

Dear Shareholders,

For yet another time I have a great pleasure to report, among others, on the annual performance of the Stalprodukt S.A. Capital Group, including its financial results, the condition of articular production segments and progress in our key investment projects.

The year 2013 saw a lower pace of economic development (GDP growth by 1.6 per cent), which, undoubtedly, reflected harder economic conditions affecting particular industrial branches, compared to 2012. The significant expenses appropriated in the preceding years for the implementation of infrastructural, mostly road-construction, projects, were essentially reduced in the previous year. This was not without impact on the condition of such industries as construction, for which the gross added value dropped by 9 per cent in relation to 2012.

In the case of the Stalprodukt Group, the decline occurred in the two fundamental production segments, i.e. electrical sheets and cold formed profiles. In this report we are, additionally, presenting a zinc segment, which is connected with the acquisition of the ZGH “Bolesław” S.A. company and its subsidiaries in December 2012 and the inclusion of its results into consolidation as of 1 January 2013. As for this segment, we recorded its extremely favorable impact on the entire Group's results.

In the electrical sheets segment the decline in the average prices by 18 per cent and sales volumes by 13.5 per cent caused a sales decrease by almost 30 per cent. The reason behind the falling volumes were the continually unfavourable market conditions, caused by the lowered demand for transformer steels accompanied by their massive supply, resulting from the expansion of the global production capacity occurring in the recent years.

Another essential reason underlying the decrease of sales were the side effects accompanying the introduction of the new electrical sheets production technology (so called HiB) which consisted in the reduced operation of certain production lines due to their modernization.

In the segment of cold formed profiles and road barriers, also embracing steel service centers, Stalprodukt also recorded a sales decrease both in terms of the volumes and value, though on a smaller scale than in the case of electrical sheets. The sales value decreased by 22.4 per cent in this production segment, whereas the sales volume dropped by 13.0 per cent. Among the reasons underlying the poorer performance, one should enumerate severe competition in the segment of profiles, resulting in the 9-per cent prices decline leading to lower profit margins, a high surplus production of the steel service centers, and also a markedly lower level of sales in the road barriers product group, compared to 2012. The decreasing demand for road barriers was not surprising in the context of the completion of numerous motorway construction projects in 2012 related to the organization of the EURO 2012 championships, which entailed a reduction of infrastructure-related financial outlays at a later time. A significant increase of the road barrier sales is expected to occur in 2015, in connection with the implementation of the successive stage of the government plan for the construction of motorways and express ways network in Poland.

The last year's inclusion of the ZGH Group's results into consolidation favourably affected the level of both the Stalprodukt Group's sales and results. In 2013, the consolidated sales of products, goods and materials amounted to PLN 2 806.5 million and exceeded the ones achieved in the previous year by 55.2 per cent. The Group's operating profit was increased by 7.4 per cent, whereas the net profit was by 28.9 per cent higher compared to 2012.

It should be stressed that in the previous year the zinc segment's share in the Group's sales reached almost 50 per cent and that this segment's result was proportionally even higher reaching 54.9 per cent, which means that the profitability in this segment was much higher than in the remaining ones.

By the way, it is also worth mentioning that in the previous year – accompanied by the ZGH “Bolesław” S.A. Management Board – we participated with great involvement in the formation of the development plan and policy for the ZGH Group taken over in December 2012. These were aimed at the optimization and reduction of the operating costs in the zinc segment. One of the elements was a merger of three ZGH servicing companies into one entity. The formation of the strategy for the entire group of companies basically involved in the production of zinc, but also other metals, is an effort- and time-consuming process, due to the difficult industry-specific operating conditions, including high costs of energy, the necessity to liquidate the Olkusz-Pomorzany mine and providing a new resource base for the Bukowno Smelter. We are trying to support the ZGH Management Board in their efforts aimed at the reduction of all the predictable risks and most effective utilization of this segment's potential.

In 2013, the Group saw the implementation of one of the most important investment projects to have been carried out over the recent years – the launching of the HiB transformer steels production.

Most of the equipment has already been modernized. The completion of the entire undertaking has been planned for the year 2014. It is worth pointing out that already in the second half of 2013 the initial tests with high-grade materials were conducted. We assume that this demanding technology will have been under control by the end of 2014. The entire undertaking is of key importance to the Group in terms of developing its strong competitive position in the segment. It is especially important in the context of the hard market conditions in the segment of transformer steels, characterized by a large demand-supply imbalance, especially in reference to the conventional steel sheets. Moreover, the trends observable for a longer time now, referring to the introduction of regulations related to the improved energy efficiency standards contribute to the increase of demand for sheet steels characterised with the highest magnetic parameters possible, which, additionally, assures us in our belief in the correctness of the development strategy chosen for this production segment, despite the project's high implementation costs.

Considering the more favourable forecasts for the period to come, both for the entire economy and for the steel sector, the year 2014 should not bring a significant decrease of the Stalprodukt Group's results, although the operating conditions in the segments of transformer steels and profiles, including the persistent overproduction, sharpening competition, limited demand and resulting low prices, will not allow for a significant increase of sales and a dynamic improvement of profit margins in these areas. Better prospects are outlined for the zinc segment, mainly in the context of the long-term forecasts for the increase of metal prices. The Group's strong position in this respect, its strengthened competitive advantage in the segment of electrical steels, to be achieved thanks to the introduction of the new grades and diversification of the supply sources, should be hospitable to the realization of the Stalprodukt Group's positive development scenario.

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