Dear Shareholders,

The year 2016 was especially successful for the Stalprodukt Group. In this period the Group recorded considerable increases of financial results in relation to the previous year.

The sales increased only symbolically over the previous year (by 0.3 per cent), reaching the level of PLN 3 141 million, whereas the changes affecting the results at all the levels of the profit and loss account were simply impressive. The return on sales increased by 27.5 per cent, the profit on operating activities by 41.6 per cent, and the net profit by as much as 51.9 per cent in relation to 2015.

These results are all the more worth underlining that the macroeconomic conditions were not so hospitable as the ones in 2015. Polish economy was developing more slowly than in the previous years as the GDP increased by merely 2.7 per cent compared to 3.9 per cent achieved in 2015. Moreover, in 2016, the investments decreased considerably by as much as 7.9 per cent. For comparison, in 2015 their increase reached as much as 5.8 per cent.

The improved results, as compared to 2015, were primarily attributed to the Zinc Segment which, at present, is the largest sales-referred operating segment of the Stalprodukt Group (sales share at the level of 54.1 per cent). It also has the biggest impact on the Group's consolidated results. The Segment concerned recorded an almost 7-per cent increase of sales in relation to 2015 (up to the level of PLN 1 699.8 million) while the Segment's result increased by 47 per cent and reached PLN 370.2 million. The improved sales mainly resulted from the increase of the average zinc price in 2016 (increase of PLN prices reached the level of 14 per cent) and strengthening of the American dollar against the Polish zloty. The sales volumes reached a level similar to the one achieved in 2015.

The Electrical Sheets Segment recorded poorer results than in 2015. They, primarily, resulted from the sales volume decline which also affected the sales value of transformer sheets and cores. The previous year, and especially its second half, brought a considerable decrease of prices in the Segment concerned, as compared to 2015. Such a negative trend was also maintained in the initial months of 2017. Despite this, throughout the previous year, the average strike prices were only slightly lower than the ones achieved in 2015. However, the decrease in the sales volumes of electrical sheets amounted to 14.5 per cent and this factor mainly determined the Segment's sales decrease by as much as 32 per cent, i.e. to the level of PLN 563 million.

The Profiles Segment's results were significantly improved, which is recorded by the Management Board with great satisfaction as, in respect of the Segment's main product groups (especially profiles and products of steel service centers), the Company operates on an extremely competitive market. Although the average prices in this Segment stood at the lower level than in 2015, the increase of the sales volumes referring to the products of steel service centers (by 2.6 per cent) and road safety barriers (by almost 25 per cent) had an impact on the improvement of this operating Segment's results by PLN 21 million, i.e. by as much as 88.8 per cent in relation to 2015. Also better results achieved by the distributor's company, dealing in the trade of steel products, contributed to the above.

It is also worth noting that the downward trend referring to the sales of products distributed by steel service centers was stopped. For a few years now, in the face of the massive market competition and hard competing conditions, especially with steel producers, the sales of these products have been successively decreasing. In 2016 this unfavorable phenomenon was successfully stopped. In effect, the Company recorded an increase of sales in this product group, both in terms of the sales volume (by 2,6 per cent) and value (by 0.5 per cent).

Stalprodukt enjoys a strong market position in respect of conventional grain-oriented sheets. However, the demand is increasingly shifting towards high grade (so called HiB) steels. In the recent years the Company has completed a necessary modification of its equipment aimed at the launching of the advanced production technology of such sheets. However, the still present charge material quality problems do not allow for the large-scale launching of HiB sheets production. In the context of the ineffective EU market protection against the excessive imports of transformer sheets, entailing their falling prices, especially in reference to the conventional grades, the fastest possible launching of HiB sheets production will not only allow for the strengthening of the Company's competitive position, but will also influence the improvement of the return on sales likely to result from the higher prices of these products.

The Profiles Segment's prospects for the coming period are favorable. In line with the earlier expectations, the sales of road safety barriers are dynamically growing in connection with the accelerated implementation of large road projects. Moreover, in the year to come, the Segment's production potential will be strengthened with 2 state-of-the-art production lines for precision profiles (small- and large-sized ones), manufactured from cold-rolled steel strips and galvanized strips (galvanization following the cold-rolling process) with sprayed seams. At present, the equipment's acceptance tests are under way.

At the same time, the Management Board is keeping an anxious eye at the antidumping proceedings initiated by the European Commission, and especially the proceedings regarding the EU imports of hot-rolled sheets in coils. These products constitute the basic charge material for the Company's production departments. The expected import restrictions regarding these products will surely limit the Company's access to charge material available at competitive prices, which will, undoubtedly, translate into the rate of return of the products manufactured by the Company. This situation, including the registration procedure for imported products, and limited access to charge material in particular, is already being taken advantage of by the EU steel producers who are significantly increasing the prices of their products. It is worth underlining that in the absence of similar protection measures on the market of finished products (e.g. tubes and profiles), the opportunities of competition with suppliers from such countries as Turkey, Ukraine or Russia are extremely limited. This situation, undoubtedly, is a potential risk factor for the Company's activities, and for its Profiles Segment in particular.

A stable and continuous increase of the global demand, estimated at 2.1 per cent in 2017 as compared to 2016, is still observable on the zinc market. At the same time, the concentrates' supply was decreased due to closures or limited zinc-lead ore excavation volumes by several big mines. The above factors had a significant impact on the dynamic increase of zinc prices in the previous year. There are many indications that such conditions will also persist in 2017, which should be conducive to the high level of zinc prices.

Moreover, the Zinc Segment policy announced in 2016 sets very ambitious goals for this operation area of the Stalprodukt Group. These are among others: extension of the Olkusz-Pomorzany mine's operation period to be achieved by excavations from the new deposit (”Klucze I”), construction of a new wash tubs hall and increase of the electrolytic zinc production capacity up to 100 thousand tons per year, and also the launching of a post flotation waste recycling plant. It is worth underlining that this recent project has already been completed and will allow the Company to achieve the turnout of approximately 20 thousand tons of zinc concentrates per year, which is extremely important considering the raw material security policy. All these activities, accompanied by the increase of the production capacity, undoubtedly, serve to improve the Zinc Segment's competitive position.

In the previous year a program, initiated towards the end of 2015, aimed at the purchase of the Company's own shares with a view to redemption, was completed. Stalprodukt S.A. purchased its own shares totaling 1 075 000 items in three tranches, amounting to PLN 268 750 thousand. Along with the shares purchased w few years before, the number of own shares subject to redemption totaled 1 144 733 items, which accounted for 17 per cent of the Stalprodukt Company's share capital. On 28 June, the Registry Court registered the decrease of the Company's share capital from the amount of PLN 13 450 000 thousand to the amount of PLN 11 160 534 thousand. The shares purchase program and their successive redemption contributed to the improvement of such stock market ratios as earnings per share and book value per share, which – next to very good Company's and Stalprodukt Capital Group's financial results – had an extremely beneficial impact on the prices of the WSE-quoted shares.

The Stalprodukt S.A. Management Board will take further actions aimed at the improvement of the competitiveness of the entire Capital Group, maintenance of its stable and safe financial condition and introduction of innovative technical solutions, which will result in the increase of the Parent Company's goodwill in favor of the Shareholders.

Piotr Janeczek
President of the Management Board – CEO