

Dear Ladies and Gentlemen, Dear Shareholders,

Once again I have the pleasure to present to you our Annual Financial Report, featuring both the Stalprodukt S.A. Mother Company and its Capital Group. Moreover, this year for the first time we are publishing our Non-Financial Statement which is an element of the Management Board's Report on the Group's and Mother Company's Activities.

2017 was a record-breaking year for the sales of products, goods and materials achieved by the Stalprodukt S.A. Capital Group as the same amounted to PLN 3 501,0 million in the period concerned, which accounts for an increase by PLN 360,1 million, i.e. 11.5 percent over 2016. However, the Group's financial results deteriorated in relation to 2016. The operating profit amounted to PLN 359.6 million and was lower than the one achieved in the previous year by PLN 53.3 million, while the net profit of the Stalprodukt Group decreased by PLN 69.8 million and reached the level of PLN 275.4 million. Thus, the decrease suffered in relation to the year 2016 reached 20.2 percent. In the reporting period the Capital Group's EBITDA ratio reached the level of PLN 497,1 million. In 2016 the achieved EBITDA ratio was higher by 10.2 percent and amounted to PLN 553.4 million.

The increase of sales was, primarily, achieved thanks to the Zinc Segment's sales which were by 18 percent higher. In the previous year, the Segment's share in the Group's sales reached the level of 57.3 percent. While its share in the total result of the operating segments was even higher and reached 83.0 percent, which corresponded to the operating margin at the level of almost 14 percent. The improvement of the sales results was induced by the extremely good zinc market conditions, the symptom of which was the metal's price level not recorded for many years before. The average annual price of zinc amounted to USD/ton 2 896, which equals the amount of PLN 10 914.

In 2017, the sales of the Electrical Sheets Segment decreased by PLN 32.6 million, i.e. by 5.8 percent and amounted to PLN 530,4 million. The sales volumes achieved in the period were by 3.4 percent higher than the ones achieved in the previous year and, thereby, the sales decrease had, primarily, resulted from the previous year's decrease of the transformer sheets average prices which reached 9 percent. The considerable decrease of results led to the reduction of the Segment's margin to the level of 8.8 percent. Due to the decrease of the sales, the share of the Sheets Segment in the Group's sales structure fell from 17.9 percent to 15.2 percent.

The Profiles Segment recorded an improvement of the sales which increased by 11.4 percent in the previous year and reached the level of PLN 736,5 million thanks to the increase of the average prices for the Segment's products. Whereas such factors as the disadvantageous relation of the charge material prices to the finished product prices and their considerable fluctuation maintained throughout the year which had, mainly, been caused by the European Commission market protective measures to be followed by the introduction of the anti-dumping duties for the hot-rolled coiled sheets, imported from Brazil, Iran, Russia and the Ukraine – contributed to the decrease of the Segment's profit margin from 6.8 percent in 2016

to 2.3 percent in 2017. The share of the Profiles Segment's sales in the Group's sales structure remained at the 2016 level and reached 21 percent.

The sales of the Other Activities Segment increased by 5.5 percent over the previous year, and its share in the Group's sales structure was only slightly reduced, i.e. from 6.9 percent to 6.5 percent. The Segment's profit margin increased from 6.9 percent in 2016 to 8.3 percent in 2017.

An important event that the Stalprodukt S.A. Management Board cling their hopes to was the purchase of the transformer sheets manufacturer – the GO Steel Frydek Mistek a.s. company based in the Czech Republic. The shares purchase agreement was signed on 15 December 2017, following the several-month company-auditing and terms-negotiating period whereas the transaction was concluded on 28 February 2018. This transaction will allow for the increase of the Steel Sheets Segment's production capacity up to 150 thousand tons per year (from the present 100 thousand tons), i.e. by almost 50 percent and will, thereby, improve the Stalprodukt's position on the market of steel sheets, which is essential, considering the consolidation processes that are taking place in the industry concerned. The purchase of the GO Steel Frydek Mistek company will also allow the Group to take advantage from the synergy effects taking place in the Group, which will stand, among others, for: the joint management of orders and purchase of charge materials, joint management of product development and product specialization – the production of high grade steel will take place in Bochnia and conventional grade steel – in Frydek Mistek.

The Profiles Segment operates in a difficult market environment. The competition between the manufacturers of cold formed profiles and operators of steel service centers is extremely tough, and production capacities considerably exceed the reported demand. The access to charge materials, including the hot rolled coiled sheets in particular, was reduced by the introduction of the protective duties for the imported materials. At the same time, the market of finished products is not protected, which means that Stalprodukt still has to face the imports of cheap tubes and profiles from such countries as the Ukraine, Russia, Turkey or Belarus. The companies which pursue their activities in these countries use cheaper charge materials in their production process, thanks to which they achieve a competitive advantage. In 2018, this Segment will still remain under a strong price-related and competitive pressure, which stands for the relatively low level of the profit margins to be maintained in the Segment.

Nevertheless, the Stalprodukt Management Board undertakes actions aimed at the improvement of the Company's competitive position in this operating segment. The investments into the machinery park and extension of the product offer are jointly an element of such actions. Consequently, in 2017, two state-of-the-art production lines were launched to produce precision profiles (small- and medium-sized ones), made from cold rolled steel strips and galvanized strips (galvanization following the cold rolling process) with thermal sprayed weld seams. Moreover, in line with the earlier predictions, the sales of Stalprodukt's steel safety barriers is significantly growing thanks to many new road projects being launched.

The global consumption of zinc increased by 2.3 percent in the previous year, reaching the level of 14 million tons. The year 2018 should see high stock market price levels maintained

in respect of this metal. The main factors which are conducive to such a scenario in the industry are the good global economic conditions resulting in the growing zinc demand, lower supply of concentrates, resulting from the reduction of mining production and low level of reserves in the stock market warehouses.

The extension the Olkusz-Pomorzany mine operation period, implementation of the new wash tubs hall project and, in effect, a considerable increase of the zinc production capacity as well as putting the postfloatation waste recycling plant into operation were the actions which effectively strengthened the Zinc Segment's market position.

We are facing another demanding year, bringing uncertainty as to the development of the situation and conditions, in which the Capital Group will operate, and, in particular, its steel part connected with the activities of the Mother Company. The duties levied by the American administration on the imports of steel and aluminum caused considerable confusion and uncertainty on the markets and, consequently, triggered out other states' and global regions' defense reactions and institution of protective proceedings. Such actions were also undertaken by the European Commission. However, it is difficult to predict which product groups will be affected by the duties and how effective the potential protective measures will be. It is uncertain either whether the temporary exemption (within 1 May 2018) of the EU states from the Section 232 will be maintained by the United States. Certainly, such an unequivocally negative development of situation can hardly be forejudged as e.g. the introduction of EU protective measures for the finished products (such as tubes and profiles) against the excessive cheap imports, would definitely have positive consequences for Stalprodukt.

I hope that thanks to the hard work of all our Employees, we will manage to fully meet the challenges to be brought by the nearest future.

On behalf of Stalprodukt S.A. Management Board, I would like to thank all our Employees, Customers and Shareholders for their so far demonstrated involvement in the systematic and successful development of our Group.

Piotr Janeczek
President of the Management Board – CEO