

Dear Ladies and Gentlemen, Dear Shareholders,

I am pleased to present to you the Annual Report of Stalprodukt S.A. containing the business results and the most important information regarding the Company's operations in 2018.

Stalprodukt reached positive financial results in 2018. The sales revenues increased by 21.4% compared to 2017 and reached PLN 1 591.7 million. The operating profit amounted to PLN 33.1 million, which is an increase by 63.4%, and the net profit of PLN 125.1 million was higher by 25% than that in 2017. Similarly to 2017, dividends received from subsidiaries significantly influenced the Company's net result (PLN 98.6 million compared to PLN 94.3 million in the preceding year).

We took positive note of the results of the Electrotechnical Sheet Segment, whose sales revenues increased by 6.7% in 2018, with volumes close to those in 2017. By applying higher prices we managed to increase the result of this Segment by 59.5%, and its margin from 8.8% up to 13.2%. As a result, the share of this segment's products in the sales assortment structure increased from 41.5% to 42.6% in the case of transformer sheets and from 0.9% up to 1.1% in the case of cores.

A much more difficult situation took place in the Sections Segment. Despite maintaining sales revenues at the level equal to 2017 by applying higher prices, the Segment's result dropped by 83.3%, and its margin amounted to only 0.2%. Negative is also the decrease in the volumes in the assortment groups of cold-formed sections (by 7.4%) and of service centre products (by 27.5%). The outcome of these changes was the decline in the share of sections (from 43.6% to 42.1%) and the products of service centres (from 5.1% to 3.7%) in the total sales structure. These unfavourable changes were partially compensated by very good sales results of road barriers. Their sales volumes increased by 18.5%, while the value of sales revenues increased by almost 25%, which resulted in an increase in the share of this product group in the sales assortment structure from 8.1% up to 9.8%.

These results reflect a difficult situation on the market of bent sections and of service centre operators, which is mainly due to cheap imports from outside the European Union and due to the ineffective measures to protect the EU producers.

In 2018, we took measures that should improve the situation of this segment of operations. We changed the terms of the distribution of sections on the Polish market by including commercial storage previously managed by the trading company Stalprodukt-Centrostal Krakow Sp. z o.o. in Stalprodukt's structure and by agreeing on new terms of cooperation (agency contract). We still are aware that further optimization activities will be necessary in this segment of the Company's operations.

In the remaining business Segment the revenues tripled compared to 2017. Such an increase was primarily caused by the increase in sales of goods to the related entity – GO Steel Frydek Mistek a.s. The results of this Segment doubled, while its margin fell from 5.8% to 2.7%.

On the 28 February 2018 the transaction of purchase of 100% of shares of GO Steel Frydek

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Mistek a.s. was completed, which constituted a key element in the Company's development strategy in the field of strengthening the position on the transformer sheets market. Since 1 March this year the results of that company have been consolidated with the results of other companies in the Stalprodukt Capital Group. As a result of the acquisition the production capacity of transformer sheets in the Group increased from 100 thousand tonnes a year to 150 thousand tonnes a year, and the product range expanded with a completely new range – cold rolled sheets.

The activities undertaken in 2018 by the Board of Stalprodukt were aimed at unifying the trade and marketing policies pursued by both entities on the transformer sheet market as well as the best possible use of synergy effects in the Group, including through purchases of cold rolled sheets for the production of cold-formed sections in the Tarnów production department of Stalprodukt. After the initial period of operation of GO Steel Frydek Mistek a.s. within the Stalprodukt Group, the Management Board finds the acquisition to have positive effects, taking into account the very good use of the production capacity in all types of assortment and a beneficial influence on the consolidated results.

For several years, the company has also been working on launching the production of high quality transformer sheets (so-called HiB). In 2018 regular tests were carried out on the burden material with appropriate quality parameters. The improvement of the process led last year to a multiple increase of production volumes of the HiB quality material.

On behalf of the Management Board of Stalprodukt S.A., I would like to thank to all the employees for their commitment for achieving the best production, sales and financial results.

Being aware of the challenges faced by the Company, especially the unfavourable conditions in the market environment, the Management Board of Stalprodukt S.A. declares taking further actions aimed at improving the company's competitiveness and maintaining its stable and safe financial situation - for the benefit of the Company and all its Shareholders.

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