

Ladies and Gentlemen, Dear Shareholders,

Once again, I have the pleasure of presenting to you the Annual Report of Stalprodukt S.A., presenting the results, the most important information regarding the Company's operations in 2022 and its future prospects.

Societies in practically all regions of the world had not yet managed to shake off the effects of the COVID-19 coronavirus pandemic, when another event came, equally tragic in terms of scale and its consequences - Russia's attack on Ukraine, as a result of which tens of thousands of Ukrainian citizens lost their lives, several million had to seek refuge abroad. The packages of various political and economic sanctions imposed on Russia by the United States and the European Union affected the level of trade with this country and disrupted the supply chains developed over the years. The above restrictions contributed to the increase in the prices of energy carriers and raw materials (such as crude oil, natural gas, coal), which contributed to the dynamic growth of inflation, the increase in the costs of operating enterprises and a significant deterioration in their profitability.

The increase in production costs had to be compensated by an increase in the prices of finished products also in the case of Stalprodukt, which in turn influenced the Company's significant increase in sales revenues and operating results. Total revenues from sales of products, goods and materials amounted to PLN 2,719.3 million in 2022 and were 36.1 percent higher than those achieved in 2021. The increase in the results achieved was even greater: operating profit increased by 44.9 percent, while net profit was higher by 80.9 percent and reached PLN 398.1 million.

The market situation for transformer sheets, and especially the increase in both prices and sales volumes, was conducive to achieving very good results by the Electrical Sheets Segment. The increase in revenues of this Segment amounted to 83.2 percent, and its margin increased by 148.4 percent. The share of the Electrical Sheets Segment in the total sales structure of the Company also increased significantly - from 34.8 percent in 2021 to 46.9 percent in 2022.

The second basic operating segment of the Company - the Profiles Segment - fared much worse. Despite the increase in average prices of finished products, the declines in sales volumes of cold-formed sections, road barriers and service center products caused by the difficult market environment resulted in a mere 9-percent increase in the Segment's revenues, with an almost 56-percent drop in the Segment's result. The share of Segment sales in the assortment sales structure decreased from 46.2 percent to 37.1 percent.

The Business Segment of Remaining Activities fared much better, achieving almost 15 percent sales growth, with an over 57 percent improvement in the result. Its share in the sales structure fell to a lesser extent than in the case of the Profiles Segment, i.e. from 19.0 percent in 2021 to 16.0 percent last year.

After several years of construction, the opening being postponed several times due to the coronavirus pandemic and a drastic drop in the number of guests in Krakow hotels (especially those of the highest standard), the Company launched the 5-star Hotel Ferreus at ul. Kopernika 6 in Krakow in September 2022. This facility is distinguished by its unique style (modern art deco), boutique character (71 rooms) and great location, i.e. right next to Krakow's Planty park.

In accordance with last year's announcement, as a result of a review of strategic options and an analysis of the Company's market environment, the Management Board of Stalprodukt presented at the beginning of 2023 the assumptions of new directions of strategic activities - for the Company itself and the Stalprodukt Group. The main goals for the parent entity include: improving energy efficiency (including through the development of cogeneration sources, reconstruction of technological lines) and decarbonization of production (including by eliminating the use of thermal coal, replacing "grey" hydrogen with so-called "green", construction of own renewable energy sources). The measurable goals include primarily reducing CO2 emissions (total direct and indirect emissions) in the steel processing sector by 55 percent in 2030 (compared to the end of 2022).

The Company's Management Board also presented a new area of activity, which is a project of construction of commercial buildings, i.e. an office building and premises for rent in the PRS (Private Rented Sector) formula at ul. Wadowicka/Tischnera in Krakow - "Tischnera Green Town". In principle, this complex is to be neutral in terms of its impact on the environment and consist of modern buildings with a high BREEAM rating, powered by cogeneration sources (based ultimately on "green" hydrogen), energy obtained from photovoltaic panels located on the roofs and facades of the buildings and the use of heat pumps and rainwater. The total cost of construction of stage 1 was estimated at approx. PLN 1 billion, while the planned revenues from this activity will amount to at least PLN 125 million/year.

Despite the planned ambitious investment projects, the Company intends to continue the adopted policy of regular dividend payments, which assumes allocating from 15 to 25 percent of the standalone net profit for this purpose.

Taking into account the very good financial results achieved by Stalprodukt in 2022, the Management Board of the Company recommended a dividend payment of PLN 15 per share, which gives a total dividend amount of almost PLN 81.0 million and constitutes 20.3 percent of the profit generated by the Company in 2022, i.e. in accordance with the adopted dividend payment policy.

The increase in stock market indicators and thus improvement in the attractiveness of the Company's shares for its shareholders will also be contributed to by the buy-back of own registered shares carried out in 2022, the purpose of which was to redeem them and reduce the Company's share capital. The basis for the purchase of shares was the authorization granted by the Ordinary General Meeting of Stalprodukt S.A. on June 23, 2022 (i.e. Resolution No.

XLI/14/2022). As a result of the buyback, during 2 tranches, the Company acquired a total of 180,669 own shares, the share of which in the share capital amounts to 3.24 percent. These shares entitle to 5.46 percent of all votes at the general meeting.

Appreciating the commitment of the Company's management and staff in this very demanding period - in terms of operating conditions - and taking into account the conditions prevailing on the market, the Company introduced new salary regulations with a simultaneous reconstruction of the Company's Collective Labor Agreement, thanks to which the average salary increased by 20.3 percent over the past year. In the opinion of the Management Board, low employee "rotation" is a confirmation of ensuring favorable employment and remuneration conditions.

The year 2023 brings many more challenges; the war in Ukraine continues to have devastating consequences for both its citizens and the economy of this country, as well as many other countries (not only those directly neighboring), inflation remains at a very high level, which limits demand from consumers - both individual and entrepreneurs. The approved package of regulations related to the FIT for 55 project will allow, on the one hand - after implementing its assumptions - to achieve a large degree of independence from fossil fuels, but on the other hand it carries dangers and risks. Controversies are caused by, among others, announcement of the introduction of a carbon footprint tax ("CBAM"), while reducing free CO₂ emission allowances.

Thanking the management staff and the Company's staff for their contribution and work to date in achieving very good financial results, I ask for further involvement. The difficult market environment, great uncertainty and many risks that we face, will certainly require this from all of us.

Piotr Janeczek
President of the Management Board - General Director
Stalprodukt S.A.