

FINANCIAL REPORT OF STALPRODUKT S.A.
FOR THE REPORTING YEAR 2016
President's Letter

Dear Shareholders,

The year 2016 was another period of activities during which Stalprodukt S.A. achieved rewarding results, since they were only slightly lower than the ones achieved in 2015. Last year the net sales decreased by 5 per cent reaching the level of PLN 1 268 million. The operating result amounted to PLN 120.6 million which stands for a decrease by 18 per cent, whereas net profit totaled PLN 95.7 million and was by 12 per cent lower compared to 2015. In the face of more difficult market environment of the Company and increasing competition, those amounts should be regarded as very good. All the more so because macroeconomic conditions were not as favorable as in the year 2015. The Polish economy was developing at a slower pace than in the previous years, since the GDP grew merely by 2.7 per cent compared to 3.9 per cent in 2015. Moreover, the capital expenditures decreased considerably, i.e. by 7.9 per cent. For comparison, in 2015 they amounted to as much as 5.8 per cent.

Our results for 2016 were closely related to lower volumes, and as a consequence also lower sales of the Electrical Sheets Segment. The previous year, and especially its second half, brought a considerable decrease of prices in the Segment concerned, as compared to 2015. Such a negative trend was also maintained in the initial months of 2017. Despite this, throughout the previous year, the average execution prices were only slightly lower than the ones achieved in 2015. However, the decrease in the sales volumes of electrical sheets amounted to 14.5 per cent and this factor mainly determined the Segment's sales decrease by as much as 32 per cent, i.e. to the level of PLN 563 million. Those circumstances affected the decline of transformer sheets and cores' share value in the total sales, i.e. from 51 per cent in 2015 to 45 per cent in 2016.

The Profiles Segment's results were significantly improved, which is recorded by the Management Board with great satisfaction as, in respect of the Segment's main product groups (especially profiles and products of steel service centers), the Company operates on an extremely competitive market. Although the average prices in this Segment stood at the lower level than in 2015, the increase of the sales of cold formed profiles (by 3.3 per cent), the products of steel service centers (by 2.6 per cent) and, to the biggest extent, road safety barriers (by almost 25 per cent) had an impact on the improvement of this operating Segment's results by PLN 16.3 million, i.e. by as much as 81.5 per cent in relation to 2015. The result of the above mentioned changes was an increase of share of this Segment in the total sales structure for 2016 – from 43.8 per cent to 47.4 per cent.

It is also worth noting that the downward trend referring to the sales of products distributed by steel service centers was stopped. For a few years now, in the face of the massive market competition and hard competing conditions, especially with steel producers, the sales of these products have been successively decreasing. In 2016 this unfavorable phenomenon was successfully stopped. In effect, the Company recorded an increase of sales in this product group, both in terms of the sales volume (by 2.6 per cent) and value (by 0.5 per cent). The share of these products in the sales structure was also marginally increased, i.e. by 0.4 per

FINANCIAL REPORT OF STALPRODUKT S.A.
FOR THE REPORTING YEAR 2016
President's Letter

cent and reached the level of 5.8 per cent.

Stalprodukt enjoys a strong market position in respect of conventional grain-oriented sheets. However, the demand is increasingly shifting towards high grade (so called HiB) steels. In the recent years the Company has completed a necessary modification of its equipment aimed at the launching of the advanced production technology of such sheets. However, the still present input material quality problems do not allow for the large-scale launching of HiB sheets production. In the context of the ineffective EU market protection against the excessive imports of transformer sheets, entailing their falling prices, especially in reference to the conventional grades, the fastest possible launching of HiB sheets production will not only allow for the strengthening of the Company's competitive position, but will also improve the profitability likely to result from the higher prices of these products.

The Profiles Segment's prospects for the coming period are favorable. In line with the earlier expectations, the sales of road safety barriers are dynamically growing in connection with the accelerated implementation of large road projects. Moreover, in the year to come, the Segment's production potential will be strengthened with 2 state-of-the-art production lines for precision profiles (small- and large-sized ones), manufactured from cold-rolled steel strips and galvanized strips (galvanization following the cold-rolling process) with sprayed seams. At present, the equipment's acceptance tests are under way.

At the same time, the Management Board is keeping an anxious eye at the antidumping proceedings initiated by the European Commission, and especially the proceedings regarding the EU imports of hot-rolled sheets in coils. These products constitute the basic charge material for the Company's production departments. The expected import restrictions regarding these products will surely limit the Company's access to charge material available at competitive prices, which will, undoubtedly, translate into the rate of return of the products manufactured by the Company. This situation, including the registration procedure for imported products, and limited access to charge material in particular, is already being taken advantage of by the EU steel producers who are significantly increasing the prices of their products. It is worth underlining that in the absence of similar protection measures on the market of finished products (e.g. tubes and profiles), the opportunities of competition with suppliers from such countries as Turkey, Ukraine or Russia are extremely limited. This situation, undoubtedly, is a potential risk factor for the Company's activities, and for its Profiles Segment in particular.

In the previous year a program, initiated towards the end of 2015, aimed at the purchase of the Company's own shares with a view to their redemption, was completed. Stalprodukt S.A. purchased its own shares totaling 1 075 000 pcs in three tranches, amounting to PLN 268 750 thousand. Along with the shares purchased w few years before, the number of own shares subject to redemption totaled 1 144 733 items, which accounted for 17 per cent of the Stalprodukt Company's share capital. On 28 June, the Registry Court registered the decrease of the Company's share capital from the amount of PLN 13 450 000 thousand to the amount of PLN 11 160 534 thousand. The shares purchase program and their successive redemption

**FINANCIAL REPORT OF STALPRODUKT S.A.
FOR THE REPORTING YEAR 2016
President's Letter**

contributed to the improvement of such stock market ratios as earnings per share and book value per share, which – next to very good Company's and Stalprodukt Capital Group's financial results – had an extremely beneficial impact on the prices of the WSE-quoted shares.

The Stalprodukt S.A. Management Board will take further actions aimed at the improvement of the competitiveness of the Company, maintenance of its stable and safe financial condition and introduction of innovative technical solutions, which will result in the increase of the Company's value for its Shareholders.

Piotr Janeczek
President of the Management Board – CEO