

ANNUAL SUPERVISORY BOARD REPORT ORZEŁ BIAŁY S.A.

including workings of its committees and along with the evaluation of the internal audit system and the material risk management system for Orzeł Biały S.A.
for the year 2015



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I. CONCISE APPRAISAL OF THE COMPANY'S POSITION INCLUDING EVALUATION OF THE INTERNAL AUDIT SYSTEM AND THE MATERIAL RISK MANAGEMENT SYSTEM FOR THE COMPANY

I.1 FINANCIAL AND MARKET PERFORMANCE

The Company of Orzeł Biały S.A. reported, with sales revenue at kPLN 505,269, the operating profit (EBITDA¹) at kPLN 16,955 and the net profit at kPLN 5,973, which represent 3.4% and 1.2% of sales revenue, respectively. For comparison, in 2014 EBITDA was kPLN 5,499 (EBITDA rate at 1.2%) while the net result was kPLN 321 (net profit rate at 0.07%).

The Group of Companies of Orzeł Biały has, with sales revenues at kPLN 508,536, posted the operating profit (EBITDA) at kPLN 25,390 and the net profit at kPLN 13,041, thus representing 5.0 % and 2.6% of sales revenue, respectively. For comparison, in 2014 EBITDA stood at kPLN 7,871 (EBITDA rate at 1.7 %) while the net result was kPLN 165 (net profit rate at 0.04%).

2015 saw an increase in the Company's revenue and consolidated revenue, up 12.8% and 10.9%, respectively. The revenue was higher mainly due to increased volumes of lead shipments, up 4.1 % year-on-year (excluding toll business), increased LME lead quotations, up 1.8 % (change in the annualised average of daily quotations as converted into PLN at the NBP exchange rate of the quotation day), and a positive result on hedging. The increase in lead sales revenues was also brought about by the change to the set-up of products sold towards increased share of lead alloys. The lead alloys feature additional refining element contents, which also determines a higher per-tonne price of the product as compared to raw lead. The remaining increase in revenue results from the sale of a wider range of goods (trading activity).

In addition to higher sales revenue, the improved profitability on core business resulted from the set-up of the raw materials consumption. In 2015, the price of battery scrap maintained the level comparable to that of the previous year while its use in the production process grew significantly.

In the reporting period there were unusual factors having a significant impact on the Company's results.

There were tests conducted for impairment of inventories which validated the legitimacy of a write-down of inventories in the amount of kPLN 2,799 by increasing the cost of products, goods and materials. Having reflected the tax consequences, the said event affected the net separate and consolidated financial result down by kPLN 2,267.

¹ EBITDA is operating profit/loss plus depreciation/amortisation

In addition, a position which significantly affected the net (after-tax) financial result of the Issuer for 2015 is the effect of the transaction settlement as a result of the termination of the cooperation and the dissolution of the joint venture of the Bytomski Park Przemysłowy (Bytom Industrial Park) between Orzeł Biały S.A., PUMECH Sp. z o.o. and Górnośląska Agencja Przedsiębiorczości i Rozwoju Sp. z o.o. (Upper Silesian Agency for Enterprise and Development), mainly consisting in the transfer of rights to real property, i.e. the right of perpetual usufruct of plots of land with the ownership of the building (Hall D) constituting a separate object of ownership and other facilities erected on the property for Górnośląska Agencja Przedsiębiorczości i Rozwoju Sp. z o.o. This event resulted in an increase in the net separate and consolidated financial result up by kPLN 10,528.

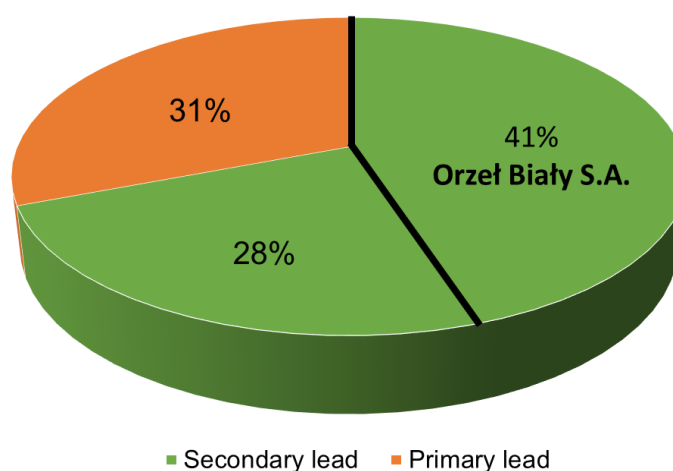
In the reporting period, the Company's operating result has been charged with costs of the license fee for a subsidiary in the amount of kPLN 7,207, and, compared to 2014, this amount increased by kPLN 556.

Additionally, the balance of other provisions created and released affected the financial result down by kPLN 1,121.

Relating to the core business, the volume of lead sold in 2015 was 62.3 kMT (up 3.6% year on year) while the share of more technologically advanced alloys increased across the entire sales pattern. In 2015, as part of the activities of the Research and Development Facility, a new lead alloy was introduced while four lead alloys got improved and modified.

The Company's position in the domestic market is stable. Orzeł Biały S.A. is the major producer of refined lead in Poland and a significant, for Polish economy, non-ferrous metals operator. In Poland there are several producers of refined lead. In addition to Orzeł Biały S.A., these are: Baterpol S.A., KGHM SA, which in 2007 built a lead refinery at Legnica Copper Smelter, zinc smelter Huta Cynku Miasteczko Śląskie S.A., since 2010, ZAP Sznajder Batterien S.A has joined the secondary lead manufacturers.

Orzeł Biały S.A. lead market share in Poland in 2015



Source: Data by IGMNiR (Non-Ferrous Metals and Recycling Chamber) and interim reports of listed companies

Having examined the financial statements of Orzeł Biały S.A. and the annual statement of the Orzeł Biały Group of Companies, the Supervisory Board of Orzeł Biały S.A. appreciates the Company's operations and financial situation, pointing out that 2015 saw no events causing any threat to the business continuity.

I.II INTERNAL AUDIT SYSTEM

The Supervisory Board recognises that Orzeł Biały Group of Companies operates an internal audit system which is adjusted to the company's needs and which enables an efficient and reliable flow of financial and non-financial information between various organisational units of the Group.

An effective system of internal audits of Orzeł Biały S.A. and of risk management in the financial reporting process is governed by the General Manager Regulation on "Information Policy in the Company of Orzeł Biały S.A." which includes, *inter alia*, annexed procedures for drafting and publishing of financial reports. These procedures define the reporting rules and scope as well as responsibilities in terms of preparation of interim reports and financial statements including to ensure their quality and accuracy, authorisation and publication. Annexes to the said Regulation include also Standing Rules/Rules of Procedures. The key one are 'The Confidential Information Circulation Rules'.

In accordance with the procedures in place, the HR & IR Director shall monitor and review, while the Management Board Members of Orzeł Biały S.A. shall approve, interim reports prepared. The compilation of quarterly, half-yearly and yearly financial reports is based on data received from the staff responsible for different business areas of the Company. According to the existing procedure, the preparation of consolidated financial statements is supervised by the Financial Director of the Company.

The Chief Accountant of the Company is responsible for the preparation of financial statements. Orzeł Biały S.A. applies consistent accounting principles in presenting financial data in the financial statements and in interim stock-market reports. The Issuer keeps its accounting records in integrated IT systems. The access to system resources is limited by procedures, *inter alia*, by granting powers to authorised employees only with respect to their assigned tasks (need-to-know basis). The Company keeps records of persons having access to confidential information.

The consolidated and unconsolidated (individual) semi-annual financial statements are reviewed by an independent auditor, and consolidated and unconsolidated annual financial statements are audited by an independent auditor.

In addition to the system described above, the internal controls are exercised by an independent person under a civil-law contract, which reports directly to the Chairman of the Management Board of Orzeł Biały S.A.

Furthermore, the Company operates an internal audit under the responsibility of the Director Compliance, which is the lead auditor of the ISO 9001: 2000 system as well as the internal auditor of the Integrated Management System: ISO 9001, ISO 14001, PN-N 18001. According to the schedule of audits for 2015, Q1 saw two internal audits – one at the Battery Scrap Treatment Facility and one at the Smelter Division. Based on the post-audit conclusions a decision was made about the need to redefine and map processes to increase related process knowledge as well as to increase the employee awareness about activities run within processes. The re-identification of processes taking place in the Company was launched in April. Process management is inextricably connected with identifying, analysing and defining business processes. It is also an opportunity for a thorough analysis of the impact of individual actions on building customer satisfaction, which is a direct result of the implementation of the objectives expected by the customer. A graphical representation of business processes helps to understand patterns in selected functional areas of the Company.

The Supervisory Board positively evaluates the internal audit system of the Company and believes that the above internal audit system operating in the Company is suitable for its needs, adequately protects the Company against irregularities in the field of financial reporting, and allows for continuous surveillance over the reporting process. It enables efficient and reliable flow of financial and non-financial information of the Group, which also allows the Supervisory Board to exercise effective supervision.

I.III MATERIAL RISK MANAGEMENT SYSTEM FOR THE COMPANY

Orzeł Biały S.A. earns most of its revenues within the Group of Companies. Therefore, risks carried by the controlling Company are activity risks of the entire Group.

It is the Corporate Management Board (Orzeł Biały SA Management Board) which is responsible for the management of risks relevant to the Group, while individual Management Boards are responsible therefor at the level of individual subsidiaries/associates. As part of the Orzeł Biały S.A. Group's strategy building, main risk areas have been diagnosed of materiality relevant to the Company, which are described both in the statement of operations of the Company for the year 2015 and in the consolidated statement of operations of the Orzeł Biały S.A. Group for the year 2015.

Key risk factors that may affect the Group's financial result are:

- risk of changes in lead trading on the London Metal Exchange – LME,
- currency risk,
- credit risk.

The Management Board reviews and agrees risk policies for managing each of these risk types - these policies are

discussed in brief below.

The primary objectives of the Group's financial risk management are:

- eliminating negative effects of adverse changes in lead trading and USD/PLN rate fluctuations
- providing financial liquidity.

Risk of changes in lead trading on the LME

The company, due to the nature of its business, relies with all of its lead sales on LME quotations. Also, the purchase prices for raw materials are directly or indirectly determined based on the level of these quotations. Due to the size of inventories of raw materials, work in progress and finished products of the Company (relatively long inventory turnover cycle), there is a real risk of adverse changes in LME lead trading occurring between the date of purchase of raw material and the date of the sale of lead produced from it. In order to reduce this risk, the Company had, at the end of 2006, adopted 'The Hedging Strategy and Procedures against the Risk of LME Quotation Fluctuations at Orzeł Biały S.A.' According to this strategy, the Company consistently applies the method of hedging future selling price of the stock. The main hedging instrument is futures. Additionally, the Company, to improve the risk management, created the position of a Treasurer in 2015, whose main task is to ensure the current liquidity and to monitor the status of assets and liabilities.

The impact on individual open and closed positions of the financial statements is shown in the table below:

Report position (PLN thousand)	Status as at 31.12.2014	Status as at 31.12.2015
Open positions:		
Revaluation reserve	+ 6 406	- 3 046
Financial liabilities	-	3 046
Financial assets	6 406	-
Profit/loss on realised transactions recognised in sales revenues:	5 225	18 924

As at the balance sheet day, the Company carried open futures positions of the most remote maturity on 02.04.2016, valued at kUSD -781, converted to PLN at kPLN - 3,046 .

Currency Risk

In connection with the above LME lead quotation risk and the fact that the lead on the LME is priced in U.S. Dollars, the Company is similarly exposed to the risk of adverse changes in the USD/PLN exchange rates. Due to the high volatility of the currency market in terms of the USD/PLN trading since 2008 the Management Board also operates a policy in this regard on the terms described above. The main objective is to hedge the future selling price of the stock (inventory).

The impact on individual open and closed financial statement positions (before deferred tax effects) is shown in the table below:

Report position (PLN thousand)	Status as at 31.12.2014	Status as at 31.12.2015
Open positions:		
Revaluation reserve*	-2 762	-62
Financial liabilities	2 762	62
Financial assets	-	-
Profit/loss on realised transactions recognised in sales revenues:	-6 565	- 7 181

* including open forward transactions

At the balance sheet date, the Company has carried open hedging transactions (option transactions) with the most remote maturity on 02.03.2016 valued at kPLN - 62.

Moreover, due to the use of deferred payments for its products in the export markets, the Company is exposed to changes in exchange rates between the date of issue of the invoice and the time of receiving the due payment out of that invoice. Therefore, in the reporting period, the Company introduced a hedging system for trade receivables paid in EUR. This hedge is done using ordinary forward contracts for a period concurrent with the payment for the invoice. Open forward contracts are valued at the equity of the Company while earnings (profit/loss) on realised transactions are presented in financing activities.

In the remaining Group companies, the currency risk is marginal due to the minimum range of exports and imports.

Credit risk

The credit risk found at the Company can be categorised as two types: variable interest rate risk and trade credit risk.

Variable interest rate risk

The Company carries a surplus of funds or uses external financing through bank loans. Interest rates on deposits and bank loans are dependent on interest rates in the interbank market such as WIBOR and LIBOR. Accordingly, the Company is exposed to interest rate risk, which may result in a reduction in the profitability of financial investments or in increased cost of borrowing. The Company considers the possibility of securing the interest rate associated with the existing investment loan.

Trade credit risk

In collaboration with customers, the Company applies deferred method of payments. This deferral ranges from a few to several dozen days. Such credit is not secured by the borrower – it is, however, subject to an insurance policy. The Company constantly monitors the financial condition of its customers.

II. SUPERVISORY BOARD REPORT OF ORZEŁ BIAŁY S.A. ON SUPERVISING THE COMPANY'S OPERATIONS

The Supervisory Board of Orzeł Biały S.A. acts pursuant to the Supervisory Board Rules of Procedures, Company's Articles of Association, Shareholder Meeting Resolutions, Commercial Companies Code and the Independent Auditor and Auditor's Governance, Authorised Financial Statement Auditing Entities and Public Supervision Law. The Supervisory Board acts also based upon Rules of Procedures of other governing bodies of the Company in the extent which reflects the Supervisory Board's roles, functions or omissions, and also based upon remaining regulations operating at the Company as well as upon generally applicable laws.

The Supervisory Board of the Company is composed of at least five and at most seven members. All members of the Supervisory Board demonstrate relevant education, professional and life experience, represent high moral standards as well as devote the necessary amount of time to allow them to properly perform their functions in the Supervisory Board.

On 30.06.2014, the Ordinary General Shareholders Meeting of Orzeł Biały S.A. adopted the Resolution No 18 whereby, the Supervisory Board of the 2014 to 2016 period would be composed of five members. Moreover, the Ordinary General Shareholders Meeting of Orzeł Biały S.A. adopted resolutions nos 19 through 23 whereby, as from 30.06.2014, the Supervisory Board Members had been appointed for the new 9th term: Mr Leszek Waliszewski, Mr Marek Bogucki, Mr Pierre Mellinger, Mr Geza Szephalmi and Mr Tomasz Jakub Wojtaszek. The Supervisory Board Members appointed for the 9th term used to be Supervisory Board Members of the previous 8th term. The term of the Supervisory Board is three years and is joint for all Supervisory Board Members.

On 26.08.2014, the Supervisory Board of Orzeł Biały S.A. adopted the resolution in the matter relating to constituting the Supervisory Board of Orzeł Biały S.A. The Resolution No. 707/IX/2014 elected Mr Leszek Waliszewski as the Chairman of the Supervisory Board, the Resolution No 708/IX/2014 elected Mr Marek Bogucki as the Deputy Chairman of the Supervisory Board.

The composition of the Supervisory Board of Orzeł Biały S.A. from 01.01.2015 to 31.12.2015 was as follows:

- Mr Leszek Waliszewski** - Chairman of the Supervisory Board
- Mr Marek Bogucki** - Deputy Chairman of the Supervisory Board
- Mr Pierre Mellinger** - Member of the Supervisory Board
- Mr Geza Szephalmi** - Member of the Supervisory Board
- Mr Tomasz Jakub Wojtaszek** - Member of the Supervisory Board

According to the Best Practices of WSE Listed Companies in 2016, two Supervisory Board Members meet the independence criteria referred to in Principle II.Z.4. The information on this was posted on the Company's website in the *Corporate Governance* section. The Supervisory Board Members submitted to the Management Board relevant declarations of independence, according to the European Commission Recommendation of 15 February 2005.

The Supervisory Board, on the basis of the criteria set out in Annexe II to the Commission Recommendation of 15 February 2005 and on the basis of statements submitted by the Supervisory Board Members, evaluates the independence criteria to have been met.

In 2015, there was no Audit Committee operating under the Supervisory Board. The tasks of the Audit Committee have been entrusted to the entire Supervisory Board due to the fact that the Supervisory Board was composed of not more than 5 members.

In 2015 the Supervisory Board of Orzeł Biały S.A. met 7 times at following dates:

19 February 2015	Supervisory Board
10 March 2015	Supervisory Board
30 April 2015	Supervisory Board
25 June 2015	Supervisory Board
1 September 2015	Supervisory Board
28 October 2015	Supervisory Board
10 December 2015	Supervisory Board

Invitations to the meetings of the Supervisory Board as convened by the Chairman of the Supervisory Board and the documents for the meetings were provided by the Company to all Supervisory Board Members in accordance with the formal requirements set forth in the Company's Articles of Association and the Supervisory Board Rules of Procedures. The minutes of the meetings of the Supervisory Board, adopted resolutions and other documents relating to the Supervisory Board sessions are kept at the Company's headquarters.

Following issues of the Supervisory Board sessions were addressed in 2015, similarly as in previous years:

- a) implementation of the statutory duties of corporate governance - in particular the Supervisory Board provided opinions on the Management Board proposals being subject of the AGM,
- b) at each session, analysed present operations of the Company as presented by the Management Board, its economic and financial performance as well as that of its subsidiaries,
- c) assisted the Management Board in market analysis, oversaw plans for further corporate development and stated strategic objectives to be implemented by the Management Board Members.

On 30.04.2015, the Supervisory Board adopted Resolution No. 730/IX/2015 which specified that the new three-year 9th term of office of the Management Board of Orzeł Biały S.A. would work in the two-strong composition. In addition, the Supervisory Board adopted resolutions numbered 731/IX/2015 and 732/IX/2015 which appointed to the Management Board:

- Mr Michael Rohde Pedersen as the Chairman of the Management Board - Director General;
- Mr Tomasz Lewicki as Deputy Chairman of the Management Board - Director Commercial.

The appointee Management Board Members for the 9th term of office used to be the Management Board Members of the previous 8th term of office.

On 15.05.2015 the Company received the resignation of Mr Tomasz Lewicki as the Deputy Chairman of the Management Board. The announcement was made public in the current report number 11/2015 dated 15.05.2015.

The Supervisory Board, assessing the degree of achievement of the objectives of 2015, states that main stated objectives have largely been achieved.

2015 was primarily another year of changes the objective of which was to follow the rising market expectations and to build the competitive advantage of the Group both in the Polish and European markets. The Company had been aligning its internal organisational set-up to present and future needs by investing in staff development and training throughout all functional tiers.

In 2015, Orzeł Biały SA was mainly focused on the core business of recycling scrap batteries, on production of refined lead and lead alloys so that it is becoming an international manufacturer of high standards and quality.

The company also continued the work of the Research and Development Facility in the field of modelling and optimisation of non-ferrous alloy technological processes. The visible effect of this activity is in the improved production process, the roll-out of new recipes, products, services and development of new technologies.

In addition, Orzeł Biały S.A. focused on the implementation of high health and safety standards, improvements in work organisation and management processes, management competence development and use of knowledge and experience of human resources in order to follow the changing market and growing expectations of customers and business partners.

The Supervisory Board positively assesses the Company's activities in terms of changes made in many areas of its business.

The Supervisory Board states that the Company properly fulfills its reporting obligations concerning the application of the principles of corporate governance as set out in the [WSE] Exchange Rules and regulations on current and periodic information published by issuers of securities.

In accordance with agreed procedures, the Company shall immediately inform about any events as required by regulations, thus allowing the shareholders to have a permanent equal-time access to information. The information is published on both the Stock Exchange and on the Company's website.

The Supervisory Board positively assesses sponsorship activities run by Orzeł Biały S.A. In the Supervisory Board's assessment, the Company conducts it in line with the adopted sponsorship policy. The Board justified its rationality. The Company mainly sponsored children's activities in the vicinity of buildings/establishments of the Company, supports local communities and the environment, thereby ensuring the development of the city in which the registered office of the Company is found.

Moreover, the Supervisory Board, providing the above information, states that in 2015 it made every effort to properly perform its duties and obligations.

The Supervisory Board acted in accordance with the Corporate Governance rules. In 2015, the Supervisory Board fulfilled all applicable Code of Best Practice for WSE Listed Companies principles.

The Supervisory Board in its current composition allowed the combination of a wide variety of professional experience

and broad competence of its members for the benefit of Orzeł Biały SA operations as well as provides a proper assessment of the work of the Management Board. The Supervisory Board Members were guided in their conduct by the interests of the Company and by independent judgments and opinions.

In the reporting period, there were no situations as a result of which the Supervisory Board Members would have to inform about any existing conflict of interest or the possibility of such occurrences, and as a result of which, they would have to refrain from taking part in the discussions at the Supervisory Board sessions and from voting on any resolution which has given rise to such conflict of interest.

In the Supervisory Board assessment, the Board did in 2015 properly fulfill its duties. Within the scope of its activities it demonstrated conscientiousness, reliability and necessary knowledge and consistency, which is the guarantor of the proper surveillance of all relevant aspects of the activities of Orzeł Biały S.A. In addition, the Supervisory Board performed its duties in accordance with all legal and formal requirements.

As part of its obligatory duties, the Supervisory Board did:

- analyse materials, financial statements and accounts of the Company's and the Group's activities for the financial year of 2015 including Independent Auditor's opinions and reports,
- analyse Management Board reports and proposals/requests about the 2015 profit allocation methods.

The Supervisory Board positively assesses the financial statements and the Management Reports of Orzeł Biały S.A. and the Group for 2015. The Supervisory Board appraises that they had been, in all material respects, prepared in accordance with applicable laws, accounting principles and standards, and in accordance with the facts disclosed in the books and accounts, and the Management Board reports are considered to be reliable and allowing a good evaluation of the situation of the Company and the Group. Therefore, the Supervisory Board approves the Management Board proposals and requests tabled and submitted to the Annual General Shareholders Meeting for approvals for the above reports and for the exoneration of the Management Board Members from their duties and responsibilities in the fiscal year of 2015.

Signatures:

Leszek Waliszewski
(Chairman of the Supervisory Board)

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Marek Bogucki
(Deputy Chairman of the Supervisory Board)

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Pierre Mellinger
(Member of the Supervisory Board)

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Geza Szephalmi
(Member of the Supervisory Board)

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Tomasz Jakub Wojtaszek
(Member of the Supervisory Board)

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