

Dear Shareholders,

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

The year 2013 saw a slower 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, the decline occurred in the two fundamental production segments, i.e. electrical sheets and cold formed profiles. 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 23.8 per cent in this production segment, whereas the sales volume dropped by 16.4 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 above mentioned conditions had a decisive influence on the level of revenues and profits generated by the Company on all levels of profit and loss account. In 2013 the sales of products, goods and materials amounted to PLN 1 248.5 million and were by 24.2 per cent lower than the ones achieved in the previous year. Operating profit decreased by 81.3 per cent, whereas net profit decreased by 85.3 per cent in comparison to 2012.

It should be underlined that the biggest impact on worsening the Company's results had electrical steels segment in which the prices dropped considerably which was a result of global situation on this market as well as a decrease in volumes due to a pursued investment project, what contributed to a considerable drop of revenues in this segment. These were, to a large degree, factors independent from the Company. That's why the Management Board

undertook, with good results, intensive actions in order to protect margins in the second basic production segment, i.e. cold-formed profiles.

In 2013, the Stalprodukt S.A. 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 Company 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 characterized 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.

In the last year, with great involvement and jointly with the Management Board of ZGH “Bolesław” S.A., we took part in the process of creating the strategy and development plans for ZGH company and the whole group of its subsidiaries taken over in December 2012. The purpose of this strategy is to optimize and reduce operating costs of Zinc Segment. One of its elements was a merger of three servicing companies of ZGH. Setting up a strategy for the entire group of companies specializing in zinc production, but also of other metals, is a long and strenuous process because of difficult conditions in which this industry operates, including high energy costs, the necessity to liquidate Olkusz-Pomorzany mine and to secure new resource base for a smelter in Bukowno. We try to support the Management Board of ZGH in actions aimed at limiting all the potential risks and most effective use of potential in this segment of our activity.

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. Strong position of the Company in profiles and road barriers segment, strengthening its competitive advantage in electrical steel segment due to implementation of new grades of transformer steels as well as diversification of raw material supply sources should greatly contribute to accomplishing a positive scenario of Stalprodukt's development.

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