

## Letter from the President of the Management Board

Ladies and Gentlemen, Dear Shareholders,

I present to you the Annual Report of Stalprodukt S.A., presenting the results and the most important information about the Company's activities in 2020.

The COVID-19 coronavirus pandemic that broke out in early 2020 was the event that had an overwhelming impact on social, economic and political life practically all over the world, resulting in millions of victims and human drama. Many sectors of the economy have suffered from government-imposed administrative and epidemiological restrictions aimed at preventing the development of the pandemic and limiting its impact. It was most severely affected by sectors of the economy such as gastronomy, hotel industry and shopping malls, the activities of which were completely suspended for a longer period or significantly reduced, which often resulted in mass layoffs of employees. Companies from other sectors of the economy, especially with an industrial profile, generally did not experience (apart from the automotive industry) such drastic limitations and production drops, however, they also struggled with higher than usual absenteeism of their employees due to sick leave, forced quarantine or childcare.

These problems also affected Stalprodukt, although their scale was fortunately quite limited and thus they did not have a significant impact on the day-to-day operation of the Company, although they had an impact on the revenues and results achieved. In the most difficult period of the pandemic for us, i.e. March and April 2020, sales revenues decreased by approx. 20% compared to the same period of the previous year, thanks to which the Company could use the funds provided for in the so-called "Anti-crisis shield", i.e. co-financing of salaries from the Voivodship Labor Office in Krakow. The Company has also introduced internal procedures, including solutions such as measuring the temperature before entering the premises, disinfecting office rooms, restrictions in business contacts, or taking up remote work by some employees, which helped to inhibit the development of diseases. In the following months, and especially in the second half of 2020, the situation began to systematically improve.

It should therefore be emphasized that despite the fact that the sales revenues obtained in 2020 were by almost 17 percent lower than in 2019, they also reflected the weak demand for the Company's products caused by the pandemic and the administrative restrictions introduced. Despite these unfavorable conditions and lower sales, we managed to achieve an improvement in the results on the core business, which was reflected in a much better level of operating profit (PLN 22.9 million compared to a loss of PLN 4.4 million in 2019).

The net profit reached PLN 54.8 million and was by 40.9 percent lower than in 2019. This was mainly due to significantly lower than in 2019 financial revenues from dividends in subsidiaries.

The Electrical Sheets Segment recorded significant drops in terms of volumes and revenues, as a result of which the margin of this segment decreased by 32.1%, and also its share in total sales - from 37.2 percent. in 2019 to 35.1 percent in 2020.

In the case of the Profiles Segment, the situation was different. The drops in volumes and sales value in individual product groups were lower than in the case of the Electrical Sheets Segment. This was reflected in a significant improvement in this segment's result - from a loss of PLN 12.7 million in 2019 to a positive result of PLN 13.0 million in the previous year. There was also an increase in the share of this segment in the total sales structure (from 43.4% to 45.1%)

In terms of other activities, its revenues were lower by 14.8%, the result lower by 89.4%, and its share in the Company's sales increased slightly in 2020 - from 19.3% up to 19.8 percent.

The decision of the European Commission on the possible extension of the protection measures for the EU market of transformer sheets in force since 2015 will have a significant impact on the further operation of the Company. The mechanism of minimum import prices, while not an ideal solution, nevertheless constitutes a significant form of protection for European transformer steels producers against dumped imports. The lack of this solution will certainly have a negative impact on the competitive position of the Company. It should be emphasized, however, that the investments made in the past in the modernization of technological lines allow for an increase in the share of production of high-quality sheets (HiB), characterized by the highest quality and thus higher market prices than conventional sheets. Therefore, the Management Board intends to significantly increase the production of these products from next year in order to limit the possible effects of the decision of the European Commission not to extend the existing market protection measures.

Due to the coronavirus pandemic and significant administrative restrictions imposed on the hotel industry, Stalprodukt decided to postpone the start of operations by the newly built Hotel Ferreus in Krakow, located in an attractive location in the city center (ul. Kopernika 6), where the Company had had for many years unused property. This activity will be conducted on the basis of a lease agreement by an entity established for this purpose (Hotel Ferreus Sp. z o.o.). We anticipate that the opening of this facility will take place in the third quarter of 2021.

Taking into account the unfavorable external and internal conditions, the Management Board started last year the process of reviewing strategic options, which include, inter alia, such potential solutions as: sale of assets or individual operating segments of the Company, sale of other areas of the Group's operations, entering into a strategic alliance with a supplier of feedstock (especially for the production of HiB sheets) or the creation of a joint-venture with a selected partner.

On behalf of the Management Board, I assure you that the best solution will be selected from the point of view of achieving the long-term goal of the Group's development, leading to the maximization of value for the current and future shareholders of Stalprodukt. Regardless of the result of this process, we systematically restructure the basic areas of activity and optimize internal processes, especially those affecting production costs.

I hope that thanks to universal vaccination it will be possible to overcome or at least significantly reduce the spread of the coronavirus pandemic and that its impact on social and economic life in 2021 will not be as severe as last year.

Nevertheless, the market environment around Stalprodukt remains unfavorable: energy costs are rising drastically and additional burdens in the form of currently record prices of CO<sub>2</sub> emission allowances, the large share in the apparent consumption of imported finished products remains a problem. Therefore, the Management Board will make every effort to improve the competitive position of the Company and its results.

Taking this opportunity, I would like to thank the employees and management of Stalprodukt for their commitment, work and dedication in this particularly difficult period, in which the Company operated in 2020.

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