, 1.3, 1.4, 8.1. Certificate issued by TÜV SÜD Polska Sp. z o.o. Notified entity No. 2527. Certificate issued on 13.07.2014.

- **EC Certificate of Conformity No. 146/011 / CE / D / 2011 stating that the product "Filter-bicyclon"** (type: FBC-6x760 / 48,2,5 / 120), PKWiU symbol: 28.25.14.0 meets the requirements set out in the Regulations: Minister of Economy of 21.10.2008 (Journal of Laws No. 199 item 1228) - Machinery Directive 2006/42/EC. Certificate issued by the Institute of Advanced Manufacturing Technology; Notified entity No. 1454. Certificate issued on 09.12.2011.

- **EC Certificate of Conformity No. 102/011 / CE / D / 2010 stating that the product "Grate Drive" (type: BNR 2000)**, symbol of PKWiU: 28.15.24.0 complies with the requirements of the Regulations: Minister of Economy of 21.10.2008 (Journal of Laws No. 199 item 1228) - Machinery Directive 2006/42/EC, Minister of Economy of 21.08.2007 - Low Voltage Directive 2006/95/EC (Journal of Laws No. 155 item 1089), Minister of Economy of 13.04.2007 (Journal of Laws No. 82 item 556) - Electromagnetic Compatibility Directive 2004/108/EC. Certificate issued by the Institute of Advanced Manufacturing Technology; Notified entity No. 1454. Certificate issued on 09.03.2010.

- **EC Certificate of Conformity No. 104/11/CE/D/2010** stating that the product **"Grate Drive" (type: NBp250-1, NBp250-2, NBp500)**, symbol of PKWiU: 28.15.24.0, complies with the requirements of the Regulations: Minister of Economy of 21.10.2008 (Journal of Laws No. 199 item 1228) - Machinery Directive 2006/42/EC, Minister of Economy of 21.08.2007 - Low Voltage Directive 2006/95/EC (Journal of Laws No. 155 item 1089), Minister of Economy of 13.04.2007 (Journal of Laws No. 82 item 556) - Electromagnetic Compatibility Directive 2004/108/EC. Certificate issued by the Institute of Advanced Manufacturing Technology; Notified entity No. 1455. Certificate issued on 09.03.2010.

- **EC Certificate of Conformity No. 182/11/CE/D/2010 stating that the product "Grate Drive" (type: BNR 1000)**, symbol of PKWiU: 28.15.24.0, complies with the requirements of the Regulations: Minister of Economy of 21.10.2008 (Journal of Laws No. 199 item 1228) - Machinery Directive 2006/42/EC, Minister of Economy of 21.08.2007 - Low Voltage Directive 2006/95/EC (Journal of Laws No. 155 item 1089), Minister of Economy of 13.04.2007 (Journal of Laws No. 82 item 556) - Electromagnetic Compatibility Directive 2004/108/EC. Certificate issued by the Institute of Advanced Manufacturing Technology; Notified entity No. 1455. Certificate issued on 25.06.2010.
- **EC Certificate of Conformity No. 107/11/CE/D/2010 stating that the product "Mechanical Grate" (type: Rn06B, Rn086C, Rn0940, Rn1.16C, Rn1.13, Rn1.46)**, symbol of PKWiU: 28.21.11.0, complies with the requirements of the Regulations: Minister of Economy of 21.10.2008 - Machinery Directive 2006/42/EC (Journal of Laws No. 199 item 1228), Minister of Economy of 21.08.2007 - Low Voltage Directive 2006/95/EC (Journal of Laws No. 155 item 1089), Minister of Economy of 13.04.2007 (Journal of Laws No. 82 item 556) - Electromagnetic Compatibility Directive 2004/108/EC. Certificate issued by the Institute of Advanced Manufacturing Technology; Notified entity No. 1455. Certificate issued on 09.03.2010.
- **EC Type Examination Certificate No. 106/11 / CE / D / 2010 stating that the product "Medium grate with NBp500 and NBp 250 drive" (Type: RTSR, RTSNc and Rl)**, symbol of PKWiU 28.21.11.0, complies with the requirements of the Regulations: Minister of Economy of 21.10.2008 - Machinery Directive 2006/42/EC (Journal of Laws No. 199 item 1228), Minister of Economy of 21.08.2007 - Low Voltage Directive 2006/95/EC (Journal of Laws No. 155 item 1089), Minister of Economy of 13.04.2007 (Journal of Laws No. 82 item 556) - Electromagnetic Compatibility Directive 2004/108/EC. Certificate issued by the Institute of Advanced Manufacturing Technology; Notified entity No. 1455. Certificate issued on 09.03.2010.

- **EC Certificate of Conformity No. 105/11/CE/D/2010** stating that the product „**High grate with BNR 2000 drive**” (type: **RTWK i RTWC**), symbol of PKWiU 28.21.11.0 28.21.11.0, complies with the requirements of the Regulations: Minister of Economy of 21.10.2008 - Machinery Directive 2006/42/EC (Journal of Laws No. 199 item 1228), Minister of Economy of 21.08.2007 - Low Voltage Directive 2006/95/EC (Journal of Laws No. 155 item 1089), Minister of Economy of 13.04.2007 (Journal of Laws No. 82 item 556) - Electromagnetic Compatibility Directive 2004/108/EC. Certificate issued by the Institute of Advanced Manufacturing Technology; Notified entity No. 1455. Certificate issued on 09.03.2010.
- **EC Certificate of Conformity No. 103/11/CE/D/2010** stating that the product „**Slag scraper conveyor**” (type: **OZDW 57/77, OZGW 57/77, OZ 57/77A, OCS 2/4B, OZ1/(3-5), PPZ, OZ1/12, OZ3/8, OZ35B, OCS35B, OCS57A**), symbol of PKWiU: 28.22.13 complies with the requirements of the Regulations: Minister of Economy of 21.10.2008 - Machinery Directive 2006/42/EC (Journal of Laws No. 199 item 1228), Minister of Economy of 21.08.2007 - Low Voltage Directive 2006/95/EC (Journal of Laws No. 155 item 1089), Minister of Economy of 13.04.2007 (Journal of Laws No. 82 item 556) - Electromagnetic Compatibility Directive 2004/108/EC. Certificate issued by the Institute of Advanced Manufacturing Technology; Notified entity No. 1455. Certificate issued on 09.03.2010.

6.3 Employment

Over the years, the company is constantly investing in its staff to increase productivity and human capital.

The employment level at 31 December 2016: 223 employment contracts.

6.4 Sponsorship activity

The Company is not engaged in sponsorship activities.

6.5 Information about the entity authorized to audit financial statements

Information regarding the agreement with the entity authorized to audit financial statements.

On 28 June 2016, the Supervisory Board acting pursuant to § 28 pt. 5 of the Articles of Association of the Company adopted a resolution on the selection of an authorized entity respectively to (i) the review of the Company's semi-annual financial statements for the period from 01.01.2016 to 30.06.2016 with a fee of PLN 11 200,00 net and (ii) audit the annual financial statements of the Company for the period of 01.01.2016-31.12.2016 with a fee of PLN 17 800,00 net.

The selected entity is the company: Mistery Audytor Adviser Sp. z o.o., Wiśniowa 40/5 St., 02-520 Warszawa (entity registered in the list of entities authorized to audit financial statements under number 3704). An agreement with a chosen entity will be concluded for the duration of its object. The Company did not previously use the services of the selected entity.

Basis of the preparation of statement on business activities and the financial statement

The presented statement on the Company's activities in the year 2016 was prepared in accordance with the Accounting Act and the Regulation on current and periodic information provided by issuers of securities.

In the reporting period, the Company did not make any changes in the adopted Accounting Policy. The detailed rules for the preparation of the financial statements are set out in the aforementioned statement.

6.6 Information about significant events in the financial year, and after the balance sheet date

- significant deterioration in the market for energy procurement in 2016;
- pressure on prices in energy procurement, due to the relatively small number of contracts;
- unprofitable contracts were closed at a loss (already executed, the Company is not currently a party to such contracts);
- write-offs for bad debts;
- the necessity to reduce activity in the segment of fuels from renewable raw materials;
- one-time inventory write-offs.

In light of the results achieved in 2016, the Management Board of the Company draws attention to actions taken since the last year aimed at improving the profitability of the Company's operations:

1. Advanced negotiations with a new shareholder - FIZ FRAM. The funds obtained from the new investor will be allocated for:
 - a. Planned loss in 2017
 - b. Purchases of materials, which will allow to shorten payment terms in exchange for lower purchase prices
 - c. Restructuring costs
2. The planned sale of non-productive assets. Cash obtained from sales will finance the working capital and will reduce credit debt. The Management expects to close first transactions in Q3 2017

3. The restructuring of the Company leading to lower wage costs, improving work efficiency and reducing material consumption.
4. The search for new markets in order to increase sales volume. Contracts obtained up to the date of this report allow us to state that 2017 revenues will significantly exceed 2016 revenues.
5. Advanced and positive negotiations with banks regarding the structure of financing of the Company.

The Management Board is convinced that the actions undertaken will allow for a significant improvement of the financial standing of the Company. At the same time, the Board emphasizes that the success of most of the actions is independent of the results of negotiations with a potential investor, although the positive conclusion of the talks will speed up and facilitate currently performed corrective actions.

6.7 Contact details

Business name: **ZAKŁADY URZĄDZEŃ KOTŁOWYCH „STĄPORKÓW” S.A.**

Registered office: **Górnicza 3, 26-220 Stąporków**

Registration authority: **District Court in Kielce, 10th Commercial Division of the National Court Register**

Register and register number: **KRS 0000081300**

Share capital: **1 531 288,60 zł**

Telephone number: **(41) 374-10-16**

Fax number: **(41) 374-17-12**

E-Mail: zuk@zuk.com.pl

Website: www.zuk.com.pl

7. Statements of the Management Board

7.1 Statement on reliability



The Management Board of ZAKŁADY URZĄDZEŃ KOTŁOWYCH STĄPORKÓW S.A. with its registered office in Stąporków, hereby declares that to the best of its knowledge, the annual financial statement for the year 2016 as well as comparable data, have been prepared in accordance with applicable accounting rules and shall present fairly and clearly the financial result and all the information essential for evaluating the economic and financial situation of the Company. The Management Board's report on Company's activities shall comprise a comprehensive view of development and achievements of the Company, including detailed description of fundamental risk.

7.2. Statement on the entity authorized to audit financial statements

The Management Board of ZAKŁADY URZĄDZEŃ KOTŁOWYCH STĄPORKÓW S.A. hereby declares that the entity authorised to audit the financial statements - Misters Audytor Adviser Sp. z o.o., Wiśniowa 40/5 St., 02-520 Warszawa (entity registered in the list of entities authorized to audit financial statements under number 3704) - has been selected to audit the Company's annual financial statement for the period of 1 January 2016 – 31 December 2016, in accordance with applicable law provisions. The aforementioned entity as well as its statutory auditor whose responsibility was to audit the financial statement hereof, satisfied the conditions for preparing impartial and independent auditor's opinion pursuant to applicable law provisions and professional standards.

Signatures of managing persons

Date of approval, 26 April 2017

Grzegorz Pasturczak

President of the Management Board

Dariusz Cieślik

Member of the Management Board