

Dear Shareholders,

A markedly lower GDP growth rate recorded in Poland in the previous year (1.9 per cent.), viewed in relation to the 2011 achievement (4.3 per cent), reflected the negative trends present in our economy: critical decline in the construction sector, problems with financial liquidity suffered by many economic entities and intensifying payment backlogs, growing unemployment rate, as well as declining rates of return and consumption. Moreover, in the recent years, the economic conditions in Poland were driven by high investments related to the implementation of big infrastructure projects and organization of the EURO 2012 Europe Football Championships. It should be stressed that most of these projects were finalized in the previous year, which resulted in the decline of demand for the products and materials used in their implementation process. At the same time, due to the massive competition in the construction industry and underassessment of costs in most key investment projects, numerous entities suffered from a sudden downturn, which resulted in the bankruptcy of several companies, not excluding the market giants. This obviously resulted in serious perturbations and delays in the implementation of numerous projects, especially the ones connected with the construction of highways and express ways.

These unfavorable phenomena could not possibly leave condition and financial results of the Stalprodukt Group's companies unaffected, which resulted in the decline of both the sales generated and financial results achieved. The 2012 decline in sales reached 9.7 per cent compared to the previous year. The Group's financial results deteriorated to an even greater degree; in the case of operating profit – by 48.8 per cent, whereas in relation to net profit – by 48.5 per cent. Despite the poorer financial results, the Group's financial standing was still maintained at a good level. Even though the decline of economic and financial ratios, characterizing economic performance, was recorded, but their level should be considered as satisfactory in the present, difficult market conditions.

In particular production segments the situation was diversified and attributed to various factors of external and internal character. In the transformer sheets segment sales dropped significantly – both in terms of volume (by 17.8 per cent), and value (18.2 per cent). The decline in volume was caused by the unfavorable market environment, i.e. smaller demand for steel sheets accompanied by their massive supply, resulting from the growth of global production capacity observed in the recent years. The consequences of new sheets production technology (so called HiB sheets) launched by the Company, consisting in the reduced operations of the Sendzimir Rolling Mill and periodical switch-offs of particular production lines caused by the modernization works, accounted for another essential reason behind the decline in sales. Due to the above conditions the segment's share in the product-based sales structure dropped – from 33.3 per cent in 2011 to 30.1 per cent in 2012. In the opinion of the Stalprodukt Management Board the new technology launching will improve the Company's competitive position in the segment concerned and will also raise the level of sales profit margins thanks to the possibility of higher prices to be acquired for these products.

In the cold-formed profiles and road barriers segment the market conditions were similar to the ones occurring in 2011. In terms of volume, 6-per cent sales decline was recorded. It should be stressed, however, that the sales of road safety barriers, which were the only growth-recording product group (increase by 56 per cent.), had a significant influence on the results achieved in this segment. The situation was worse in the case of the cold formed profiles as such because their sales value dropped by 14.6. In the case of service center products, the sales were practically maintained at the level of the year 2011. The above

factors, combined with the decline in total sales, caused changes in the product-based sales structure and resulted in the increased share of cold formed profiles and sales barriers (from 41.9 per cent to 44.7 per cent), and also increased share of service centers products – from 11.0 per cent to 12.1 per cent. Considering the unfavorable market conditions, i.e. sharpening competition and decline in prices, the profiles segment results should be recognized as satisfactory.

While presenting the Capital Group development guidelines for the years 2011-2015 in May 2011, the Stalprodukt Management Board signaled the possibility of a substantial take-over transaction to be concluded.

In the previous year, carrying out this particular strategy component, Stalprodukt concluded a considerable transaction – take-over from the State Treasury of 86.92 per cent shares of Zakłady Górniczo-Hutnicze “Bolesław” S.A. for the amount of PLN 219.2 million. Moreover, also the respective shares and stakes were indirectly acquired in 7 subsidiary companies. The major reason behind the transaction concerned is the planned diversification of the parent company’s basic activity connected with steel industry and consequential reduction of the potential risks. Another essential reason is also Stalprodukt’s completion of the production capacity development in its basic segments and focusing on their optimal utilization and improvement of internal processes.

We are aware that this investment project, apart from considerable capacity increase of the entire Group, carries many potential threats, connected, among others, with the relatively short excavation period of the “Pomorzany” deposit and resulting necessity to implement another mining project to secure the raw material needs of the zinc smelter, high energy prices and their high share in the ZGH’s costs structure, or the necessity to liquidate the mining works. It is worth underlining that all these threats were identified during the due diligence process preceding the conclusion of the agreement and the potential financial liabilities were entirely included in the purchase price. We are aware that the challenges facing the Stalprodukt Group, especially now, after such a massive growth of its potential and expanded area of its activities, are big, but we believe that thanks to the experience, competence and involvement of all the employees, the same will successfully be met in their entirety.

Unfortunately, the year 2013 will not bring a breakthrough in terms of the Stalprodukt Group’s sales increase and improved financial conditions, which is true for many other economic entities. The revised economic forecasts, predicting only 1.3-1.5 per cent economic growth in Poland, significant decrease of budgetary revenues or the growing unemployment rate indicate that also Polish economy, as many countries of Western Europe before, will be painfully affected by the consequences of the economic downturn.

I, herewith, declare that the Stalprodukt Management Board shall take all the necessary actions to minimize the influence of these factors on the Group’s activities, at the same time believing that our assets, healthy financial foundations and competitive advantages will allow us to emerge untouched from the present crisis.

*Piotr Janeczek
President of the Board – Chief Executive Officer*