

**Dear Sirs or Madams, Dear Shareholders,**

I have the pleasure to present you with the consolidated Annual Report of the Stalprodukt S.A. Capital Group, containing the results and most important information related to the business of the Group in 2018.

The Stalprodukt Group achieved beneficial financial results in 2018, which were better than in 2017 on several levels of the profit and loss statement. Our sales revenues increased in comparison to 2017 by 13.0 pct and reached 3,956.7 million zloty. It should also be highlighted that it was an all-time high level in the entire history of the Stalprodukt Group, which was affected by the 2017 takeover and consolidation of GO Steel Frydek-Mistek a.s. as of March 1, 2018. The profit on operating activities was almost 300 million zloty, which means a decrease by 16.6 pct, however, the net profit in the amount of 284.7 million zloty was 3.3 pct higher than in 2017.

As regards the acquisition mentioned above, the results of the Electrical Sheets Segment should be positively assessed in particular, as in this case our sales revenues increased in 2018 by 53.3 pct, at the volumes of transformer sheets higher by 45.6 pct in relation to 2017. On account of this and slight increase in the prices, the result of the Segment increased by staggering 131.3 pct, and its profit margin from 8.8 pct to 13.3 pct. In effect, the share of the Segment in the sales structure of the Group increased markedly from 15.2 pct in 2017 to 20.6 pct in 2018.

A much more difficult situation was observed in the Profiles Segment. Despite the maintenance of the revenues on the same level as in 2017, the yielded result was 93.8 pct lower, whereas the profit margin was only 0.1pct compared to last year. What should also be negatively assessed are the drops of the volumes in the ranges of cold-formed profiles (by 8.8pct) and products of the service centres (by 27.5 pct). These adverse changes were partly made up for by very good results in the sales of road barriers. The volumes of their sales increased by 18.5 pct, whereas the sales revenues increased by nearly 25 pct. The share of sales of the Profiles Segment of in the sales of the Group decreased from 20.1 pct in 2017 to 18.7 pct last year.

These results reflect the difficult situation on the market of cold-formed profiles and operators of service centres, mainly attributable to cheap imported goods from beyond the European Union and ineffective measures aimed at protecting EU manufacturers.

As early as in 2018, we took actions to improve the situation of this operational segment. We changed the rules for the distribution of profiles on the Polish market by incorporating the commercial warehouses hitherto managed by Stalprodukt-Centrostal-Kraków Sp. z o.o. into the structures of Stalprodukt and setting new cooperation rules (agency agreement). However, we are aware that further optimisation actions will be required in this segment of the Group.

The revenues of the Zinc Segment reached the level of 2017, and its result decreased by 16.4 pct. The profit margin of this Segment dropped from 20.2 pct to 16.8 pct. The results thus

yielded should, however, be assessed as good, as they were affected by such most important factors as: maintenance of stock market prices of zinc, the main product of the Segment, on the level as in 2017, decrease of PLN prices of this metal by 3.7 pct and increase in the sales of volumes by 3.0 pct. Still, the Zinc Segment remains the largest operational segment of the Group in terms of revenues, and its share in the sales structure in 2018 was 50.9 pct.

The segment of the remaining business, mainly including the sales of cold-rolled products and sheets manufactured by GO Steel Frydek Mistek a.s. and galvanising services, noted the increase in revenues by 71.5 pct and result by 13.7 pct. In 2018, its profit margin was 5.5 pct, whereas the share in the assortment structure increased throughout the year from 6.5 pct to 9.9 pct.

The key element of the implementation of the development strategy for the parent company, Stalprodukt S.A., for the improvement of the position of the Group on the market of transformer sheets was closing, on 28 February 2018, of the transaction for the purchase of 100 pct of the shares of GO Steel Frydek Mistek a.s. From March the 1st last year, the results of this company have been consolidated with the results of the other companies of the Stalprodukt Capital Group. The consequence of this takeover is the increased manufacturing capacity of transformer sheets at the Group from 100 thousand tonnes/year to 150 thousand tonnes/year, and the expansion of the product portfolio with a completely new item, namely cold-rolled sheets.

The actions taken in 2018 by the Management of Stalprodukt were aimed at the unification of the commercial and marketing policies of both entities on the market of transformer sheets and the best possible use of the synergy effects at the Group, for instance through the purchase of cold-rolled sheets for manufacturing cold-formed profiles at the Tarnów manufacturing plant of Stalprodukt. After the first period of operation of GO Steel Frydek Mistek a.s. as a member of the Stalprodukt Group, taking into account the very efficient use of manufacturing capacities in all the ranges and beneficial influence on the consolidated results (increased revenues of the Electrical Sheet Segment by 53.3 pct, and result by 131.2 pct), the Management with all certainty assesses the effects of this acquisition in a positive manner.

As for the Electrical Sheets Segment, for several years there has also been a project in place aimed at launching the manufacture of high-quality transformer sheets referred to as HiB. In 2018, regular tests were performed of the input material characterised by proper quality parameters. Last year, thanks to the improvement of the process, the manufacturing volumes of HiB-quality material increased several times.

The strategy for the Zinc Segment should also be evaluated positively, which strategy was announced in 2016, whose most important elements included: extension of the period of operation of "Olkusz-Pomorzany" mining facility until 2020, launch of the flotation waste treatment facility, merger of ZGH „Bolesław” S.A. and Bolesław-Recycling sp. z o.o. and construction of the new facility for tank hall with the simultaneous increase in the manufacturing capacity within the scope of zinc electrolysis at the works in Bukowno up to

100 thousand tonnes/year. Having implemented necessary investments in the launch of the "Klucze I" deposit, there is not the least doubt that it will be possible to extend the operation of the mining facility until 2020. Similarly advanced is the project for the erection of the tank hall facility, whose implementation should end next year. The remaining elements of the strategy, that is to say the merger of the companies and commissioning of the flotation waste treatment facility, were implemented as early as in 2017.

On behalf of the Management of Stalprodukt S.A., I would like to thank all the Employees of the Capital Group for their commitment to the achievement of the best manufacturing, sales and financial results.

Being aware of the challenges faced by the entire Group, especially adverse conditions in the market environment or rising production costs, including the ones related to the rapid growth of electrical energy prices, the Management of Stalprodukt S.A. declares that they will take further actions aimed at improving the competitiveness of the entire Capital Group and maintaining its stable and safe financial situation, to the benefit of all the Shareholders of Stalprodukt S.A.

Piotr Janeczek  
President of the Management Board –  
Chief Executive Officer  
Stalprodukt S.A.