Report of the Management Board on the activities of Stalprodukt S.A. Capital Group for the period from 01.01.2012 to 31.12.2012

Bochnia 2013

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1. Introduction

1. Stalprodukt S.A. Capital Group comprises the Parent Company and 10 subsidiaries, engaged in the following business segments:

- **Stalprodukt-Centrostal Kraków sp. z o.o. -** wholesale and retail sale of metal products
- **Stalprodukt-Wamech sp. z o.o.** - production of constructions and spare parts, and repair services
- **Stalprodukt-Serwis sp. z o.o. -** repair services
- **Stalprodukt-Zamość sp. z o.o.** - building joinery and trade in metallurgical products
- **Stalprodukt-MB sp. z o.o. -** construction and maintenance of roads, installation of protective road barriers
- **STP Elbud sp. z o.o.** - production of steel constructions and galvanizing services
- **Stalprodukt-Warszawa sp. z o.o.** - trade in steel products
- **Stalprodukt-Ochrona sp. z o.o.** - property and person protection services
- **Cynk-Mal S.A.** - production of galvanized strip and galvanized wire
- **ZGH "Bolesław" S.A.** - non-ferrous metals mining and zinc and lead production
- **Anew Institute sp. z o.o.** - designing sources of renewable energy.

The share of the Parent Company in subsidiaries:

- in the Company Cynk-Mal - 51%
- in the Company ZGH "Bolesław" – 86.92%
- in other entities - 100% of the shares in each.

2. In the reporting period the Issuer's and its Capital Group's ownership structure underwent some changes:
- as of 02.04.2012 r. the companies: Ocynkownia, Elbud and Konstalbud were merged into a single company under the business name of the acquiring company, namely STP Elbud sp. z o.o.

The merger was effected under Art.. 492 § 1 of the Code of Commercial Companies – merger by takeover. It was effected through the transfer of all the assets of the target companies to the bidding company in exchange for the shares that the bidding company shall issue to Stalprodukt S.A. - as the sole shareholder of the companies concerned. As the result of the merger the share capital of the bidding company - STP Elbud Spółka z o.o. – was increased from PLN 7 298 000.00 to PLN 20 613 000.00.

- in October 2012 the Stalprodukt S.A. company purchased 49 % of shares from Konsorcjum Stali SA and since 19.10.2012 it has been the sole shareholder of the Stalprodukt- Warszawa sp. z o.o. company
The purchase price of the shares concerned amounted to PLN 1 300.4 thousand which corresponds to the fair value of the net assets acquired.

- on 7 November 2012 the Company concluded a Contract with the State Treasury, as a result of which Stalprodukt S.A. acquired 1 096 600 registered shares of Zakłady Górniczo-Hutnicze "Bolesław" S.A. company based in Bukowno, accounting for 86.92 % of its share capital. The transaction value amounted to PLN 219 232 thousand, i.e. PLN 20 per share.
The most important provisions of the agreement concerned were disclosed to the public in the Current Report No 13 as of 7.11.2012.

ZGH ”Bolesław” is the Poland’s biggest producer and supplier of electrolytic zinc, occupying a leader’s position on the domestic market. The purchase of ZGH “Bolesław” shares accounts for the implementation of the development policy of Stalprodukt S.A. Capital Group which assumes further development through expanding to new areas and through take-overs in addition to the strengthening of the existing areas of operation. The purchase was financed from a long-term investment credit incurred at the PKO BP SA Bank, amounting to PLN 100 000 thousand, and in the remaining part from own resources.
The effect of the Contract was dependent on the fulfillment of a suspensive condition which consisted in Stalprodukt S.A.’s acquisition of the consent to be issued by the President of the Office for Competition and Consumer Protection in respect of the concentration of undertakings resulting from the Issuer’s purchase of the ZGH “Bolesław” S.A. shares.
The consent concerned was acquired on 16.11.2012, and on the day of the contract conclusion indicated by the Ministry of the State Treasury - 11.12.2012 - the ZGH “Bolesław” S.A. multiple share certificates were transferred to the Stalprodukt S.A. company.

Apart from the above mentioned changes in the ownership structure of the Issuer’s Capital Group, no other mergers, take-overs, sales of entities, long-term investments, divisions, restructurings or cessations of business activities took place in the reporting period.

3. The consolidation covered the Parent Company and all other subsidiaries of the Group. Pursuant to Article 55 paragraph 6a of the Accounting Act of 29.09.1994 (Polish Journal of Laws Dz. U. No. of 2002 No. 76, item 694, as amended), the Issuer draws up the consolidated financial statements for periods beginning on 1 January 2005 in accordance with IFRS and IAS.
All the Capital Group entities are subject to consolidation under the full method. For lack of technical capacities, the newly-purchased ZGH „Bolesław” S.A. company was not included in the consolidation. The Consolidated Financial Report of the Stalprodukt Group and ZGH Group will be disclosed in the quarterly report for the 1 quarter of 2013 as the Issuer’s Management Board decided to assume the date 31.12.2012. to be the “day of acquisition” at the same time being the day of control assumption. The argument for assuming this particular day is the fact that the financial report is prepared on that day and in practical terms this is the day on which the flow of business advantages undergoes change.
On the above specified date also the purchase price shall be reconciled in compliance with IFRS 3. According to the current status of knowledge and information, recorded as of the day of the present report, i.e. the preliminary appraisal of the fixed assets value, contingent liabilities and identified risks and threats, the Issuer’s Management Board estimates that the purchase price of the company concerned shall be close to the fair value of the net assets purchased.

4. The principal objects of the Parent Company's operation is the production of highly processed steel products such as transformer sheets and strips, cold formed profiles, road safety barriers, toroidal cores, and cold rolled sheets.

2. Sale of basic products, markets. Sources of supply for materials

<u>Transformer sheets and strips</u>

In 2012 the Company’s sales of transformer sheets and strips were lower by one-fifth compared to 2011. Yet, a bigger decline in the sales volume and value was not recorded in the domestic sales, but in the exports (19 per cent). Despite numerous price fluctuations present throughout the entire year, the final average exports price reached the level of the 2011 average price.

In the domestic sales the decline in prices was more conspicuous (6 per cent year/year), however, the sales volume did not fall as rapidly as in the exports where a 19-per cent decline was recorded.

The sales volume decline was partly caused by unfavorable market conditions, resulting from the reduction of demand and presence of excessive production capacity on a global scale. As a result, most transformer sheet manufacturers utilized only approx. 70 per cent of their production capacities. However, in the case of our Company the reduction of output and sales was caused, in a greater degree, by the implemented investments program, connected with the start-up of the HiB technology. It caused switch-offs and stoppages of some production lines, reducing the production capacity of the sheets segment, especially in the second half of the previous year.

A slightly lower level of transformer sheet imports to Poland and the sales volume decline by only a few per cent allowed the Company to maintain the domestic market share at the level of approx. 30 per cent.

The key transformer sheet import countries in 2012 were:
- in the case of wide coils: Japan (38 per cent) and the USA,
- in the case of strip: Japan (approx. 57 per cent), Italy and France.

Table 1. Comparative breakdown of the sales of transformer sheets and strips

Item	Quantity (Mg)			Net value (thousand zloty)		
	2011	2012	2012/2011 (%)	2011	2012	2012/2011 (%)
Country	7 198	6 761	94	49 304	43 676	89
Export	94 885	77 108	81	606 971	491 913	81
Total	**102 083**	**83 869**	**82**	**656 275**	**535 589**	**82**

Competitive Conditions

The second half of 2012 was still characterized with high tension and uncertainty on the market. Due to the falling prices of grain-oriented steel sheets (GOES), the most important market players decided to protect their markets at all costs. In October the ‘antidumping’ dispute between the USA and China was resolved. The WTO arbitration agency sustained the decision favorable for the USA, regarding the exports of electrical grain-oriented sheets to China; WTO declared that the Chinese Ministry of Commerce levied duty contrary to the generally accepted rules. As a result of the duties and supplementary charges levied by the Chinese Ministry of Commerce, the US GOES exports decreased from USD 270 million in 2008 to USD 3 million 2011.

The USA also made some preliminary steps to protect the market against the excessive imports of transformer sheets. The Specialty Steel Industry of North America Association (SSINA) started to inspect the incoming steel volumes. The official US government statistics, covering the period from the beginning of the year to July 2012 and other preliminary statistical data concerning the GOES imports from the four key exporters (Japan, Korea, Poland, Russia) as of last August and September, indicate a 32-per cent increase of the imports share, compared to the analogical period in 2011. American producers are examining the situation to establish if the American trade regulations have been violated.

Meanwhile, according to the Japanese Tex Report news agency, on the turn of 2012, GOES prices were in severe decline on almost all markets. The prices of conventional grain-oriented sheets stood at the level of 1,700 USD/ton CFR, which was almost 50% less than some two, three years before. For comparison, the prices of lower-grade HiB sheets fluctuate around 1,900 USD/ton CFR, and the higher-grade ones stand at the level of 2,100 USD/ton CFR. The low level of prices resulted from the market operations pursued by the Korean producer (POSCO), which markedly lowered the prices to secure its sales volumes. Such operations made the competitive companies take similar steps in order to protect their market shares.

The India Ministry of Steel extended the time limit for the implementation of the new government quality control system until September 2013, in order to give more time to foreign steel manufacturers to obtain the Bureau of Indian Standards (BIS) certificate. Towards the end of 2012, only 5 out of 15 foreign suppliers were registered by BIS. This information is important in the context of Stalprodukt's involvement in the Indian market (at present the Company is finalizing the procedure leading to the certificate acquisition).

Toroidal cores

In 2012 toroidal cores recorded a 9-per cent decrease in the sales value compared to the previous year, accompanied by an 11-per cent volume decline and a slight, only 3-per cent increase in prices.
As in the case of transformer sheets, the exports recorded poorer results than the domestic sales which even recorded slight value, volume and price increases, compared to the previous reporting period. The share of toroidal core sales in the product-based structure stayed at the 2011 level and reached 0.6 per cent.

Table 2. Comparative breakdown of sales of transformer cores

Item	Quantity (Mg)			Net value (thousand zloty)		
	2011	2012	2012/2011 (%)	2011	2012	2012/2011 (%)
Country	378	388	103	4 392	4 571	104
Export	584	465	80	5 934	4 823	81
Total	**962**	**853**	**89**	**10 326**	**9 394**	**91**

The main causes underlying the poorer sales were: easier access to cheaper procurement materials resulting from transformer sheet excessive production capacities, development of newer technologies, power sector pressure on the application of smaller and lighter devices yet characterized with better technical parameters, suspended investments and general economic slowdown.

In 2012, a change in the toroidal cores purchase structure was clearly observed, as a result of a substantial limitation of their previous mass-scale application in the lighting industry and limited production of heavy and big transformers in favor of small and light ones and similar equipment, as well as toroidal cores manufactured with the use of different raw materials, for example ferritic or amorphous cores. In the attempt to meet the recipients' expectations and respond to the market trends, the offer was enriched with different types of toroidal cores – rectangular, coated, impregnated ones and Unicores.

Cold formed profiles and tubes

The sales volume of cold formed profiles dropped by 13 per cent compared to 2011. The prices and sales value decreased as well. The situation was different in the case of the domestic and export sales. On the domestic market the prices dropped only slightly, yet the volumes and the resulting sales value were decreased by an almost 15 per cent in relation to the analogical period in 2011.

The Company's situation on the domestic market is difficult despite the positive market trends which occurred in 2012:
- the output of cold-formed profiles increased in Poland; in the period January-December a 17-per cent growth was recorded. (i.e. to the level of 572 thousand tons);
- the apparent consumption of tubes increased – according to the information published by the Polish Steel Association in the period January-November 2012 the consumption of welded tubes increased by 9 per cent (to the level of 916 thousand tons), including cold formed profiles increasing by 8 per cent (to the level of 535 thousand tons);
- a decline in the imports of cold formed profiles by approx. 14 per cent was recorded (the imports volume in the period January-November reached the level of 115 thousand tons, and the main countries of import origin remain to be: Italy, the Ukraine and Czech Republic).

The main reasons behind the decrease of the Company's domestic market share are: a very dynamic development of competition and unequal market play opportunities.

Whereas in the exports, despite less favorable general trends in Europe, the Company managed to achieve a 14-per cent increase of volumes compared to the previous year, thanks to which the sales value grew by a few per cent, despite the declining prices. The percentage share of the export sales in the total sales of cold formed profiles amounted to almost 35 per cent.

Table 3. Comparative breakdown of sales of cold formed profiles and tubes

Item	Quantity (Mg)			Net value (thousand zloty)		
	2011	2012	2012/2011 (%)	2011	2012	2012/2011 (%)
Country	188 237	152 634	81	492 429	393 166	80
Export	69 456	79 974	115	194 859	211 147	108
Total	**257 693**	**232 608**	**90**	**687 288**	**604 313**	**88**

Sales to Commercial Companies

The percentage share of sales pursued through the Company's own sales network was maintained at the level comparable to the previous year's level.

The Marcegaglia Polska company, next to the Huta Pokój *[Pokój Steel Works],* grew to be Stalprodukt's main competitor within a short time. In 2012, its output will probably exceed the level of 100 thousand tons. Apart from welded tubes, in the initial 10 months, Marcegaglia also produced 30 thousand tons of steel sheets.

Road safety barriers

Road safety barriers was the best selling group in the whole range of the products offered by Stalprodukt in 2012. Thanks to the increasing prices and volumes, the sales of road barriers increased in the reporting period by 56 per cent in relation to 2011. The Company assumed such a scenario because the projects implemented in 2012 constituted the continuations of activities pursued in the previous reporting periods, including the culmination of preparations for Euro 2012 in the first half of 2012. The Company's Management Board maximally utilized the production capacity in the segment of barriers and favorable last year's market conditions, in the awareness of the fact that such successes will be difficult to repeat in the years to come.

Table 4. Comparative breakdown of sales of safety road barriers

Item	Quantity (Mg)			Net value (thousand zloty)		
	2011	2012	2012/2011 (%)	2011	2012	2012/2011 (%)
Country	28 926	43 308	150	120 722	194 765	161
Export	2 407	2 305	96	9 123	8 418	92
Total	**31 334**	**45 613**	**146**	**129 845**	**203 183**	**156**

In 2013, Saferoad, Vistalex and Prowerk will be listed among the biggest competitors of Stalprodukt S.A. Due to financial problems, the company Polimex Mostostal Siedlce S.A, which also is a barriers manufacturer, was less active on the market.

Products of the steel service centre

The sales result achieved by the steel service centers is not satisfactory to the Company: only a 4-per cent increase of the sales volume accompanied by a several-per cent decline in prices and 1-per cent decline in the value of the materials sold.
As in the case of the profiles, the situation of the exports and domestic sales differed significantly. The domestic sales recorded a decline both in the volumes and prices as well as in the value of the materials sold.
The exports successfully recorded an increase in the volumes by almost 70 per cent, considering a several-per cent decline in the prices, which was eventually translated into an increase of the sales value by 60 per cent compared to the previous year. It should, however, be stressed that the underlying sales were low and accounted for merely several per cent of the domestic sales.

Table 5. Sales of products of steel service centres

Item	Quantity (Mg)			Net value (thousand zloty)		
	2011	2012	2012/2011 (%)	2011	2012	2012/2011 (%)
Country	77 537	74 592	96	196 735	181 265	92
Export	8 853	15 006	170	23 628	37 762	160
Total	**86 390**	**89 598**	**104**	**220 363**	**219 027**	**99**

The analysis conducted by the Polish Union of Steel Distributors makes it evident that the production capacities of Polish steel service centers have been growing more slowly in the recent 16 months than in 2010. However, new entities are entering the market and the old players, not wanting to leave the floor to competitors, invest in new production lines. It is worth pointing out that, in the recent years, steel service centers have accounted for the most dynamically developing sector in the entire metallurgical industry. In 2010 alone, the production capacity of the steel service centers associated in the Polish Union of Steel Distributors (around 70 per cent of the sector) increased by approx. 40 per cent. During this period 25 new slitting and cut-to-length lines were launched, expanding the industry's production capacity by over 1 million of steel tons per year. In 2011 and in the first quarter of 2012, the trend started to lose impetus, but, anyway, the industry could celebrate putting as many as 11 new lines into operation, which accounted for another 600 thousand tons of processing potential. Across the country there are over 100 hundred cutting lines for flat products and their total production capacity exceeds 6.5 million tons. The number of centers specializing in stainless steel cutting, whose annual production capacity has already exceeded 120 thousand tons, is growing dynamically as well. The actual production capacity of the steel service centers operating in Poland reached the level of approx. 3.5 – 4.5 million per year. And, as it turns out, this level corresponds to the potential demand generated by our industry.

According to the data published by CIBEH (Information Technology Services Center), in 2011, approx. 3.9 million tons of carbon steel flats were produced in Poland. Around 1 million tons of steel coils were processed by steel works as such (among the manufacturers ArcelorMittal, Stalprodukt, Łabędy Steel Works have steel service centers at their disposal). The remaining 3 million were processed by the domestic and foreign distributors' and final recipients' service centers.
However, the output alone does not give a full picture of the market. The apparent consumption of steel flat products is higher than their domestic output and exceeds 6 million tons. Subtracting the output generated by the steel works alone and goods imported from foreign steel service centers from the above, one can assume, that the present domestic demand sums up with approx. 4 million tons per year.

Goods and materials

The structure of net revenues from sales of goods and materials is presented in the following table:

Item	**in thous. zl**		**2012/2011 (%)**
	2011	**2012**	
Goods	85 778	76 907	89,7
Process waste	31 704	28 871	91,1
Other materials	2 649	2 733	103,2
Total	120 131	108 511	90,3

From among the goods sold by Stalprodukt the following cab be distinguished: hot and cold rolled sheets, galvanized sheets, rods, hot rolled profiles and pipes.
In 2012, revenues from sales of goods amounted to PLN 76,907 thousand and were 10.3% lower compared to the previous year (PLN 85,778 thousand).

The structure of sales of goods is as follows:

Goods	2011		2012	
	Value (in thousand zloty)	share (%)	Value (in thousand zloty)	share (%)
Hot rolled sheets	16,719	19.5	35 924	46,7
Galvanized sheets	6,821	8.0	2 817	3,7
Cold-rolled sheets	1,818	2.1	1 466	1,9
Hot-rolled profiles	20,312	23.7	14 566	18,9
Plain and ribbed bars	38,536	44.9	20 072	26,1
Tubes and pipes	995	1.2	879	1,2
Other	577	0.6	1 183	1,5
Total	85,778	100.0	76 907	100,0

Cold formed tubes and profiles, as cold rolled sheets, produced by the Parent Company and sold through a distribution network, are treated as products in the consolidated financial statements.

Total sales by product type

Comparing the product-based structures in 2011 and 2012, one can observe the decrease of transformer sheets and toroidal cores market shares in favor of the increasing shares of cold formed profiles and road safety barriers.

Assortment	**2011**		**2012**	
	Value (in thousand zloty)	**share (%)**	**Value (in thousand zloty)**	**share (%)**
Transformer sheets and strips and transformer cores	666 601	33,3	544 983	30,1
Cold formed profiles and tubes and road barriers	839 182	41,9	808 702	44,7
Products from the service centre*	220 276	11,0	218 980	12,1
Goods	120 131	6,0	108 511	6,0
Other products and services	156 705	7,8	127 541	7,1
Total	**2 002 895**	100,0	**1 808 717**	100,0

* multi-purpose, hot and colled rolled sheets and strips

Purchase of feedstock

In 2012 the main suppliers of feedstock for Stalprodukt, with the value of supplies exceeding 10% of revenues from sale, were:
ArcelorMittal Flat Carbon Europe; share in revenues – 40.28 %
U.S. Steel Kosice, Slovakia; share in revenues - 12.94 %

ArcelorMittal Flat Carbon Europe is a part of the concern ArcelorMittal Poland S.A, which holds 33.77 % of the Company’s shares.

3. Assessment of economic and financial situation

Basic economic and financial parameters

In 2012, revenues from sales of products, goods and materials were at the level of PLN 1,809 million. Generated operating profit amounted to PLN 75 mln, of which net profit is PLN 60 million.
During this period, EBITDA amounted to PLN 129 million.

In 2012, the profitability of sales by levels was as follows:

Item	**2011**	**2012**
Return on sales	7.6	4,3
Operating profitability	7.3	4,1
Gross profitability	7.4	4,2
Net profitability	5.8	3,3

Return on assets and equity is reflected in the following values:

Item	**2011**	**2012**
Return on assets	6.4	2.9
Return on equity	7.7	3.8

Liquidity in terms of static indicators is reflected in the following values.

Item	**2011**	**2012**
Current liquidity ratio	2.6	2.0
Quick liquidity ratio	1.5	1.0

In 2012, the cash flow from operating activities amounted to PLN 256 million.
Compared to 2011, the reporting period recoded an increase of the Stalprodukt S.A. Capital Group's assets by PLN 241 million, i.e.13 %. The fixed assets were increased by PLN 310 million in relation to the previous year and reached the level of PLN 1 370 million. In the period concerned the value of current assets decreased by PLN 69 million in connection with the decline of short-term receivables.
In 2012, the equity was increased from PLN 1 519 million (2011) to PLN 1 577 million (2012) and it accounts for 76 % of the total capital.
As of 31 December 2012, the Stalprodukt S.A. Capital Group's long-term liabilities amount to PLN 121 million, including long-term credits and loans in the amount of PLN 81 million.

Towards the end of 2012, the short-term credits and loans amounted to PLN 57 million.
The net working capital decreased from the level of PLN 475 million in 2011 to PLN 348 million at the end of 2012.

In the analyzed period, the return on equity in the Stalprodukt S.A. Capital Group reached the level of 3.8%, and as of 31 December 2012 cash reached the level PLN 77 million.

Assessment of results and financial situation

Considering the results achieved, last year was much worse for the Group than the year 2012. In the reporting period an 9-per cent decline was recorded in the sales compared to the previous year, whereas the declines recorded in respect of the operating activities and net profit were by 49 per cent.

It was mainly the decreasing sales volume which determined the results achieved because annual average selling prices were maintained at a similar level. The decline in the sales volumes mainly is mainly concerned with the electrical sheets segment which recorded a decline in the volumes by 18 per cent.

The electrical sheets sales volume was affected by the following factors:
- unfavorable market environment, including declining demand for transformer sheets, especially in the second half of 2012,
- consequences of the new technology (so called HiB) being launched in the electrical sheets segment, consisting in the necessary reduction of the Sendzimir rolling mill operations and temporary switch-offs of some production lines in connection with the modernization works.

In the segment of cold formed profiles the market conditions were similar to the 2011 ones. Only a slight, 2-per cent decline in the sales volumes was recorded. The sales of road barriers, which, as the only product group, recorded an increase (by 56 per cent), had a significant impact on the results achieved in this segment.

In the segment of goods and other activities the sales receipts decreased by 19 % and profit margins by 40 %. This resulted from poorer results achieved by the subsidiary companies, including: Stalprodukt-Centrostal sp. z o.o., Stalprodukt-Warszawa sp. z o.o. and Cynk-Mal S.A., which closed the year at a loss.

Despite the poorer financial results, the Company's financial standing was maintained at a good level in the reporting period. The financial and economic ratios, characterizing the economic activities, were decreased, but their level should, anyway, be considered as satisfactory under the present market conditions.

The Company did not suffer from any payment gridlocks, consistently implementing the adopted risk management policy. It is not threatened either by the fluctuating currency exchange rates, thanks to the mostly adopted natural security measures.

Payment backlogs and financial difficulties affected the following subsidiaries: Stalprodukt-Centrostal, Stalprodukt-Warszawa i Cynk-Mal S.A.

In 2012, some changes affected the assets structure and their financing sources. The fixed assets increased by PLN 309839 286 thousand, i.e. by 29.2 per cent, whereas the current assets recorded a

decrease by 8.9 per cent. The increase of the fixed assets primarily resulted from the purchase of the ZGH “Bolesław” S.A. shares, which affected the growth of the long-term financial assets.
In the current assets group, the inventories were maintained at a similar level, whereas the receivables dropped by PLN 67 528 thousand, i.e. by 18.7 per cent.

In the Assets structure, the shares of fixed and current assets changed by 8.2 per cent in favor of the fixed assets. The Group’s assets were increased by PLN 241 238 thousand, i.e. by 13.1 per cent. The increase of assets was accompanied with the growth of their financing sources in the equity position by 3.8 per cent and liabilities position by 58.0 per cent. The increase of liabilities by 14.6 per cent (PLN 34 237 thousand) concerns short-term trade liabilities, the long-term credit incurred for the purchase of shares of ZGH “Bolesław” S.A. in the amount of PLN 100 000 thousand (including PLN 20 000 thousand in annual repayment period).

The structure of liabilities and shareholders equity was also changed by 6.8 per cent in favor of the liabilities. Equity accounts for 76.0 per cent and liabilities – 24.0 per cent. A book value per share was also increased – from PLN 222.90 to PLN 234.53 (i.e. by 3.8 per cent).

Throughout the entire reporting period, the Parent Company and majority of Group companies maintained a very good financial liquidity level, which is testified by exemplary liquidity ratios and punctual settlement of all the liabilities, both in respect of the employees and suppliers, as well as towards the government and financial institutions. Only the following companies suffered from periodic liquidity problems: Cynk-Mal, Stalprodukt-Warszawa and Stalprodukt-Centrostal.

The Parent Company is not indebted and it only sporadically benefitted from current credits. However, the subsidiary companies Stalprodukt-Centrostal i Cynk-Mal benefited from credits on their currents accounts. As of the balance sheet day, these credits totaled PLN 36 910 thousand.

In banks’ assessment, the Group continually enjoys credit capacity, while the results achieved and a transparent property and ownership status, allow the Company to obtain financing for its activities in various forms.

In the reporting period, the Parent Company and subsidiaries of the Group renewed its agreements with the banks concerning multi-purpose credit lines to secure its financing sources.

Despite the decline of the financial results in 2012, the Management Board does not predict a further worsening of the Group’s financial standing in 2013. In order to maintain the good financial standing and level of liquidity some restructuring works and other activities are pursued, focusing especially on the new sales and procurement markets to be captured, rational management of inventories and receivables and cost reduction.

The management of financial resources should be considered as correct, which is confirmed by good economic ratios and good level of financial liquidity and credit capacity as well punctual settlement of the liabilities incurred.

4. The evaluation of factors and unusual events affecting the outcome of operations for the fiscal year, specifying the degree of impact of these factors or unusual events on the achieved result

- Good market conditions, sustained in the construction sector for the past several years, attributable to the implementation of numerous investment projects (particularly infrastructural ones) financed from the EU funds and the organization of the EURO 2012 Football Championships, have recently undergone a clear downward trend. This was also attributable to a difficult financial standing of numerous construction sector companies, which resulted in mass-scale bankruptcies and settlement proceedings, affecting even the leading construction sector companies (the problems mostly affected the companies implementing big road construction projects – highways and express ways). The above trends were reflected by the Gross Domestic Product, which recorded only a 2.0% increase in 2012 whereas in 2011 the economic growth rate was 4.3%.;

- It should be stressed, however, that Stalprodukt – as the road barriers manufacturer and assembly services provider – fully benefited from the favorable road construction market conditions, as a result of which in 2012 the Company achieved a record-high level of barriers sales increase, i.e.. 46-per cent in terms of volume and 56-per cent in terms of value.

- The falling GDP rate was also translated into the financial standing of steel manufacturers as in 2012 the output of numerous metallurgical products, such as crude steel, continuous steel casting semi-products, cold-rolled steel sheets and steel tubes. Whereas the output of some hot-rolled products, such as: galvanized sheets and strips or cold formed profiles increased but only slightly – merely by a few per cent. At the same time one should stress the presence of intensifying domestic market competition and sharp price conflict accompanying it, especially in the profiles segment (profiles output and products of steel service centers), resulted in an almost 10-per cent sales decrease in respect of cold formed profiles in relation to 2011.

- The difficult metallurgical industry conditions, present across the entire European Union, also resulted from the great excess of the production capacity over the existing demand (by approx. 40-50 million tons per year) and the, consequently, low level of its utilization. Another important problem, faced by the metallurgical industry is, undoubtedly, caused by high production costs, and, in particular, energy costs, which are directly connected with the European Union policy against the global warming and growth of CO2 emissions. The competitiveness of European steel manufacturers is affected by the above policy and worsened in their confrontation with the Far East, and mostly Chinese, producers..

- A high global level of transformer sheets oversupply (estimated at approx. 30 per cent), combined with the limited demand resulting from the global crisis, caused a further decrease of their prices.

- An 18-per cent decrease of steel sheets volumes was partially caused by the investment project concerned with the introduction of a new production technology (HiB sheets).

5. Information on reached and material for the Group agreements

On 7 November 2012 the Company concluded a Contract with the State Treasury, as a result of which Stalprodukt S.A. acquired 1 096 600 registered shares of Zakłady Górniczo-Hutnicze "Bolesław" S.A. company based in Bukowno, accounting for 86.92 % of its share capital. The transaction value amounted to PLN 219 232 thousand, i.e. PLN 20 per share.

The Issuer informed about the conclusion of the above mentioned contract in the current report No 13/2012 as of 7 November 2012.

6. Organizational and capital relationships with other entities

Stalprodukt holds shares in 11 subsidiaries, including 51% in the company Cynk-Mal S.A., 86.92 % in Zakłady Górniczo-Hutnicze "Bolesław" S.A. and 100% in the other companies.

In the reporting period the Issuer acquired from the State Treasury 86.92 % of the shares ascribed to the ZGH "Bolesław" S.A. company based in Bukowno, for the amount of PLN 219 232 thousand, i.e. 10 961 600 shares, PLN 20.00 per 1 share, and bought back from Konsorcjum Stali SA *[Steel Consortium]* based in Warsaw - 49 % of the shares held in the Stalprodukt-Warszawa spółka z o.o. - company for the amount of PLN 1 300 thousand, taking up 100 % ownership share in the company concerned. Moreover, the share capital of the Anew Institute spółka z o.o. - company was raised by the amount of PLN 3 000 thousand. Stalprodukt, being the sole shareholder, is the owner of all the company's shares (744 shares, PLN 4 100 each).

Three subsidiary companies underwent merger: STP Elbud sp. z o.o. being the merging company (acquirer) and Ocynkownia Stalprodukt "Bolesław" sp. z o.o. and Stalprodukt- Konstalbud sp. z o.o. – being the merged companies (acquirees). The goal of the merger was to simplify the capital structure of the Stalprodukt Capital Group and improved efficiency of its activities. The merger was registered as of 2.04.2012 by the Decision of the District Court for Kraków Śródmieście, 11th Economic Division of the National Court Register.

Relationship with other entities are presented in details under notes 3b-3e to the consolidated financial statements.

7. Related party transactions

Transactions with related parties in 2012 include:
- sales of products and goods for the companies belonging to Stalprodukt Capital Group,
- provision of services for Stalprodukt S.A. by the subsidiary companies.

These are typical and routine transactions, provided in a continuous manner, concluded at arm's length within the Group and resulting from current operations.

No other significant transactions with related parties took place.

8. Information on executed and terminated agreements concerning credits and loans

In the reporting period, the Company periodically just used the credit limits on overdrafts.

The credit line agreement, providing for an overdraft limit on current account within PLN 40 000 thousand and limit for guarantees and letters of credit within PLN 20 000 thousand, concluded with the Bank Nordea S.A. was extended in September 2012 until 31 July 2013. At the same time the credit limit to be used through an overdraft on current account was raised by PLN 15 000 thousand.
The credit limit agreement for guarantees and letters of credit within the total amount of PLN 30 000 thousand, concluded with the Banku Pekao S.A. based in Warsaw, was extended until 30 September 2013.
The Multi-Purpose Credit Line Agreement to be used through the current account credit, to finance guarantees and letters of credit, was extended by the BNP Paribas Bank Polska S.A based in Warsaw, with the limit of up to PLN 50 000 thousand. The Agreement is valid until 7 September 2013.

Agreements for credit limits were executed with the following Banks:

- with Bank Handlowy S.A., with a registered office in Warsaw, for the revolving line of bank guarantees and letters of credit, with a revolving limit of PLN 65,000 thousand. The line relates to the amount of PLN 50,000 thousand for the purpose of overdrafts, and the issuance of guarantees and letters of credit payable up to 18 months (until 13.12.2013 r.), and the amount of PLN 15,000 thousand for long-term guarantees to 6 years (the contract valid until 11.05.2013),
- with Bank PKO BP S.A., with a registered office in Warsaw, for a multi-purpose credit limit of PLN 50,000 thousand, for the purposes of overdrafts and letters of credit and underwriting for the period up to 09.12.2014.

Also subsidiary companies extended their credit line contracts for crediting through current accounts, including Stalprodukt-Centrostal spółka z o.o. at the Bank Nordea S.A. amounting to PLN 20 000 thousand and Cynk-Mal S.A. at the Bank PeKaO S.A. amounting to PLN 18 481 thousand.

In the reporting period, the Stalprodukt Company incurred a long-term investment credit at the Bank PKO BP SA based in Warsaw to partially finance the purchase from the State Treasury of the shares ascribed to ZGH “Bolesław” S.A. based in Bukowno. The credit-covered amount of PLN 100 000 thousand will be repaid in quarterly installments in the period from 01 January 2013 to 31 December 2017.

9. Information on granted and obtained loans, sureties and guarantees

In the reporting period, the Parent Company granted loans to the companies Cynk-Mal S.A., with a registered office in Legnica in amounts of PLN 19,400 thousand in connection with credit incurred by it in Bank Pekao SA.

The Parent Company does not have any contingent liabilities, other than in respect of the abovementioned guarantee and guarantees of good performance, concerning the production and installation of road barriers as of the balance sheet date. As at 31.12.2012, the total amount of unexpired guaranties in this respect is PLN 22,684 thousand.

10. Information on the use of the Group's revenues from the issue of securities

In the reporting period, the Parent Company did not issue securities.

11. Explanation of differences between the financial results disclosed in the annual report and previously published forecasts of results for the given year

The Group does not publish financial forecasts.

12. Assessment of financial management

The Group has high liquidity, does not use the working capital credits, and invests free cash in short-term deposits, which are safe and ensure the availability.
Management of financial resources should be considered correct, as evidenced by achieving good results and economic ratios, maintaining financial liquidity and creditworthiness, as well as the timely performance of assumed obligations.

13. Assessment of the feasibility of investment plans

The previous wide investment plan for the organic development of the Parent Company (increased production of transformer sheets, new production lines for profiles, equipment for service centres) was implemented in full from its own generated resources.
Obtained and projected financial results indicate a lack of risk in the implementation of further investment plans.

14. Information on employment, remuneration and training

In 2012, there were employed 32 people by the Company Stalprodukt S.A.: At the same time, the employment relationship was terminated by mutual agreement or otherwise by 87 employees.

As at 31.12.2012 the employment of Stalprodukt S.A. Capital Group amounted to 2,672 people, including:
- 1,605 people in the Parent Company,
- 1,067 people in the subsidiaries.

In 2012, Stalprodukt S.A. Capital Group employees, jointly with Stalprodukt employees, participaded in 20 trainings. Altogether 142 employees participated in the am. trainings.
The Parent Company covered the training costs of the limited liability companies’ employees up to the level of about PLN 3.6 thousand.

15. Investment activities and technological development

During the reporting period, the Group implemented investments in the development of its products, construction, process and research improvement.

1. Investments in broadening the range of production

Within the scope of the investment task „Purchase and Start-Up of Production Lines in the Profiles Department" works were underway on the 600mm line for the production of profiles mainly used in the construction industry.
Within the framework of the project "Launching the production of high grade (HiB) transformer sheets", the following investment tasks were continued in 2012:

- modernization of the Sendzimir rolling mill No 1,
- modernization of the annealing and pickling line (construction of a new furnace within the line),
- modernization of two decarburization lines,
- construction of an ammonia unloading and storage station,
- expansion of the nitrogen plant (purchase of a new generator),
- fitting technological and gas installations,
- installation of the sheets laser-treatment line,
- construction of a new hydrogen generation plant.

- An automatic line for the production of road barrier components was put into operation.
- The production of profiles from galvanized steel strips started on two lines of the P3 Department in Kraków.
- A contract for the supply of another bell was signed with then LOI company.
- The power connection of the WS-1 rolling mill was modernized.

2. Construction sector investments

- The construction of the production facility located at Płk. Dąbka Street in Krakow was completed and occupancy permit was obtained. The STP Elbud Company pursues its activities in the newly commissioned facility, specializing in the production of structures and products intended for the power sector.
- An occupancy permit was obtained for a new facility intended for subsidiary companies. The subsidiaries, such as: Stalprodukt Serwis, Stalprodukt MB, Stalprodukt-Wamech pursue their activities there.
- The charging bay area previously occupied by the ACW2 cutting line was re-organized. Within the framework of this task also coil supporting frames were made use of.
- Within the framework of the investment task "Modernization of Internal Roads" the road No 10, located in front of the P2 Department, and part of the road No 9 underwent alterations .
- A building permit was obtained for the hotel construction at Kopernika Street in Krakow.

3. Environment- and work safety- related undertakings

- The emergency lighting design of the P1 Facility was completed.
- New coil supporting frames were made at the P3 Department.
- The modernization of the N-S nave lighting system at the P2 Department was completed.
- Chip pressing machines were purchased and installed at all the technological lines of the P2 and P3 Departments.
- The lighting systems of the WS-1 rolling mill engine room and emulsion room were modernized.

4. Other investment-related tasks

- A new overhead crane Q=12.5 Mg was purchased and put into operations at the P1 Department.
- An interoperability truck for the transport of finished products was purchased for the P3 Department.
- A new sewer pump was installed at the TE Department.
- The sprinklers of the mechanical draft cooling tower were modernized through the expansion of their sprinkling area at the TE Department.

16. Characteristics of the external and internal factors relevant to the Group's development and a description of operation development prospects

External and internal factors essential for the development of the Group

The Institute for Market Economics prepared a forecast for the years 2013-2014 making the following assumptions:
- in 2013, further relaxing of the NBP monetary policy will take place,
- the European Union economic growth rate will reach approx. 0.5 per cent in 2013, whereas in 2014 it will increase up to 1.5 per cent.

- Forecast level of economic growth

In 2013, the **Gross Domestic Product** growth rate will reach 1.4 per cent in Poland, which means that it will be lower than in the previous year. Considering the economic conditions, the first half of the year will be decidedly poorer with the quarterly GDP growth sustained at the level close to 0.5 per cent. In the second half of the year, some economic revival can be expected – in the third quarter the economic growth rate will increase up to 1.9 per cent., and in the fourth quarter to 2.3 per cent. The enhanced economic growth in the second half of the year will result from a clearer increase of consumption and higher growth of exports. In 2014, the economic conditions will be improving in Poland, however, one should not expect a decisive revival. According to the forecast, the GDP growth rate will Reach 2.3 this year.

Poor economic conditions will be observable in all of the most important sections of the Polish economy. According to the forecast published by the Institute of Market Economics, in 2013, **added value** will grow by only 0.4 per cent in industry, however, in the first half of the year, a decline should be expected in the sector both in terms of the added value and products sold. The beginning of the year will be very difficult for the construction sector – according to the Institute’s forecast, the added value will decrease by 1.1 per cent, whereas the building and construction output will decrease by 1.4 per cent. The first quarter will be the weakest of all for the construction sector, while in the successive ones the conditions should be gradually improving. The conditions will, relatively, be the best in the sector of market services where the predicted increase of added value will reach 2.4 per cent in 2013. In 2014, the economic conditions will be improving in all the market sectors, however, the added value dynamics will be sustained at a low level.

- Demand

The **domestic demand** growth rate will reach 0.6 per cent in 2013, i.e. slightly more than in the previous year. According to the Institute's forecast, **individual consumption** will grow by 1.7 per cent in the period, whereas the value of **gross fixed capital formation (GFCF)** will decrease (by 1.4 per cent). The investments decrease on the Polish market will result from the declining moods in the business sector and reduction of the infrastructural investments financed from public funds. The negative investments dynamics will be a significant barrier obstructing Poland's economic growth in 2013.

According to the forecast published by the Institute for Market Economics, in 2014 a revival of **domestic demand** will take place and its increase will reach 1.9 per cent. The improved labor market conditions and better market moods will contribute, both to the further increase of consumption, and reversal of negative trends in the demand development. The predicted increase of individual consumption will reach 2.5 per cent in the year to come, whereas the gross fixed capital formation will equal 1.8 per cent. The recovery of fixed assets in many companies, necessary after six quarters of the declining gross fixed capital formation, will be another factor likely to affect the growth of investments.

- Inflation

In the Institute's assessment, in 2013 one can expect a further decrease of the price market pressure and decline in **inflation**. According to the forecast published by the Institute for Market Economics, the average inflation on the Polish market will, at the time, reach the level of 2.4 per cent, so will be markedly lower than in the previous year. The inflation decrease will be connected with the lower economic growth rate and smaller market demand. The lower inflation will create opportunities for successive reductions of interest rates by the central bank. In 2014, Poland is likely to see a slight increase of inflation, whose average level will reach the value of 2.9 per cent according to the Institute's forecast.

Inflation will still remain within the admissible fluctuations corridor around the NBP inflation target.

The poor economic conditions sustained in the European Union will adversely affect the 2013-2014 economic conditions in Poland, including industrial performance in particular. This will also be reflected in the **foreign trade results**. According to the forecast published by the Institute for Market Economics, in 2013, Poland will record a negative growth rate both in the exports and imports. The exports value will decrease by 0.2 per cent, whereas the imports value by 1.8 per cent. The foreign trade dynamics will increase in 2014, when the growth of exports will reach the level of 2.2 per cent, and imports -1.3 per cent. Despite its low growth dynamics, the foreign trade will still have a beneficial impact on the development of the Polish GDP in the years 2013-2014.

The present situation in the Euro zone and great uncertainty and variability on currency markets resulting from it, burden the **exchange rates** forecast with an even greater risk. According to the Institute for Market Economics, in 2013 the annual average EUR and USD exchange rates will reach, respectively, PLN 4.0 and 3.1, whereas in 2014 the annual average EUR exchange rate will reach PLN 3.8, and average USD exchange rate - PLN 2.9. This means that in the perspective of the coming two years the appreciation Polish currency should be expected.

Company's development prospects in 2013

The Eurofer forecast for 2013 makes it evident, that the demand for steel in the EU countries will be decreasing. Already in 2012, the steel sectors activity was markedly weaker.

Steel market remains in the phase of great uncertainty, and this situation is not only concerned with the steel industry, but also with other EU economic sectors, such as construction, motorization or household appliances industry.

In 2012, the output generated by the steel-using sectors will decrease by 3 %, and in 2013 a further decrease is expected. The total 2012 steel consumption will probably decrease by 9 %.

Eurofer directs attention to the EUR exchange rate favorable for exports, adding, however, that the international competition is getting stronger and the Chinese exports reached a very high level. The total 2012 exports of EU countries are supposed to increase by 4.5 %. In 2013, the exports results will be close to this year's ones.

The imports from third countries dropped in the first half of 2012 by 31 %, and a 26 % decrease is expected at the end of the year. In the period from January to August steel flat products recorded the greatest decrease (-38 %). The imports of steel long products in the same period decreased by 19 %, whereas semi-products dropped by 25 %.

Transformer sheets

Due to technical limitations, connected with the implementation of the HiB project, the Company's production capacity in this segment will be significantly reduced in 2013 (at least in the same degree as in the second half of 2012).

The Company's plans for 2013 provide for the continued sales development in the group of laser-treated sheets, defining new target groups for the product characterized with different technical parameters and preparing the HiB market offer. The HiB sheets market launching is planned for the 4th quarter of 2013.

Cold formed profiles

The 2013 forecasts for industries using cold formed profiles are not very good and the competitive conditions are very dynamic. In connection with the above, only a slight growth of volume is predicted in relation to the previous year's performance.

The products belonging to the cold formed profiles group, for which a more intensive development is predicted, are: closed profiles cold-formed from continuously hot dipped galvanized strips, zinc-enriched at the seams.

Products of steel service centers

In 2012, a slight sales increase is planned for the group of products offered by the Company's steel service centers. The group's exports will be paid more attention to. The domestic market is characterized with a substantial production overcapacity in relation to the market absorptiveness and actual apparent consumption.

Road safety barriers

Following a very intensive 2012 and its record-high sales results, in 2013 a decrease of road barriers sales is predicted. The decrease of sales volumes is primarily connected with a falling number of road construction contracts after the construction boom in the recent years. In 2013, the first contracts will be concluded in compliance with to the 2010 Barriers Application Guidelines, which obligate the producers to offer a wide range of barrier systems compliant with the PN – EN1317 standard.

In the 1st quarter of 2013, the Company will launch new, independently developed, road barrier systems, whose parameters should ensure the fulfillment of the adopted sales objectives.

Apart from the intensive development- and offer-expansion-aimed activities, in 2013, more intensive marketing and sales activities are planned outside the country.

17. Description of significant risks and threats, identifying the extent, to which the Group is exposed

a) Macroeconomic environment

- The business environment, both on the domestic market and on the EU markets, will not be hospitable to the increase of sales in respect of the Company's products. The closing of the EU budgetary perspective for the years 2007-2013, considering the lack of approved final budget for the years 2014-2020, will cause uncertainty and a time-gap, during which EU programs will not be implemented, and so numerous big projects, which might improve the domestic economic conditions, will not be possible to finance.
- Moreover, the saving programs, streamlined by numerous EU countries in order to solve the problem of excessive indebtedness, will also influence the decrease of potential demand, which will translate to the Company's lower sales on the markets concerned. Thus, exports will not be able to fully compensate for the unfavorable domestic market trends.

b) Declining cost-competitiveness of European steel producers

The European steel works not only struggle with the falling demand for their products, but also with high production costs, posing serious problems, as a result of which European steel works cannot successfully compete on the global market. The costs of steel, resulting from the implemented climate policy, imposed by the European Union and costs of electrical energy are the greatest burden for steel producers. The key steel manufacturers (ArcelorMittal in particular) have been calling for the revision of the above mentioned climate policy, whose guidelines are difficult to implement, especially by energy-intensive industries. Additionally, in Poland energy carriers are obligated to apply the highest excise tax rates in Europe.

The announced switch-offs of technological lines in European steel works confirm that the threatened liquidation of numerous processing plants, including plants in some cooperating industries, is quite real.

As a result of the reservations lodged by steel companies, the European Commission commenced works on the European plan for iron and steel development (it is to be announced in mid- 2013 year).

c) Excessive output of transformer sheets

- The transformer sheets production capacities, expanded in the recent years, considering the reduced demand, do not help towards the recovery of the product prices. The only improvement prospect in this segment is the so called HiB technology introduced by the Company, enabling the production of high-grade steel sheets. This will allow to improve the Company's competitive position, increase its prices, and, consequently, increase the generated profit margins.

d) Exchange rates-related risks

- The exports share in the sales of transformer sheets is very high and equals 92 %. Excessive strengthening of the Polish currency would have an adverse impact on the level of sales and generated profit margins.

e) risks associated with financial instruments

Other risks arising from financial instruments, i.e. interest rate risk, liquidity risk, credit risk and currency risk are described in detail in Chapter V, "Additional information and explanatory notes" to the annual financial statements.

18. Changes in the basic principles applied by the Issuer to manage the Company and its Group

In the reporting period, there were no changes in the basic principles of management of the Company and the Group.

19. Any and all agreements between the Issuer and its Management Board, providing for compensation in the event of resignation or dismissal from a position held without a valid reason or if their withdrawal of dismissal is due to the merger by acquisition of the Issuer

Benefits due to the Members of the Parent Company's Management Board in connection with the termination of their employment are set forth in individual employment contracts entered into with the Management Board Members.

Pursuant to the above contracts, where the Management Board Member becomes dismissed from its functions during the term of office, the Company shall be obliged to pay compensation to the Member, depending on the functions it fulfilled within the Management Board, amounting to its 6- or 12-month average remuneration.
The employment contracts also contain non-competition clause binding after termination of employment. Pursuant to these provisions, a Management Board Member is obliged to refrain from activity competitive to the Company for a period of 12 months after the termination of the employment relationship.

Depending on the functions fulfilled within the Management Board, a Memebr shall be entitled to compensation in the amount of 100 % or 75 % of the average remuneration (for the first 6 months) and 50 % of the average remuneration for the subsequent 6 months.

20. The value of remuneration, bonuses or benefits paid, payable or potentially payable, for each managing perosn and supervisory board members.

1. Value of the remuneration of the Management Board Members (in PLN):

	Base pay	Bonus for the results*	Royalties from the profit for 2011	Remuneration for holding positions in the statutory bodies of the subsidiaries	Total
Piotr Janeczek	1 339 567	2 098 216	489 803	112 905	**4 040 491**
Józef Ryszka	411 922	645 300	244 902	385 542	**1 687 666**
Antoni Noszkowski	484 167	546 371	244 902	37 485	**1 312 925**
Total	**2 235 656**	**3 289 887**	**979 607**	**535 932**	**7 041 082**

- One of the main criteria for assessing the work of the Management Board was to maintain a high level of economic value added (EVA) measure.

2. Value of the remuneration of the Supervisory Board Members (in PLN):

	Allowance	Royalties from the profit for 2011	Remuneration for holding positions in the statutory bodies of the subsidiaries	Total
Stanislaw Kurnik	82 385	122 451		**204 836**
Kazimierz Szydłowski	70 618	122 451	32 301	**225 370**
Janusz Bodek	64 730	122 451	44 417	**231 598**
Maria Sierpińska	70 618	122 451		**193 069**
Sanjay Samaddar	0	0		**0**
Augustine Kochuparampil	64 730	122 451		**187 181**
Tomasz Plaskura	64 730	122 451		**187 181**
Total	**417 811**	**734 706**	**76 718**	**1 229 235**

21. List of the Management Board and Supervisory Board Members holding shares of Stalprodukt

1. Management Borad:

- Piotr Janeczek - holds 114,865 shares of the Company Stalprodukt S.A. of face value - PLN 229,730
- Antoni Noszkowski - holds 2,040 shares of the Company Stalprodukt S.A. of face value - PLN 4,080
- Józef Ryszka - holds 504 shares of the Company Stalprodukt S.A. of face value - PLN 1,008

2. Supervisory Board:

- Stanisław Kurnik - holds 2,900 shares of the Company Stalprodukt S.A. of face value - PLN 5,800
- Maria Sierpińska - holds 11,880 shares of the Company Stalprodukt S.A. of face value - PLN 23,760
- Kazimierz Szydłowski - holds 7,012 shares of the Company Stalprodukt S.A. of face value - PLN 14,024
- Janusz Bodek - holds 62,640 shares of the Company Stalprodukt S.A. of face value - PLN 125,280

The above information is consistent with the knowledge possessed by the Company at the date of the report.

22. Information on the agreements known to the Group (including those entered into after the balance sheet date), which could result in future changes in the proportion of shares held by the existing shareholders

According to the Group there were no agreements reached, which may result in future changes in the proportion of shares held by the existing shareholders in the reporting period, as well as, in the period after the balance sheet date.

23. List of the proceedings pending before the court, competent arbitration authority or public administration

The Group is not a party to the proceedings pending before the court, the objects of which are the liabilities or receivables of the Parent Company or its subsidiary of values equivalent to at least 10% of the equity of the Parent Company.

24. Information about the control system over the employee share schemes

The Group has no control systems over the employee share schemes.

25. Information on the body authorized to audit financial statements

- The Stalprodukt Company reached an agreement for a semi-annual review and complete audits of financial statements (separate and consolidated) for the year 2011 and 2012 with an audit company „Accord'ab" Biegli Rewidenci sp. z o.o., with a registered office in Wrocław, ul. Grabiszyńskiej 241. The agreement was executed on 8.08.2011.
- The net remuneration under the agreement amounts to PLN 62,500.

Statement on the application of corporate governance principles in the Parent Company

Pursuant to § 29 par. 5 of the Rules of the Warsaw Stock Exchange S.A., adopted by Resolution No. 20/1287/2011 of the Supervisory Board of the Warsaw Stock Exchange on 19 October 2011, the Management Board of Stalprodukt S.A. presents a report on the application by the Company in 2012 of corporate governance principles contained in the document "Good practices in companies quoted on the Warsaw Stock Exchange".

a) indication of

- **corporate governance principles governing the Issuer and places where the text thereof is publicly available**

The Company is subject to the corporate governance principles, contained in the document "Best Practices of WSE Listed Companies. The contents of this document is available on the Company's website (www.stalprodukt.com.pl), under tabs "Investor Relations" and "Corporate Governance".

- **corporate governance principles, on the application of which the Issuer may have decided voluntarily, and the place where the text thereof is publicly available, or**

The Company decided no to apply other corporate governance principles than those referred to above.

- **all relevant information about the principles of corporate governance applied by the Issuer that go beyond the requirements under national law, together with the information on the principles of corporate governance applied by the Issuer.**

The Company applies no principles of corporate governance beyond the requirements under national law.

b) information on the extent to which the Issuer waived the provisions of the corporate governance principles, referred to in point a, first and second indents, the indication of these provisions and clarification of the reasons for this waiver,

- The Company neither broadcast the General Meeting via the Internet, nor registered its course and made it public on its website.

  The Management Boards intends to register General Meetings in the future, as well as broadcast them via the Internet.

- The Company did not follow the principle according to which at least two Supervisory Board Members should meet the criteria of independence from the Company.

  The Management Board of the Company questioned the application of this principle, regarding it as hitting the ownership rights of shareholders. The fundamental right arising from the fact of possessing a particular parcel of shares means that shareholders may solely take decisions with respect to the election of authorities, i.e. the Supervisory Board, which in turn appoints the Management Board.

The Management Board of the Company still cannot declare to adopt the application of this principle.

c) a description of the main features of internal control and risk management systems, in relation to the process of preparing financial statements and consolidated financial statements, applied in the Issuer's Company,

Financial statements are drawn up by the Head of the Department of Accounting and Taxes based on financial data gathered from the financial and accounting system IFS, subject to the arrangements specified in the accounting principles (policy) adopted by the Company.
From 1 January 2005, Stalprodukt S.A. has drawn up the financial statements in accordance with the International Accounting Standards and the International Financial Reporting Standards, as adopted by the European Union, and in matters not regulated by these Standards, as required under the Polish Accounting Act.

Content-related supervision over the preparatory process of financial statements and periodic reports of the Company, is entrusted to the Management Board Member - Finance Director, who preliminarily checks the financial statements and then submits them the Management Board for final verification.

The Management Board Office, reporting to the CEO, assumes the responsibility for organization of the work associated with the preparation of annual and interim financial statements. The Management Board Office also provides the internal control. This way, the supervision over the preparatory process of financial statements is more effective.

d) the shareholders holding, directly or indirectly, significant blocks of shares, together with the number of shares held by those shareholders, their percentage of the share capital, the number of votes resulting therefrom, and their percentage in the total number of votes at the General Meeting (the information is consistent with the possessed the Company's knowledge at the date of the report),

1. ArcelorMittal Poland S.A. holding 2,270,800 shares, representing 33.77% of the share capital, and 6,846,800 votes, representing 38.20% of the total votes at the AGM,
2. STP Investment S.A. holding 1,929,725 shares, representing 28.69 % of the share capital, and 5,869,941 votes, representing 32.75 % of the total votes at the AGM,
3. Stalprodukt Profil S.A. holding 632,225 shares, representing 9.40 % of the share capital, and 943,149 votes, representing 5.26 % of the total votes at the AGM.

e) indication of the holders of any securities with special control rights, together with a description of those rights,

There are no securities that would grant special control rights.

f) indication of any restrictions on voting rights, such as restriction of voting rights to be exercised by shareholders holding a specified part or number of votes, deadlines for exercising voting rights or provisions according to which, in cooperation with the Company, the financial rights attached to securities are separated from held securities,

In March 2007, Stalprodukt S.A. acquired 69,733 own shares for their redemption. On 31.12.2012, these shares were not redeemed yet (lack of a relevant resolution of AGM). These shares were locked in the Company's brokerage account, and the resulting right to vote at the AGM Stalprodukt are not exercised.

g) indication of any restrictions on the transfer of ownership of securities of the Issuer,

The shares series A, B and E, issued by the Company, are registered voting shares. Pursuant to § 12 par. 1 of the Statutes of Stalprodukt S.A.: *disposition of registered shares requires the written consent of the Management Board. The decision of the Management Board on the approval or lack thereof must be delivered within 7 days from the date of the application in this case. If there is no consent, the Management Board shall appoint the purchaser within 7 days. The Purchaser shall buy the shares for cash, in the Company's registered office, within 7 days.*

The remaining shares of the Company - Series C, D, F and G - are bearer shares, listed on the Stock Exchange in Warsaw. There are no limitations in respect of these shares.

h) description of the rules specifying the appointment and dismissal of managers and their rights, in particular the right to decide on the issuance or redemption of shares,

The Management Board of the Company operates under the provisions of the Commercial Companies Code and the Company's Statues. According to the Statutes, the Management Board is composed of two to four persons, appointed for a period of three years by the Supervisory Board: The Chairman of the Management Board is appointed by the Supervisory Board from among candidates nominated by the Supervisory Board Members, the remaining Members of the Management Board are appointed by the Supervisory Board at the request of the Chairman of the Management Board. The Supervisory Board dismisses the Management Board Members - with the exception of Chairman of the Management Board. The Chairman and Management Board Members may also be appointed from outside the group of shareholders. The Chairman of the Supervisory Board or any other representative of the Supervisory Board, nominated from among its Members, acting on behalf of the Company, enters into the employment contract with the Management Board Chairman and Members.
The Management Board represents the Company in relations with the authorities, third parties, in and out of court. Power to make declarations of will and sign on behalf of the Company is granted to the Chairman of the Management Board, acting solely, two Members of the Management Board, acting jointly, or one Member of the Management Board acting together with a commercial proxy.
The Management Board is responsible for dealing with the current affairs of the Company. The detailed mode of the Management Board operations, as well as the matters requiring resolution of the Management Board and the matters that may be settled on behalf of the Management Board by its individual Members, are defined in the Rules of Procedure of the Management Board.
These Rules of Procedure are set by the Management Board at the request of the Management Board Chairman and then approved by the Supervisory Board.

i) description of the rules to be followed while changing the Statutes or Articles of Association of the Issuer,

The General Meeting adopts amendments to the Company's Statutes. Resolutions of the General Meeting on the amendment of the Statutes are adopted with a majority of three fourths of the votes cast.

j) mode of operation and key powers of the General Meeting, and a description of shareholders' rights and their exercise, in particular the rules arising from the Rules of Procedure of the General Meeting, if such Rules were adopted, unless the information in this regard arises directly from the law,

The General Meeting of Shareholders of the Company operates in compliance with the provisions of the Commercial Companies Code and Company's Statutes. The mode of procedure of the General Meeting and its key powers are defined in the Rules of the General Meeting of Shareholders of Stalprodukt S.A., adopted by Resolution No. XXVI/16/2010 AGM of 25.06.2010

According to the Statutes of the Company:

1. The General Meeting may be ordinary or extraordinary.
2. The Ordinary General Meeting is convened by the Management Board of the Company within six months after the end of each financial year.
3. The Extraordinary General Meeting is convened by the Management Board of the Company on its own initiative or at the request of a Shareholder or Shareholders representing at least one twentieth of the share capital. The request to convene the Extraordinary General Meeting shall be submitted by a Shareholder or Shareholders to the Management Board in writing or in an electronic form.
4. The Meeting, referred to in paragraph 3, adopts the decisive resolution whether the costs of convening and holding the Meetings are to be borne by the Company. The Shareholders, at the request of whom the Meeting was convened, may apply to the court of registration for an exemption from the obligation to cover the costs imposed by resolution of the Meeting.
5. The Supervisory Board may convene the Annual General Meeting if the Management Board of the Company fails to convene it within the period specified in the provisions of the Commercial Companies Code, or within two weeks from the date of filing the relevant request by the Supervisory Board, and the Extraordinary General Meeting, if the Board deems its conveyance necessary.
6. The Shareholders representing at least half the share capital or at least half of the total votes in the Company may convene the Extraordinary General Meeting. The Shareholders appoint the Chairman of the Meeting.

The General Meeting may only pass resolutions on matters covered on the agenda. Agenda is determined by the Management Board of the Company. A Shareholder or Shareholders representing at least one twentieth of the share capital may request that certain matters be included on the agenda of the next General Meeting. The request shall be submitted to the Management Board no later than twenty one days before the scheduled Meeting. The request should include a justification or a draft resolution on the proposed agenda item. The request may be submitted in an electronic form.
A Shareholder or Shareholders representing at least one twentieth of the share capital may report to the Company, before the General Meeting and in writing or by means of electronic communication, draft resolutions concerning matters on the agenda of the General Meeting or matters that are to be included on the agenda. The Company shall immediately make the draft resolutions available on the website.
Each of the Shareholders may report draft resolutions on matters on the agenda during the General Meeting.
The General Meeting may pass resolutions irrespective of the number of Shareholders and shares represented at the General Meeting, with the exception that adopting a resolution on capital increase involving the subscription for new shares through private subscription or open subscription by the designated recipient, requires the presence of Shareholders representing at least one-third share capital.

If the General Meeting, convened for the purpose of adopting such resolution, did not take place due to lack of quorum, another General Meeting may be convened, during which a resolution may be adopted regardless of the number of Shareholders present.
Shareholders may participate in the General Meeting of Shareholders in person or by proxy.
Power of attorney to attend the General Meeting and exercise voting rights shall be granted in writing or in an electronic form to be valid. Granting power of attorney in an electronic form does not require a secure electronic signature verified by a valid qualified certificate. The Rules of Procedure of the General Meeting specifies how granting of power of attorney should be notified.

Resolutions of the General Meeting are adopted by a majority of votes cast, except that the resolution on the change of the Company's objects requires a majority of two thirds of the votes cast, while the resolution amending the Statutes, changing the share capital and concerning the merger or liquidation of the Company, requires a majority of three fourths of the votes cast.

The voting is open. A secret ballot is used for elections, to decide upon motions to dismiss Members of governing bodies or the liquidators of the Company, or to hold them responsible. Moreover, voting is secret if at least one of the persons entitled to vote submitted a request to such effect.

According to § 36 of the Company's Statutes, the General Meeting has the right to:

- dismiss the Chairman of the Management Board;
- examine and approve the annual financial statements of the Company, the annual report the Management Board on the Company's operations and the consolidated financial statements of the Group;
- decide on the profit distribution or loss coverage;
- grant vote of acceptance to the managing bodies of the Company confirming the discharge of their duties;
- amend the Company's Statutes;
- reduce or increase the share capital of the Company;
- changing the object of the Company's activities;
- merge or transform the Company;
- liquidate the Company, appoint liquidators and determine the distribution of assets after the liquidation of the Company;
- issue bonds;
- issue a decision on claims for damages suffered during the establishment of the Company and its management or supervision;
- decide on the use of capital reserve and on the creation and allocation of supplementary reserve;
- determine the royalty ratio for the Management Board and method of its payment;
- other powers, which pursuant to the provisions of the Commercial Companies Code, are the exclusive rights of the Shareholders' Meeting, except for giving consent to the acquisition and disposal of real property, perpetual usufruct or interest in real property, which were entrusted to the Supervisory Board

k) the composition and changes that occurred during the last financial year, and the mode of operation of the governing, supervising or administering bodies of the Issuer and their committees.

Composition of the Management Board:

In 2012, the Management Board of Stalprodukt was composed of:

Piotr Janeczek – President of the Management Board
Antoni Noszkowski - Member of the Management Board.
Józef Ryszka - Member of the Management Board

Composition of the Supervisory Board

In 2012, the Supervisory Board was composed of:

Stanisław Kurnik - Chairman of the Supervisory Board
Maria Sierpińska - Deputy Chairman
Kazimierz Szydłowski - Secretary
Janusz Bodek - Member
Sanjay Samaddar - Member
Augustine Kochuparampil - Member
Tomasz Plaskura - Member

Audit Committee

Following the election of the new Supervisory Board, there were introduced changes in the composition of the Audit Committee. Currently, the Audit Committee Members are:

1) Maria Sierpińska - Chairman
2) Kazimierz Szydłowski
3) Tomasz Plaskura

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Antoni Noszkowski	Józef Ryszka
Management Board Member - Finance Director	Management Board Member - Marketing Director

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Piotr Janeczek
President of the Management Board - CEO