

**Report of the Management Board on the activities
of Stalprodukt S.A. Capital Group
for the period from 01.01.2013 to 31.12.2013**

Bochnia 2014

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

1. Introduction

The Stalprodukt S.A. Capital Group embraces the Parent Company and 10 Subsidiary Companies involved in the below-mentioned segments of activity:

- **Stalprodukt-Centrostal Kraków sp. z o.o.** - wholesale and retail trade of metal products
- **Stalprodukt-Wamech sp. z o.o.** - production of steel constructions, spare parts and rendering alteration services
- **Stalprodukt-Serwis sp. z o.o.** - alteration services
- **Stalprodukt-Zamość sp. z o.o.** - production of construction woodwork
- **Stalprodukt-MB sp. z o.o.** - road construction and maintenance, erection of road safety barriers
- **STP Elbud sp. z o.o.** – production of steel constructions and galvanizing services
- **Stalprodukt-Ochrona sp. z o.o.** - personal and property security services
- **Cynk-Mal S.A.** - production of galvanized hoop iron and wire
- **ZGH “Bolesław” S.A.** - excavation of non-ferrous metal ores and zinc and lead production
- **Anew Institute sp. z o.o.** - designing renewable energy sources

The Stalprodukt-Warszawa sp. z o.o. - company under liquidation was excluded from consolidation in 2013.

The Level of Parent Company's Shareholding in Subsidiary Companies is as follows:

- in Cynk-Mal – 51 %
- in ZGH “Bolesław” – 86.92 %
- in other companies – 100 % shares each.

Additionally, in 2013 ZGH ‘Bolesław’ had shareholdings in the following subsidiary companies (in brackets, ZGH’ shareholding in share capital of those companies):

- Zinc Smelter - Huta Cynku ”Miasteczko Śląskie” S.A. (86,26 %) – production of rectified zinc, lead and cadmium,
- Bolesław Recykling Sp. z o.o. (100 %) – zinc-bearing materials processing and recycling services as well as production and sales of non-ferrous metal concentrates,
- Boloil S.A. – production of dolomite aggregates, zinc products and zinc alloys,
- Bolsped sp. z o.o. – equipment-related and forwarding services,
- Bol-Therm Sp. z o.o. (100 %) – power supply-, laboratory-, mechanics and construction-related services, transport-equipment and forwarding services, production of dolomite aggregates, zinc products and zinc alloys,
- Gradir Montenegro d.o.o. (99,46 %) – zinc ores mining and concentrate production,
- Agencja Ochrony Osób i Mienia ”Karo” Sp. z o.o. (100 %) – bodyguard and property security services.

Furtermore, Boloil company had 99.71 % in share capital of Przedsiębiorstwo Robót Drogowych Olkusz Sp. z o.o.

This Report on the Capital Group's Activities for the fiscal year 2013 is the first annual report, in which the activities of the ZGH ”Bolesław” Group were included in connection with the consolidation of their financial statements with the Stalprodukt Group starting as of 1 January 2013.

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

2.1 Electrical Sheets Segment

a) Transformer sheets and strips

In 2013, Stalprodukt did not manage to halt the downward trend affecting both the prices and sales volumes. In effect, the transformer sheets sales were by 1/3 lower from the ones achieved in 2012, and the prices dropped throughout the year by almost 20 per cent. Apart from the market-related reasons, affecting all the producers, in the case of Stalprodukt the sales decline was also caused by the streamlined investment program, connected with the launching of the HiB technology. The switch-offs of the modernized lines and related stoppages resulted in the reduction of the segment's capacity by approx. 30 per cent.

The domestic sales dropped significantly, i.e. by over 60 per cent in relation to the previous year, translating directly into a lower share in the domestic transformer sheets market, which is currently estimated at 12 per cent.

As a result of the above changes, the Company's 2013 domestic sales accounted for only 3 per cent of the total transformer sheets sales.

The imports of transformer sheets to Poland in the 11-month period of 2013 increased by 7 per cent, whereas the prices of the imported material dropped by almost 27 per cent.

The main directions of transformer sheets imports to Poland (according to the country of origin) in 2014 are:

- for wide steel coils: Germany (26 %), the Czech Republic (22 %), Republic of Korea (22 %), Japan and USA (10 %),
- for steel strips: Japan (50 %) and Italy (26 %).

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

Item	Quantity (Mg)			Net value (thousand zł)		
	2012	2013	2013/2012 (%)	2012	2013	2013/2012 (%)
Country	6 761	2 420	-64	43 676	14 492	-67
Export	77 108	69 861	-9	491 913	361 699	-26
Total	83 869	72 281	-14	535 589	376 191	-30

Competitive Conditions

The poor economic conditions present on the transformer sheets market affect all the manufacturers. The level of conventional steel prices, low for many months now, worsening financial results and the disturbingly growing overproduction lead to the aggravation of the “price wars”.

Consequently, the global transformer sheet prices still kept falling throughout the entire previous year. In Europe, in the period from 2010 to 2013, the prices dropped by almost 40 per cent. The key reason underlying the decline of prices is the material overproduction in relation to the existing demand. According to official sources, the total global production capacity in reference to the grain-oriented

(GO) steels reached the level of 3.0 million tons in 2012, considering the estimated demand standing at the level of approx. 2.4–2.6 million tons.

In India all the transformer sheets producers, willing to sell their materials on this market, were forced to go through the certification process, conducted by the Bureau of Indian Standards (BIS). Stalprodukt also completed this process for the conventional sheet steel in the previous year.

AK Steel and Allegheny Ludlum, acting with the United Steelworkers trade union, petitioned the US government in September to initiate protective proceedings against the imports of grain-oriented electrical sheets to the USA. The American producers demand that anti-dumping and countervailing duties should be imposed on 7 states supplying such materials to the USA. The petition is being examined along two tracks by two US agencies, the Department of Trade and International Trade Commission. In October 2013, the USA officially instituted anti-dumping proceedings against the imports of cold rolled grain-oriented products coded as 722511 and 722611, imported from China, Japan, Korea, Russia, the Czech Republic, Germany and Poland.

In the case of Chinese producers, their long-term balancing on the break-even level made further price reductions impossible. Consequently, it is thought that the prices of grain-oriented electrical sheets reached their minimum level on the Chinese market. This may mean that global markets will manage to avoid further price decreases.

Long-term forecasts indicate the possible re-strengthening of the demand for transformer sheets; the global population is still growing, while the demand for electrical energy and power transformers accompany this. However, at present, overproduction still seems to be the key problem. If Chinese producers reverse their expansive policy, the demand-supply balance will be possible to recover.

b) Toroidal cores

Toroidal cores constituted the only product group in the entire Stalprodukt's portfolio which recorded increasing sales in relation to the previous reporting period. The sales volume was increased by 16 per cent, and the slight decline in the prices had a marginal impact on the sales value, which also showed an increase by several per cent.

Considering the transformer sheets market, whose condition always has an impact on the sales of toroidal cores, such a result should be recognized as a success.

Table 2. Comparative breakdown of sales of transformer cores

Item	Quantity (Mg)			Net value (thousand zł)		
	2012	2013	2013/2012 (%)	2012	2013	2013/2012 (%)
Country	388	440	13	4 571	5 135	12
Export	465	546	17	4 823	5 346	11
Total	853	986	16	9 394	10 481	12

Competitive Conditions

Despite the fact, that the interest in our offer, concerning the traditionally processed toroidal cores, is still significantly declining (which, considering massive competition, leads to the reduction of prices for the finished products), the Stalprodukt's offer, enriched with 'Unicores' - transformer cores processed with steels of higher parameters, allowed us to reach a wider circle of recipients.

The Unicores market share is gradually growing. Transformer producers recognise the advantages resulting from the application of new technologies, and customers benefit from the products characterised with better parameters, lighter and more environment-friendly ones.

2.2 Profiles Segment

a) Cold formed profiles and tubes

The volume of cold formed profiles dropped by 5 per cent compared to 2012. The prices and the sales value decreased as well. The domestic sales and exports fluctuated at different levels.

The domestic sales recorded bigger declines both in terms of the prices and sales value.

According to the information published by the Polish Steel Association, in the period from January to November 2013:

- the output of cold formed profiles decreased by 6 per cent, down to the level of 538 thousand tons,
- the apparent tubes consumption dropped by 10 per cent (down to the level of 1 005 thousand tons), including the cold formed profiles dropping by 2 per cent (down to the level of 525 thousand tons),
- whereas the profiles imports increased by 6 per cent. In the period from January to November the imports reached the level of 123 thousand and the current imports directions are as follows: for the profiles of wall thickness below 2 mm - the Ukraine (29 %), Italy (17 %), the Czech Republic (16 %), Latvia (12 %) and Hungary (11 %), whereas for the profiles of wall thickness above 2 mm – Italy (34 %) and the Ukraine (17 %). Round tubes with the diameters of up to 168.3 mm are imported to Poland mainly from Italy (73 %), the tubes with the diameters ranging from 168.3 mm to 406 mm – from Italy (32 %), the Ukraine (25 %) and Germany (14 %).

In the export sales of profiles, the Group recorded a 6-per cent decrease of volumes in relation to 2012. The export sales share in the total sales of profiles currently accounts for 36 per cent.

Table 3. Comparative breakdown of sales of cold formed profiles

Item	Quantity (Mg)			Net value (thousand zł)		
	2012	2013	2013/2012 (%)	2012	2013	2013/2012 (%)
Country	152 750	144 776	-5	393 483	360 985	-8
Export	79 980	75 221	-6	212 036	188 420	-11
Total	232 730	219 997	-5	605 519	549 405	-9

The market conditions in 2013 were hard for cold formed profiles. Both the decrease of demand, which was greater than in the case of flat products, and the excessive production capacity, largely contributed to the declining results.

The greatest decrease in the production of tubes was recorded in France, Spain, Italy and in the majority of the Central European countries. The declining demand and overproduction directly affect the aggressive price competition, and such a policy, in turn, results in low profit margins for all the market players.

Generally, the results recorded by the segments of welded tubes of small and medium diameters and precision tubes, reflected the consequences of stagnation, affecting the sectors of the major recipients, such as construction, automotive industry, machine industry and metal industry. A slight increase of demand in the construction sector also affected the closed profiles. The distributors' purchases were maintained at low levels for fear of overstocking and due to difficult financing conditions.

The prospects for 2014 are a little bit more favourable. The growth of demand for tubes, in the industrial sectors applying them, and the restocking necessity should increase the demand by 2.5per cent.

Polish metallurgical industry representatives link their high hopes, for the improvement of the economic conditions, among others with the implementation of big infrastructural railway, power and gas supply projects. These investments may generate demand for steel products.

b) Safety road barriers

In 2013, Stalprodukt recorded a 45-per cent decrease of road barriers sales compared to 2012. Already at the planning stage, it was assumed that the barriers sales scenario would be worse in 2013 than in 2012 – the year of record-high sales. Therefore the volume sold, i.e. 24 thousand tons stood in accordance with the approved plan.

Such a significant decrease of sales was influenced by a number of factors, including among others:

- lack of new road-construction contracts commissioned by the General Directorate for National Roads and Motorways (GDDKiA),
- decrease of average weight of the barrier systems offered by Stalprodukt S.A. (mainly the StalPro Rail product line),
- very long winter period, which caused the extension of some contractual deadlines,
- growth of popularity of wire rope barrier.

Table 4. Comparative breakdown of sales of safety road barriers

Item	Quantity (Mg)			Net value (thousand zł)		
	2012	2013	2013/2012 (%)	2012	2013	2013/2012 (%)
Country	43 308	21 666	-50	194 765	100 585	-48
Export	2 305	2 872	25	8 418	10 621	26
Total	45 613	24 538	-46	203 183	111 206	-45

In the first half of the year, due to the very long winter period, Stalprodukt S.A. sold only about 7 thousand tons of barriers. As late as in the second half of 2013, chiefly thanks to the hospitable weather conditions, the majority of the concluded contracts were possible to execute. However, some of the project implementation delays were not compensated by the general contractors. Thus, some of the contracts, whose completion deadlines had been planned by the end of 2013, will be implemented by Stalprodukt S.A. in the first half of 2014.

A change in the customers' requirements, concerning the barriers' parameters, resulted in a significant reduction of weight of the barrier systems marketed by all the barriers producers.

The new StalPro Rail road barriers product line, introduced into Stalprodukt's offer at the beginning of 2013, is characterised with a significantly lower average weight per metre compared to the SP barrier systems offered so far. In some cases the decrease reaches 30-40 per cent.

The volume of the road barriers exported in 2013 increased in relation to 2012, chiefly thanks to the contract for the supply of about 100 km of road barriers to Latvia. Starting from January 2013, Stalprodukt S.A. pursued intensive activities, aimed at the barriers' admission to the Slovakian, Danish and Norwegian markets. In 2013 Stalprodukt's barriers were approved for use in Denmark and Slovakia.

c) Products of steel service centers

In 2013, the sales of the products offered by Stalprodukt's steel service centers (SSC) were still falling – the sales volume decreased by almost 24 per cent in relation to 2012, and the sales value dropped by 31 per cent, considering the several-percent decline in prices.

In 2013, contrary to the previous year, both the domestic and exports sales recorded decreases. In 2012, export sales were successfully developed, with an approximate 70 per cent increase achieved over 2011. In 2013, it was impossible to maintain this favourable tendency in the exports – considering the falling prices, the volume sold was by almost 34 per cent smaller.

In 2013, the exports share in the total sales of the steel service centers accounted for 15 per cent.

Table 5. Sales of products of metal sheet service centres

Item	Quantity (Mg)			Net value (thousand zł)		
	2012	2013	2013/2012 (%)	2012	2013	2013/2012 (%)
Country	74 592	57 997	-22	181 265	128 437	-29
Export	15 006	9 835	-34	37 762	23 329	-38
Total	89 598	67 832	-24	219 027	151 766	-31

The economic conditions in the sector of metallurgical flat products have been systematically deteriorating since 2012. After the long winter, the industry anticipated a traditional spring revival, which, however, did not come. It is hardly surprising, considering that the main customers of steel service centers (SSC), i.e. the motor industry, machine sector or the manufacturers of steel structures, were focused on survival rather than expansion policies in 2012 and at the beginning of 2013.

The SSC production capacities, expanded over the recent years, diverge from the needs of the potential

recipients. It should be noted that, at present, the processing capacity of the entire Polish SSC market amounts to 6.5 million tons (calculation based on the equipment capacity). The real production capacity level of the SSCs operating in Poland is estimated at approx. 4.5 million tons. In the experts' opinion this exceeds the market needs by approx. 100%. The consequences are painful for the sector companies. Strong competition forces continual price reductions, which unfavourably affects the profitability of the pursued activities and financial results of particular companies.

2.3 Zinc Segment

The Zinc Segment embraces the activities of ZGH "Bolesław" S.A. and its subsidiary companies, i.e. the excavation of zinc-lead ores, production of zinc and lead as well as related activities.

Due to ZGH „Bolesław” Group being included into the consolidation as of 1 January 2013, the comparable data for the previous period, i.e. the year 2012, are not provided herein.

The sales results embrace the key products processed by the Group's companies, whose activities are connected with this Segment.

a) Zinc and Zinc Alloys

Zinc has wide applications in automotive, processing, construction and many other industries.

The electrolytic SHG zinc, produced at ZGH "Bolesław", was registered at the London Metal Exchange in 2005, whereas the one produced by the zinc works: Huta Cynku "Miasteczko Śląskie" was registered at the LME in 2012.

Z5 zinc of a higher lead content (produced by the zinc works: Huta Cynku "Miasteczko Śląskie") is used in the production of brass, bronze and in galvanizing plants as a cheaper replacement of Z1 zinc or its supplement.

Zinc alloys are applied in metallurgical, automotive and processing industries in the process of continuous galvanizing.

The year 2013 saw an increase of the global zinc output and its consumption. In China, which is the biggest producer and consumer of zinc, the metallurgical zinc output increased by 475 thousand tons (approx.10%), and its consumption by 300 thousand ton (approx. 5.7%). In Europe the production of zinc increased to a smaller degree (i.e. approx. by 0.5%), than consumption (approx. by 2.4%), which caused a shortage of zinc on the market and necessity to order deliveries from the outside of Europe.

The LME zinc inventories decreased by 286 875 tons and reached the level of 931 175 tons at the end of 2013. Approximately 81% of LME inventories were stored in the USA exchange market storehouses and in Europe about 16% of the LME inventories were stored. The increased zinc demand resulted in the global increase of consumer premiums: the Far East from 120 USD/t CIF to 190 USD/t CIF, Europe from 130 USD/t EXW to 155 USD/t and USA from 176 \$/t to 209 \$/t (according to CRU Jan 2014; CRU Jan 2013).

In Poland general zinc output generated by the ZGH Group totaled approx. 146 thousand tons, out of which approx. 76 thousand tons were produced at ZGH "Bolesław" S.A. (i.e. by approx.

10 thousand tons more than in the previous year). The total output in Poland (ZGH “Bolesław” S.A. and Huta Cynku “Miasteczko Śląskie” S.A.) averaged, respectively, approx. 6% and 1 % of the European and global production. At the beginning of the year the zinc price started to make up for the loss sustained in the previous year, however, the unstable economic conditions in Europe implied the decrease of demand, and, consequently, the lowering of the metal quotations. In the second half of the year, a temporary stabilisation could be observed – the price of zinc oscillated between USD 1 800 and 1 900, and towards the end of 2013 it exceeded USD 2 000. The LME average SHG zinc price amounted to 1909.08 USD/t in 2013 and was by 37 USD/t lower than in 2012 (1946.38 USD/t).

The zinc demand in Poland is variable, as in entire Europe. The main industries, in which zinc is applied are construction and motorization. In previous years, these industries significantly reduced their production capacities as a result of the financial crisis, which largely lowered the demand for zinc due to the reduced demand for steel structures (supposed to be galvanized).

The Group's biggest market competitors are the international companies: Glencore, Nyrstar and New Boliden. The Group competes effectively on the market thanks to the technologies in its possession, which enable the production of the highest grade zinc and allow for the continuous expansion of the produced zinc alloys range.

Table 6. Comparative breakdown of sales of zinc and zinc alloys

Item	Quantity (Mg)	Net value (thousand zł)
	2013	2013
Country	74 276	522 662
Export	65 944	435 659
Total	140 220	958 321

b) Lead

Refined lead is another basic product manufactured by the zinc works: Huta Cynku “Miasteczko Śląskie” S.A. Refined lead is mainly used in the production of accumulators and traction batteries as well as in the production of lead oxides, used in the processing of paints and varnishes and, in the minimal degree, also lead alloys. Refined lead is also used as a raw material in the production of steel sheets, wires, munitions and cables.

The basic grade of lead Pb with 99.97 % purity, holds the Certificate of the London Metal Exchange. The present output reaches the level of 19.8 thousand tons per year and, largely, depends on the current supply of the appropriate raw materials. A part of the refined lead output is used to meet the Group's own needs (condensation of zinc vapors in the shaft furnace). The level of lead production is dependent on the physico-chemical parameters of the processed charge materials and quality of the furnace coke.

The LME average lead price amounted to 2141.15 USD/t in 2013 and was by 80 USD/t higher than in 2012 (2061.39 USD/t).

Table 7. Comparative breakdown of sales of refined lead

Item	Quantity (Mg)	Net value (thousand zł)
	2013	2013
Country	13 741	102 637
Export	1 652	12 180
Total	15 393	114 817

c) Flotation Galena

The flotation galena produced by ZGH “Bolesław” is a lead concentrate (with the metal content of approx. 62 %) and is obtained in the flotation process of zinc-lead ores enrichment. In 2013 it was exclusively sold abroad.

Table 8. Comparative breakdown of sales of flotation galena

Item	Quantity (Mg)	Net value (thousand zł)
	2013	2013
Export	27 449	96 229
Total	27 449	96 229

d) Dore Metal

Dore metal is produced by the HCM S.A. Company. It is a silver alloy with copper, lead and gold additions..

It is an initial product for further refining aimed at the production of pure silver and gold which is applied, among others, in electronics and jewellery trade. In 2013 it was mostly directed to one foreign receiver.

Table 9. Comparative breakdown of sales of Dore metal

Item	Quantity (Mg)	Net value (thousand zł)
	2013	2013
Export	25	60 029

Total	25	60 029
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Other ZGH “Bolesław” Group's products

Among the other products, whose sales are classified as Zinc Segment's sales, the following products should be listed:

- **sulphuric acid**
Sulphuric acid is a byproduct originating from the zinc production technology. It has a great significance in various branches of industry. It is used, among others, in the production processes of other acids, dyes, synthetic fibres, explosives and fertilizers.
- **dolomite**
Dolomite is produced by the Boloil S.A. Company. It is formed as a result of mechanical processing and upgrading of the dolomite stone, obtained during the zinc and lead ore mining and processing activities pursued by ZGH “Bolesław”. This material is used in construction as well as in road and railway building.
- **Zn-Pb-Ag concentrate**
The Zn-Pb-Ag concentrate has been produced by ZGH “Bolesław” S.A. since 2012. It is formed during the flotation process of the muds originating from the hydrometallurgy of zinc.

The total sales value of the above products amounted to PLN 62.9 million in 2013.

2.4 Other Activities

Due to the fact this share was diminished in the Capital Group's total sales, the ”Segment of Goods”, as recognized to-date, was included into ”Other Activities”. The Segment of Other Activities also embraces the sales of products, goods and services pursued by such entities as: STP Elbud Sp. z o.o., Cynk-Mal S.A., Stalprodukt-Zamość, Stalprodukt-Serwis, Stalprodukt-Wamech or Stalprodukt-MB.

Group's Overall Product-Based Sales Structure

Considering the changes in the Stalprodukt Group's structure of activities, caused by the inclusion of the ZGH “Bolesław” Group in the consolidation, a decision was taken to present the product-based sales structure, basing it on the production segments rather than on product segments.

CONSOLIDATED FINANCIAL STATEMENT OF STALPRODUKT S.A. CAPITAL GROUP FOR YEAR 2013
REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES GROUP

Assortment	2012		2013	
	value (in thousand zł)	share (%)	value (in thousand zł)	share (%)
Electrical Sheets Segment	544 983	30,1	386 672	13,8
Profiles Segment	1 046 639	57,9	812 377	28,9
Zinc Segment ¹⁾			1 383 181	49,3
Segment of Goods ²⁾	108 514	6,0		
Other activities	108 581	6,0	224 293	8,0
Total	1 808 717	100,0	2 806 523	100,0

Remarks:

- this Segment was not subject to consolidation in 2012
- in 2013 the "Segment of Goods" was included into "Other Activities"

Purchase of feedstock

In 2013 the main suppliers of feedstock for Stalprodukt, with the value of supplies exceeding 10% of revenues from sale, was ArcelorMittal Flat Carbon Europe - share in revenues – 23.03 %

ArcelorMittal Flat Carbon Europe is a part of the concern ArcelorMittal Poland S.A.

3. Assessment of economic and financial situation

In 2013, the Stalprodukt Capital Group's sales from total activities amounted to PLN 2 887.5 million. The leap-like increase of the consolidated sales over 2012 is caused by the inclusion of ZGH "Bolesław" S.A. in the consolidation.

The generated operating profit amounted to PLN 80.7 million, whereas net profit – PLN 77.4 million. In the period under discussion the EBI DA reached the level of PLN 209.6 million.

In 2013, the profitability of sales by levels was as follows:

Item	2013	2012
Return on sales	1,5	4,3
Operating profitability	2,9	4,1
Gross profitability	3,5	4,2
Net profitability	2,8	3,3

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

Item	2013	2012
Return on assets	2,6	2,9
Return on equity	4,4	3,8

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

Item	2013	2012
Current liquidity ratio	1,8	2,0
Accelerated liquidity ratio	1,0	1,0

In 2013, the operating cash flow amounted to PLN 222.3 million.

Compared to 2013, in the reporting period the assets of the Stalprodukt S.A. Capital Group increased by the amount of PLN 916.1 million, i.e. by 44 percent. The fixed assets increased by PLN 543.8 million in relation to the previous year and amount to PLN 1 914.1 million.

In the period under discussion the value of the current assets was increased by PLN 370.3 million. The significant value increase of particular assets is connected with the consolidation of ZGH "Bolesław" S.A. The equity increased from PLN 1 577.2 million in 2012 to 1 756.3 million in 2013 and accounted for 58 percent of the balance sheet sum.

As of 31.12.2013, the long-term liabilities of the Stalprodukt Capital Group amounted to PLN 453.7 million, including the long-term credits and loans which accounted for PLN 90.0 million. Compared to 2012, there was an increase of long-term liabilities by PLN 332.3 million.

In the long-term liabilities group, the amount of PLN 296.1 million accounts for the identified risk concerned with the take-over of ZGH "Bolesław" S.A., i.e. the liquidation costs of the "Olkusz-Pomorzany" mine, liability for the mining damages, potential non-recovery of the financial means engaged in the Montenegro d.o.o. company, severance payments for the employees of the mining division, coal allowance-related claims as well as granted guarantees and sureties.

Towards the end of 2013, the short-term credits and loans amounted to PLN 95.0 million. The net working capital increased from the level of PLN 350 million in 2012 to 513.9 million towards the end of 2013.

In the analyzed period the Return on Equity ratio in the Stalprodukt Capital Group reached the level of 4.4 percent, and the level of cash as of 31.12.2013 r. amounted to PLN 111.7 million.

Assessment of results and financial situation

Considering the results achieved, the year 2013 was better for the Stalprodukt Group than 2012. A sales increase by 55% was observed during the reporting year, whereas a 7% increase was recorded in the area of operating activities. The net result increased by 29 %. The take-over of ZGH "Bolesław"

S.A. contributed to this decisively. However, analyzing the sales data of the Parent Company, one should note a decrease of sales in both of the production segments.

The decrease of the sales volumes concerns both the Transformer Sheets and Profiles Segment. These Segments recorded sales volumes decreases by: respectively, 14 and 16%.

The sales volumes levels in the Electrical Sheet Segment were influenced by the following factors:

- unfavorable market environment, including the falling demand for transformer sheets, and in particular,
- consequences of the new HiB technology being launched in the transformer sheets production, which consisted in the reduced operation of the Sendzimir rolling mill and temporary switch-offs of some production lines, connected with their modernization.

In the Profiles Segment the market conditions were similar to those occurring in 2012. In 2013, a significant price pressure and unfavourable market environment could be felt. The sales of road barriers., which recorded a 45% decrease, had a significant impact on the Segment's poor results. Such a substantial decrease was primarily caused by the effect of the high base result achieved in 2012, in which many road investment projects, connected with EURO 2012, were being finalized.

Despite the poorer parent company's financial results, the Group's financial standing was maintained at a satisfactory level in the reporting period. The economic and financial ratios, characterizing the business activities, recorded decreases, but their levels should be regarded as satisfactory in the present market conditions.

Stalprodukt-Centrostal Kraków Sp. z o.o. is being affected by some temporary financial difficulties in connection with poorer market conditions for finished steel products. Whereas, the restructuring activities recently pursued at Cynk-Mal S.A. made the company record a slight net profit. Among the subsidiaries of ZGH "Bolesław" S.A., the Gradir Montenegro d.o.o. company is affected by greatest financial problems. The year 2013 was yet another year in succession, in which the Montenegro company recorded a loss. During the publication of the present report, the transaction for the sale of the Company is being concluded. The details of the transaction were provided in the Consolidated Financial Report for the year 2013 in Additional and Explanatory Information Sheet, item 12 "Other Information" and were disclosed in the current reports presented to the public.

The Capital Group did not experience any payment difficulties, consistently implementing its adopted risk-management policy. The Parent Company is not threatened either with any fluctuating currency exchange rates thanks to the natural hedging mostly applied against this kind of risk.

In 2013, changes occurred, affecting the assets and their financing sources. Both an increase of fixed assets took place by PLN 543.8 million, i.e. by 39 percent, and increase of current assets by 52 percent. The current assets group saw an increase of inventories by 54 percent and short-term receivables by 39 percent.

The Group's assets were increased by PLN 916.0 million, i.e. by 44 percent. The increase of assets was accompanied by the growth of the financing sources in the 'equity' position by 11 percent and 'provisions and liabilities' by 147 percent. The increase of provisions is caused by the consolidation of the ZGH "Bolesław" Group, which is forming provisions for the liquidation of the mine.

The increase of the long-term liabilities by PLN 332.3 million is, primarily, caused by the clearing of the ZGH "Bolesław" S.A. purchase price and recognition of risks, as of the control take-over day, in

the liabilities section of the balance sheet. The calculation was presented in detail in the 2013 Consolidated Financial Report, item 11 of the Additional and Explanatory Information Sheet.

Also the short-term trade liabilities increased in the analyzed period by 37 % (PLN 98.8 million). The equity accounts for 58.0 % of the Liabilities, and liabilities (payables) 42.0 %. The book value per share was also increased from PLN 234.53 to PLN 261.16 (by 11 %).

Throughout the reporting period the Parent Company and majority of the subsidiaries from the Capital Group maintained good financial liquidity, which is confirmed by the liquidity ratios and on-time settlement of all the liabilities, both towards the employees and suppliers as well as the state budget and financial institutions. Only the companies such as: Cynk-Mal S.A., Stalprodukt-Centrostal Kraków Sp z o.o. and Gradir Montenegro d o.o. were affected by periodic liquidity problems.

The Parent Company is not excessively indebted and only sporadically benefits from current credits. Whereas some subsidiaries, such as: Stalprodukt-Centrostal Kraków Sp. z o.o., Cynk-Mal S.A. and Gradir Montenegro d o.o., benefited from some current account credits.

In the assessment of the financing banks the Stalprodukt Group continuously enjoys good credit capacity and the results achieved as well as its transparent property and assets status allow the Company to obtain multi-form financing for its activities.

In 2013 both the Parent Company and its subsidiaries extended their agreements with banks for the provision of multi-purpose credit lines, in order to secure the Group's financing sources.

Despite the decreased financial results in the year 2013, the Management Board does not predict any deterioration of the Group's financial standing in 2014. In order to maintain the good financial standing and liquidity, restructuring activities and further undertakings are pursued, focusing on the expansion to new supply and sales markets, rational management of inventories and receivables and reduction of costs.

Achieving good economic ratios and maintaining financial liquidity and credit capacity as well as on-time settlements of the incurred liabilities testify to the correct management of the financial resources.

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

- In 2013, Poland was affected by a clearly marked economic downturn. This was reflected in the GDP growth rate, which increased by 1.5 percent in the previous year whereas in 2012 reached almost 2 percent. One of the reasons underlying such a state of affairs was a clearly marked reduction of outlays on infrastructural investments as compared to the previous year, when many projects were carried out in connection with the preparations for EURO 2012, which was hospitable to the development of such industries as construction or steel structures sector. This fact is well illustrated by the sales results recorded for the road barriers produced by Stalprodukt; in the previous year the sales value of these products decreased in relation to the record-high 2012 results by as much as 45%.
- The persistent oversupply present at the global the transformer sheets market (estimated at approx. 30 percent), resulted in their further price decrease, which annually totalled 18 percent in the case of Stalprodukt.

- In the previous year, the Company continued the ambitious project launching the HiB sheets production, which was connected with a partial exclusion of the Company's production capacity. In effect, the decrease of sales volumes reached the level of 14 percent in relation to 2012.

Steel Market

- In 2013, The global crude steel production amounted to 1 583 million tons, which accounts for a 2.2-percent increase. The Chinese production accounted for almost 50 percent (779 million tons) of the total global steel output, as China recorded an almost 9-percent increase over the previous year.
- In the case of the Polish market, the crude steel output decreased by almost 5 percent, just like the production of most other steel products, such as, among others: COS semi products, hot rolled sheets, steel tubes or cold formed profiles. The exports decreased by 12 percent, down to the level of 4 612 thousand tons (in the period from January to November 2013), at the same time, the imports decreased by 4 percent, down to the level of 7 237 thousand tons, and the apparent consumption reached the level of 9 355 thousand tons (decrease by 3 percent). The imports share in the apparent consumption already accounts for almost 70 percent. In this period, the industry condition, undoubtedly, reflected the economic slowdown in Poland.
- The fierce market competition, especially in the Profiles Segment, caused a 14-percent sales value decrease in respect of cold formed profiles and 31-percent sales decrease in respect of the steel service centers products sold by the Company.
- In the European Union a significant oversupply of production capacity is still being maintained (estimated at approx. 50-60 million tons per year). The competitiveness of the European steel industry is being lowered by the excessive production costs, arising mainly from high energy costs, which is directly connected with the EU-pursued policy against the global warming and growth of CO₂ emissions.
- A sharp decrease of steel demand in the EU, present in the first half of the previous year was more or less balanced in the second half of the year. The key factors underlying this positive trend were the low level of inventories, which did not require taking any dramatic actions, aimed at disposing of surplus materials, as was the case in 2012, and the fact that the real steel consumption slightly exceeded the expectations.
- The preliminary data for the fourth quarter of 2013 showed that the total production of the European sectors – steel product users, has recorded the first positive year-to-year increase since the fourth quarter of 2011. The signals from the steel users' key sectors – such as motor industry – are generally favourable. There is also some evidence available that the slowdown in the construction sector has reached its lowest possible level, although, here, the differences between particular regions remain significant. A markedly higher mood level is being recorded in industry. A gradual bounce-back can be observed in the steel-user industries with good prospects for 2014 and 2015 after the poor results recorded over the previous two years.

Zinc and Lead Market Conditions

- In 2014, the global mining zinc output increased by merely 0.56 % , i.e. to the level of 13.2 million tons. The metals output increased by 2.1 % over 2012 and also totaled 12.9 million tons. The global zinc consumption increased to the highest degree, totaling 13.0 million tons, which stands for a 4.8% increase in relation to 2012.

- In the case of lead, significantly higher increases were recorded for the mining output and pure metal output as well as its consumption. And so the mining output increased by 7.6 % (to 5.4 million tons), metal output by 6.5 % (to 11.2 million tons), and lead consumption by 7.1 % (to 5.4 million tons).
- The level of the zinc and lead prices obtained by the Group is directly dependent on the prices quoted on the London Metal Exchange (LME). This is the basic factor, affecting the results achieved by the companies involved in the production of these metals. In 2013, the average LME special high grade zinc price amounted to 1909.08 USD/t and was lower by 37 USD/t compared to 2012 (1946.38 USD/t). The average LME lead price amounted to 2141.15 USD/t in 2013 and was by 80 USD/t higher compared to 2012 (2061.39 USD/t).

5. Information on reached and material for the Group agreements

In the reporting period the Company did not conclude any material agreements under art. 5, par. 1, subpar. 3 of the Regulation of the Minister of Finance as of 19 February 2009 regarding current and periodic disclosures.

6. Organizational and capital relationships with other entities

Stalprodukt holds shares in 10 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.

7. Related party transactions

Transactions with related parties in 2013 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

A credit line agreement, comprising a working capital facility in the current account equipped with a limit of up to PLN 40 000 thousand and a limit for guarantees and letters of credit of up to the amount of PLN 20 000 thousand, concluded with the Nordea S.A. Bank was extended in July 2013 until 12.07.2014 r.

At the Pekao S.A. Bank based in Warsaw there's a guarantee and letter of credit line equipped with a limit of up to a total of PLN 75 000 thousand valid within 30.09.2014 r.

Within the framework of the credit limit, the Capital Group companies STP Elbud Sp. z o.o. and Cynk-Mal S.A. may use the sublimits of up to, respectively: PLN 13 000 thousand and PLN 25 000 thousand.

The multi-purpose credit line agreement with BNP Paribas Bank Polska S.A. based in Warsaw, with a limit of up to PLN 50 000, intended to serve a current account credit, guarantees and letters of credit, was extended for another annual term. The agreement will be valid within do 14.12.2013.

Also the credit limit held at Bank Handlowy S.A. based in Warsaw, intended to serve the revolving line for bank guarantees and letters of credit with a revolving limit of up to PLN 65 000 thousand. The credit line refers to the amount of PLN 40 000 thousand and is intended to serve a current account credit and issue of guarantees and letters of credit within an 18 month period (until 09.01.2015) and PLN 25 000 thousand for long-term guarantees within a 6 year period (Agreement valid until 11.07.2014 r.).

Additionally, the Multi-Purpose Credit Limit Agreement with the PKO BP S.A. Bank based in Warsaw is still in force, serving transactions of up to up to PLN 50 000 thousand, intended for a credit in the current account, issuing letters of credit and granting guarantees. The Agreement is valid until 9.12.2014 r.

Also the subsidiary companies extended their current account credit line agreements for the following year, including Stalprodukt-Centrostal spółka z o.o. in Nordea S.A bank with the credit line amounting to PLN 20 000 thousand and Cynk-Mal S.A. in the Pekao S.A. bank, with the credit lines amounting to, respectively PLN 25 000 thousand within the framework of the credit granted to the parent Company.

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

On 8.07.2013 r. Stalprodukt S.A. guaranteed the liabilities of the Stalprodukt-Centrostal Kraków sp. z o.o for the Nordea S.A. based in Gdynia, in respect of the current account credit amounting to PLN 20 000 thousand. As of the balance sheet day, the Group does not have any other off-balance contingent liabilities, other than the performance guarantees regarding the production and erection of road safety barriers as well as guarantees and bills of exchange issued by ZGH "Bolesław" S.A. As of 31.12.2013, the amount of valid guarantees in this respect totals PLN 23 969 thousand.

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

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, occasionally 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.

The revaluation write-downs and planned financial results do not indicate any risks likely to threaten further investment plans, and, in particular, the completion of the second stage of the HiB project being launched for the production of transformer sheets.

14. Information on employment, remuneration and training

In 2013, there were employed 6 people by the Company Stalprodukt S.A. At the same time, the employment relationship was terminated by mutual agreement or otherwise by 118 employees.

As at 31.12.2013 the employment of Capital Group amounted to 5,891 people, including:

- 1,493 people in the Parent Company,
- 4,398 people in subsidiary companies.

15. Investment activities and technological development

In the reporting period the Parent Company carried out investment projects in the following fields:

- improvement of technological processes and research for development of the Company's products,
- building works,

The 2013 investments related to the expansion of the product range, improvement of technological processes and product development were mainly focused on the undertaking connected with the launching of the HiB electrical sheets production.

The following tasks were continued with the project:

- modernization of the Sendzimir rolling mill – project completion, equipment undergoing technological tests;
- modernization of the annealing and pickling line – project completion, line underwent final commissioning and was put into operation;
- modernization of the decarburization line – project completion, line being prepared for final commissioning and use;
- contract signed for the modernization of the 2nd decarburization line;
- construction of ammonia reloading and storing station – project completion, installation underwent final commissioning and was approved for use;
- expansion of the nitrogen plant (purchase of the new generator) – project completion, installation underwent final commissioning and was approved for use;
- fitting the technological and gas installations for the needs of the modernized technological lines;
- installation of the steel sheet laser treatment line – project completion, line underwent final commissioning and was approved for use;
- construction of a new hydrogen generating plant – building permits were obtained, building works were carried out (foundations, manoeuvre area), equipment was delivered.

Among the remaining tasks related to the improvement of technological processes and product development the following projects were carried out:

- delivery of an additional hood for the LOI furnace – equipment undergoing technological tests;
- modernization of the nitrogen plant cooling system;
- an automatic line for transmission belt production was approved for use and a tube piercer was put to operation and approved for use at the Profiles Department.

Construction-Related Investments

A construction design was prepared and administrative procedures were initiated with a view to obtaining a building permit for a passenger car parking lot for the STP Elbud company at 9 Płk Dąbka Street in Krakow.

Other Investment Tasks

Within the project prepared for the construction of vertical axis rotor wind turbines, carried out jointly with the Anew Institute Sp. z o.o. - subsidiary company, three wind turbines were built: S-1 20kW, S-1m 20 kW and S-2 30 kW.

Zinc Segment

Within the Zinc Segment mainly strategic investment tasks, were carried out, i.e. putting the Klucze I” deposit into operation, construction of the flotation enrichment unit and hydrometallurgic zinc waste filtration plant as well as lines for the deep dechlorination, defluorination and leaching of the raw zinc oxide originating from the steel dust processing as well as investments of a reconstructively-modernizing character.

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

External and internal factors significant for the Group’s development

The Market Research Institute prepared a forecast for the years 2014-2015 making the following assumptions:

- in the years 2014-2015 a slight aggravation of the monetary policy will be possible in Poland,
- in the years 2014-2015 the EU economic growth rate will be in the bracket from 1.5 to 2.5 percent.

- Economic Development Forecast

In 2014, the **Gross Domestic Product** growth rate will reach the level of 2.8 percent, which means that it will be markedly higher than in the previous year. According to the forecast issued by Market Economy Research Institute, the economic growth will be accelerating in the successive quarters of the current year, but the differences between the particular quarters will only be slight – in the first quarter the GDP will grow by 2.6 percent., and in the fourth one - by 3.0 percent. In 2015, the economic growth is expected to accelerate even further up to 3.5 percent.

In 2014, according to the forecast issued by the market Economy Research Institute, the **added value** will grow in industry by 4.7 percent. The growth rate in industry should be relatively stable throughout

the year and should quarterly reach the level of 4-5 percent. According to the Institute's forecast, the construction sector's condition will be markedly improved, and its added value will grow by following the previous year's decrease by 9.0 percent. At the same time, one should expect stabilization in the sector of market services, where the forecast level of added value growth should reach 2.4 percent this year. In 2015, the industry condition will still be improving, where the added value will increase by 5.4 percent, according to the forecast of the Market Economy Research Institute. In the construction sector, the market condition will still be improving – and the added value will grow by 6.5 percent. In 2015, the construction sector condition will be increasingly and favourably affected by the infrastructural investments financed within the framework of the new EU budget perspective.

- Demand

In 2014, the **domestic demand** growth rate will stand at 2.9 percent, which means that the downward trend, to have lasted for two years now, will be reversed. According to the Institute's forecast **individual consumption** will grow by 2.5 percent during this time, whereas the value of the **gross fixed capital formation** will increase by 4.7 percent. The growth of investments will, primarily, result from the increased outlays on the recovery of fixed assets in the enterprise sector. Investment backlogs in companies are becoming more and more serious. The inflow of new European funds appropriated for the financing of infrastructural projects will be another factor supporting the investments. In 2015, the domestic demand will increase by 3.3 percent, both thanks to the growing individual consumption (by 3.3 percent), and growing investment outlays (by 5.5 percent). In the years 2014-2015, the input of the domestic demand into the GDP formation will be much bigger than in 2013.

- Inflation

In the forecast-covered period any inflation-related threats should not be expected in Polish economy. In 2014, **inflation** will average 1.9 percent, and towards the end of December it will reach 2.2 percent. The inflation kept below the National Bank of Poland inflation target means that this year the central bank interest rate reductions should not be expected. In 2015, inflation will general stay at the 2014 level – its average forecast level is 2.0 percent, and towards the end of December - 2.1 percent. The relatively low inflation will be one of the factors positively affecting the dynamics of individual consumption.

According to the forecast issued by the Market Economy Research Institute, in 2014, the pace of Polish **exports** growth will reach 4.0 percent, while the **imports** will grow by 4.5 percent at the same time. This means that foreign trade input into the GDP formation will be slightly negative. In 2015, one should expect the accelerated growth of exports, which will increase by 7.2 percent, and positive imports dynamics, which will increase by 6.8 percent. The foreign trade condition will, primarily, be shaped by the EU market condition, therefore the growing rate of the Polish exports up to the forecast next year's level is conditioned by the improved economic condition of our key trade partners.

In the Institute's assessment, despite the turmoil affecting the international financial markets, in 2014 a slight appreciation of the Polish zloty should be expected in relation to Euro and US dollar. However, due to the persistently low interest rates, the appreciation trend will not be so clearly marked, as it might have seemed a few years ago. According to the Market Economy Research Institute, the annual average Euro and US dollar interest rates will reach, respectively, PLN 4.3 and PLN 3.1, whereas in 2015 the average Euro interest rate will reach PLN 4.2, and US dollars interest rate - PLN 3.0.

Group's Development Prospects in 2014

In the recently published forecast for 2014 the Eurofer European Steel Association predicts an improvement for the European Union in respect of all the essential economic ratios, i.e.: the GP growth rate (1.3 percent.), individual consumption and government sector (respectively 0.9 percent and 0.3 percent), investments level in the construction and machine sectors (3.2 percent and 1.6 percent), exports and imports (4.2 percent and 3.8 percent.) as well as industrial output level (increase by 2.2 percent). It is worth reminding that in 2013 most of these ratios were negative.

These positive EU economic growth factors are also directly translated into steel consumption forecasts in the key economic sectors, such as: construction, machine engineering, motor industry, tubes production, metal products etc. Consequently, for 2014 Eurofer also predicts both the increase of steel apparent consumption (by 3.2 percent compared to the decrease by 0.5 percent in 2013), and steel real consumption (1.9 percent in relation to the decrease by 1.9 percent in 2013).

In Poland the demand increase is being recorded in construction industry, and industrial construction in particular. However, a significant economic improvement is expected in the second half of 2014 and in 2015 when new infrastructural projects for road and railroad construction as well as in the power sector will be streamlined. In the years 2014-2020, the European Commission will subsidize the transportation and power plant infrastructure with over PLN 100 billion. Adding the beneficiaries' own contribution, the value of the implemented projects may even reach PLN 150 billion.

In the 2014 marketing goals and plans both the market aspects, industry-specific and macroeconomic forecasts and the Company's internal conditions were taken into consideration.

Transformer Sheets

The transformer sheets performance plan for 2014 predicts a several-percent sales increase over the 2013 figures. It partly resulted from the still limited Electrical Sheets Segment's production capacity due to the HiB investment currently underway. The completion of the project has been planned for the second quarter of 2014.

The positive market signals coming on the turn of 2013/2014, from the Far East markets in particular, testify to the growing demand for the transformer sheets, which was accompanied by the price increase announcements. These have been partly reflected in the already introduced price increases reaching the level of 100 USD/ton in the first quarter of 2014. This fact testifies to a clearly marked bounce-back of the prices from their lowest level maintained over a few years and to the breakthrough in the negative trend.

The continuation of the long-established cooperation with our corporate customers is a priority included in the Stalprodukt's sales objectives.

Cold Formed Profiles

Unfortunately, the year 2014 promises no breakthrough in respect of the reported demand and the resulting sales volumes either. Despite the fact the Group is planning an increase in relation to the forecast figures and the 2013 sales value.

The sales levels planned for 2014 reflect the necessity to pursue an effective sales policy on the profiles domestic market, optimal warehouse management policy in respect of the most popular profile and tube types and price policy in respect of the selected target segments.

In the case of exports further expansive policy is planned to be pursued in the target segments, enriched with the offer including new products. In this area the trade activities will be focused on increasing the new products' share in the industry-specific customers' order portfolios as well as on changing the warehouse management policy towards selected industries.

Products of Steel Service Centers

The reorganizing activities should support the realization of an extremely ambitious plan regarding the sales of the products offered by steel service centers. The sales development in these product groups is especially difficult because of the over two-fold production overcapacity in relation to the demand on the domestic market.

A significant increase over the 2013 figures is planned for the next year.

Road Barriers

The road barriers performance plan for 2014 targets a decrease of the sales value in relation to 2013. The main reason underlying the decreased performance plan for 2014 are the limited budget outlays to be appropriated to new road investments. The new government road construction plan, whose implementation will probably start in mid 2014, will have a beneficial effect on the road barriers market but no earlier than in the years 2015 and 2016.

In 2014, the Stalprodukt S.A. company will, mainly, carry out the road investment projects commenced in 2013, focusing, at the same time, on the development of its offer, thanks to which the Company will be able to compete effectively on the road barrier suppliers' market in the years to come.

Zinc Segment

In line with the forecasts issued by the ILZSG (International Lead and Zinc Study Group), in 2014 the growth of global zinc consumption will reach approx. 4.5 %, considering the 2.6-percent increase of the mining output supply.

In the case of lead, the increase of lead consumption is forecast at the level of 4.3 %, while the growth of the mining output supply will reach the level of 5.2 %.

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

a) Macroeconomic environment

- The Group's results are strongly dependent on the general economic conditions and, in particular, on such sectors as construction and industry. The data recorded for the fourth quarter of 2013 confirm the Polish economy is on the upturn and the economic revival is being reinforced. In the quarters to come the positive trends are expected to continue and, in particular, the demand is

supposed to be further recovered. In the economists' opinion, the year 2014 will bring a clearly marked acceleration of consumption to be triggered out by the growth of the households' purchasing power, connected with the gradual recovery of the labour market under the conditions of low inflation pressure. The forecasts issued by all the major financial institutions predict an improvement of the Polish GDP growth rate and investments level.

- One can, therefore, assume that the favourable economic environment, both on the domestic market, and on the EU markets, will be hospitable to the increase of the Group's sales.
- The provision of funds from the new financial perspective prepared for the years 2014-2020 will, undoubtedly, constitute a strong growth incentive for the steel consuming industries. However, the impact of this factor will not still be too clearly visible in 2014.

b) decrease of demand on EU steel market

The 2008 financial crisis had serious consequences for many industries, including the steel market. The EU steel market, in particular, was painfully affected by the downturn in demand. At present, apparent steel consumption stands at a 30-percent lower level than in 2007. It is predicted that the year 2014 will bring a slight, as only a 2-percent increase. Thus, the low steel consumption level in Europe significantly undermines the results achieved by steel producers and is an important factor limiting the sales increase and results improvement.

c) falling cost competitiveness of EU steel producers

European steel works are not only fighting the falling demand for their products. Also the high manufacturing costs have become a serious problem, as a result of which the EU steel works cannot compete on the global market. The most serious burden imposed on the European steel producers are the costs resulting from the climate policy imposed by the European Union and the costs of electrical energy. The leading manufacturers (ArcelorMittal in particular) have long been calling for the revision of this climate policy, whose targets are difficult to meet especially by the energy-intensive plants. Additionally, Poland has one of the highest excise tax rates for energy carriers in Europe.

In response to these demands and according to the earlier announcements, on 11 June 2013, the European Commission presented its „Action Plan for European Steel Industry”, which suggested undertaking certain steps to help the sector to react to the existing challenges and lay the competitiveness foundations for the future by supporting innovations, invigorating the economic growth and job creation.

d) high competition among producers of cold formed profiles and steel service centers

The cold formed profiles producers are facing strong competition. New players are entering the market and the existing ones are expanding their production capacities, which are not met by the growing demand. This leads to fierce competition between the producers and reduction of the achieved profit margins.

e) high overproduction on the transformer sheets market

The transformer sheets production capacity, largely expanded over the recent years, accompanied by limited demand, are not hospitable to the price recovery on the transformer sheets market. The only chance for improvement in this Segment is the project currently launched by the Parent Company and introducing the high grade electrical steel technology (so called HiB electrical steel), whose prices are higher and the demand for which is growing faster than for the conventional steel grades. This will allow the Company to improve its competitiveness, increase the product prices and, consequently, improve the level of the achieved profit margins.

f) Risks related to the Zinc Segment activities

The main among the above mentioned risks are:

- the risks recognized at the ZGH “Bolesław” S.A. purchase stage,
- high sensitivity of the pursued activities to the decrease of zinc and lead prices and also to the strengthening of the zloty,
- growing concentrate prices and limited access to raw materials,
- limited perspectives for the excavation of zinc and lead ores in the Olkusz area and necessity to provide a new raw material base for the Bukowno Works,
- a very high share of energy costs in the production costs and absence of systemic solutions in this respect (i.e. lack of excise tax breaks for energy-intensive businesses, necessary support for renewable energy etc.).

g) risks related to financial instruments

Other risks, resulting from financial instruments, i.e. credit- and contract-related risk, liquidity risk and market risk have been described in detail in the Additional and Explanatory Information to the Financial Report (Par. 7: Financial Instruments and Risk Management Assessment).

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, 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 Member 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 manager and supervisor

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

	Base pay	Bonus for the results*	Royalties from the profit for 2012	Remuneration for holding positions in the statutory bodies of the subsidiaries	Total
Piotr Janeczek	753 607	243 469	271 139	116 146	1 384 361
Józef Ryszka	375 277	91 301	135 569	285 366	887 513
Antoni Noszkowski	156 515	39 072	135 569	53 119	384 275
Razem	1 285 399	373 842	542 277	454 631	2 656 149

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

	Allowance	Royalties from the profit for 2012	Remuneration for holding positions in the statutory bodies of the subsidiaries	Total
Stanisław Kurnik	75 056	67 785		142 841
Kazimierz Szydłowski	64 334	67 785	33 430	165 549
Janusz Bodek	58 973	67 784	40 962	167 719
Maria Sierpińska	64 334	67 785		132 119
Sanjay Samaddar	0	0		0
Augustine Kochuparampil	28 695	67 784		96 479
Tomasz Plaskura	58 973	67 784		126 757
Tomasz Ślęzak	31 883	31 883		63 766

Razem	382 248	438 590	74 392	895 230
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21. List of Management Board Members and Supervisory Board Members holding shares of Stalprodukt

1. Management:

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

2. Supervisory Board Members:

- 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 Parent 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 Issuer 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 Capital 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 2013 and 2014 with an audit company Biegły.pl Kancelaria Biegłych Rewidentów sp. z o.o., with a registered office in Wrocław, ul. Spizowej 21A/8A. Entity authorised to audit financial reports No 3771.
- The agreement was executed on 17.07.2013.
- The net remuneration under the agreement amounts to PLN 59,000.

Statement on the application of corporate governance principles in the 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 2013 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 1,959,725 shares, representing 29.14 % of the share capital, and 5,899,941 votes, representing 32.92 % of the total votes at the AGM,
3. Stalprodukt Profil S.A. holding 619,065 shares, representing 9.21 % of the share capital, and 941,349 votes, representing 5.25 % 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 31.12.2013, 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 Statutes. 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 2013, the Management Board of Stalprodukt was composed of:

Piotr Janeczek – President of the Management Board

Antoni Noszkowski - Member of the Management Board (from 1 January to 21 June 2013)

Józef Ryszka - Member of the Management Board

Composition of the Supervisory Board

In 2013, 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 (from 1 January to 21 June 2013)

Tomasz Plaskura - Member

Tomasz Ślęzak – Member (from 21 June to 31 December 2013)

Audit Committee

In 2013, the Audit Committee was composed of:

1) Maria Sierpińska - Chairman

2) Kazimierz Szydłowski

3) Tomasz Ślęzak

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Piotr Janeczek
President of the Management Board - CEO

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Józef Ryszka
Management Board Member - Marketing Director